

CHAPTER- I

INTRODUCTION

1.1 Background

In general, foreign aid is used to refer to the transfer of capital and technologies from developed countries and donor agencies to the underdeveloped countries either in the form of loans or grants from time to time.

The subject matter of foreign aid is concerned with economic and social progress of the country. The main purpose of aid to developing countries is to accelerate their pace of economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining base. The function of aid for a development program is not directly to improve standard of living in the recipient countries but to impart them to make the transition from economic stagnation to self-sustaining economic growth. From the economic history of various countries, it may be envisaged that almost every advanced country of the modern world had to rely on foreign aid for up- grading the pave of economic development. Prof. W. A. Lewis has pointed out; “nearly every developed state has had the assistance foreign finance to supplement its own meager savings during the early stages of its development. England borrowed from Holland in the seventeenth and eighteenth centuries and in turn came to lend to almost every other country in the world in the nineteenth and twentieth countries. The United States of American, now the richest country in the world borrowed heavily in the nineteenth century and is in turn called upon to become the major lender of the twentieth century”. One of the U.N.O Reports also holds the similar view

that, “domestic savings tend to be at a low level in the developing countries because of the poor incomes. Thus, it is impracticable to cut the already lower consumption levels. Hence, external finance becomes necessary not only to increase the rate of development, but to act as a stimulant to domestic savings”.

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

Until 1951, Nepal was under feudalistic, exploitative regime that kept country isolated from external influences, efforts to modernize the country started only after the expulsion of Rana Regime. Nepal first experienced in foreign aid is said to have begun with the service of British technical experts who assisted in the operation of the Sundarijal

and Pharphing Hydro- power project during the terms of the Rana Prime Minister Chandra Shamesher and Juddha Shamsheer. Agriculture, Education, Health and Transport were major areas that had been benefited from the US assistance. After the US aid India also became another major donor country and showed the keen interest in providing assistance to Nepal. The volume of aid inflow, since then, has increased continuously. US and other donor countries have assisted financially and technically to implement projects in different sector of Nepalese economy. Nepal obtained many more opportunities to have aid in later years from USSR, China, UK, France, Germany, Canada etc, to contribute considerably in Nepal. After late 1970s, Nepal has been receiving foreign aid mostly from a forum of Nepal Aid Group Countries (Appendix I). Besides, Nepal has been obtaining foreign aid from other bilateral donors as well as multilateral agencies like IBRD, WLTO, IFAD, WEP, UNICEF, OPEC, FUND, OECD, DAC, etc (Appendix II).

Nepal is one of the least developed countries in the world. It stands at the very low level of international economic stratification. It was low level of per capital income around \$ 260 (NRB, 2006) and a low GDP growth rate. Nepal is one of the poorest countries in the world where 31 percent of the people live below the poverty line. The rate of economic growth is also very low. The economy is based on agriculture. Agriculture is the main sector for employment and contributes 38 percent to GDP. Increasing government responsibility and its involvement in the nationwide social and economic development are some of the causes, which compel a developing country to accept the foreign aid. Increasing development expenditure of the HMG and the lesser increment in the internal revenue and other sources are the main causes to accept the aid or assistance from different countries and from the external institution at

present. Still now, more than 50 percent of total development expenditure of HMG is financed by external assistance. Therefore, under these circumstances the only way to achieve a sustainable rate of economic growth is the foreign assistance.

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

donors (Bilateral) to Nepal. In fiscal year 1999/2000, Japanese assistance to Nepal was Rs. 3217.317 million (Foreign Aid Division MOF) which is greater than that provided by any other donor country. Therefore, we can certainly see among the bilateral donors from Asia Japan has emerged as a major development partner of Nepal.

1.2 Statement of the Problem

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

Nepal has been receiving large amount of foreign aid in south Asian region and has been striving to accelerate economic growth through planned development process since 1956. As spelled out in the Tenth Plan, the objective of Nepalese economy is to transform Nepal from a lower to upper middle income economy by attaining a high, sustainable and broad- based economic growth and reducing absolute poverty. Economic growth is not associated only with an increase in capital per head but also associated with values and institutions that give incentives to effort, economic efficiency and the technical know. Thus, in the absence of all those institutions, an underdeveloped country

has low general absorptive capacity with regard to aid. At the same time, formulation and evaluation of projects and programs are directly related to the majority of the people, the success of such programs will depend upon the co- operation of the people. But, if the project is of highly sophisticated type in implementation, requires considerable expertise and absence of which minimizes the success. Problem arising while employing foreign aid is uncertainty of magnitude and character of foreign aid over the period of time. Elements of uncertainty have adverse effects. Another fact is that foreign aid is motivated by some political motives which will lead to deep suspicions and prejudices against nationalism and sovereignty of developing nation which is more sensitive.

The extra money injected in the monetary system of country by foreign assistance builds up social and economic overheads which may bring inflation. Though mild inflation is a normal feature of developing countries but beyond the limit, it has adverse effect. It is said that if foreign aid does not involve any substantial sacrifice for the people, it is utilized in an unproductive way. Everybody should have a sense of responsibility to allocate funds in productive channels. In case of aid repayment, if it is a debt which is wasted, it would increase extra burden for the people while repayment is made on it. So, aid receiving countries should in advance work out detail planning and designing of individual projects so that it may be easier for donor governments to judge the worthiness of the projects in order to channel the aid resources. It should be linked with development process rather than with individual project. Aid receiving countries should try to get longer period commitments from donor countries to avoid uncertainty in advance. Underdeveloped country should try abstaining from assistance from foreign government and

international agencies and also create conditions that could attract foreign private investments.

Foreign aid has not been discussed and analyzed seriously so far. Very few studies and research works have been conducted with respect to foreign aid. Japan is one of the major aid giving countries to Nepal but there is lack of studies on Japanese aid to Nepal. So a study on Japanese aid to Nepal would throw valuable lights.

1.3 Importance of the Study

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

Many of the developing countries, including Nepal, are rich in natural resources but they are poor in capital, skill and management, while the developed ones have sufficient capital and skill. Thus the main objective of providing aid is to employ the international tools and resources for the achievement of maximum economic advancements. Foreign assistance in the form of grant, loans, technological knows how, training, scholarship etc, has multiplier effect on income and acceleraterator effect on investment and ultimately the country can be

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

1.4 Objectives of the Study

The major objective of the study is to analyze the impact of Japanese aid in the economic development of Nepal. However, the specific objectives are as follows;

- a. To analyze the effectiveness of Japanese aid in economic development of Nepal.
- b. To analyze the trend and pattern of Japanese aid in Nepal.
- c. To suggest and recommend the Japanese aid to Nepal.

1.5 Methodology

1.5.1 Method of Data Collection

This study is based on secondary data obtained from various publications of National Planning Commission (NPC), Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), Ministry of Finance (MoF), Embassy of Japan, etc. To achieve the goals of the study, official and unofficial books, magazines, newspapers, and journals have been studied. The required data are collected from various issues of economic survey, budget speech and various plans of Nepal.

1.5.2 Research Design

The research design of the study is descriptive. It is designed to describe the increasing volume of Japanese aid inflow and GDP growth in Nepal. It focuses on trend, magnitude, structure, impact and role of Japanese aid in Nepal. The descriptive, quantitative and analytical research tools are used for the study.

1.5.3 Tools for Analysis

For data analysis the study used following statistical tools:

A. Simple Regression Analysis

It establishes the relationship between dependent and independent variables. It is used to show the degree and direction of the relationship between the variables and it also provides a mechanism for prediction or forecasting.

$$Y_t = a + bj_t$$

Where,

Y_t = GDP at time period 't' (Regressior)

J_t = Japanese aid at time period 't' (Regressed)

a & b = Regression parameters

B. Distributed Lag Model

It explains a casual relation in which a change in dependent variable can be explained by the lagged value of the dependent variable.

$$Y_t = a_0 + a_1 J_t + a_2 J_{t-1} + a_3 J_{t-2} + a_4 J_{t-3}$$

Where,

Y_t = GDP at time period 't'

J_t, J_{t-1}, J_{t-2} and J_{t-3} = Japanese aid at different time periods

a_0, a_1, a_2, a_3 and a_4 = Regression parameters

1.5.4 Statistical Test of Significance

A. Co- efficient of Determination [R^2]

It shows how much variation is explained by the regression equation out of the total variation i.e. it measures the goodness of fit at a regression equation. It is given by,

$$R^2 = \text{Explained variation} / \text{Total variation}$$

$$\text{When, } 0 < R^2 < 1$$

The higher the value of R^2 , the better of fit.

B. Test of Significance of the Parameter Estimates

It is applied for judging the statistical reliability of the estimates of the regression coefficients. The following tests will be performed to test the hypothesis in the study.

T-test: This test will be performed in order to identify the statistical significance of an observed sample regression coefficient and the formula for calculating the 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 $a_i = \sqrt{Var(\hat{a}_i)}$

The calculated t-values will be compared with tabulated t-values at a certain level of significance, for a given degree of freedom. If the calculated t exceeds the table value, it is inferred that estimated coefficient is significantly different from zero.

F-test: F-test is used to examine overall significance of the model. The formula for calculation is:

$$\frac{R^2}{K-1} \div \frac{1-R^2}{N-K}$$

where,

R^2 = Coefficient of determination

K = number of explanatory variables

N = number of observations in the sample

The calculated F-variance ratio is compared with the tabulated value at a specific level of significance with (K-1) and (N-K) degrees of freedom. If F_{cal} is less than F_{tab} , we accept null hypothesis and otherwise we reject null hypothesis.

Durbin-Watson Test (D-W test): Durbin-Watson test is defined as a test for serially correlated (or auto-correlated) residuals. One of the assumptions of regression analysis is that the residuals for consecutive observations are uncorrelated. The static is computed as:

$$D-W = \frac{\sum_{i=2}^t (e_i - e_{i-1})^2}{\sum_{i=1}^t e_i^2}$$

where,

e = the estimated error term vector.

1.6 Limitation of the Study

Due to budget and time constraints, study is confined of the following points;

- a. The coverage of the study is FY 1984/85 to 2004/05.
- b. Transfer of private resources and political as well as military assistance is not taken into consideration.
- c. The study is completely based on secondary data and no further attempt is made to verify the quality of published data.

CHAPTER II

REVIEW OF LITERATURE

Foreign aid is the inflow of financial as well as human and technological resources from abroad to compensate for domestic deficiencies in capital, human and technological resource. Traditionally, foreign aid was supposed to overcome the savings investment gap, hard currency and technological shortages in recipient countries, which would ultimately uplift the developing economy and peoples living standards. As understandings of development changed from being not so much a materialistic pursuit but a humanitarian one, the rationale for aid likewise shifted from being needed to fulfill hard economic aggregates to contributing to human development through poverty reduction for economic, political and socio- cultural enhancement.

There have been several studies in knowing the impact of foreign aid inflow in the economic development of developing countries. Similarly, in the areas of foreign aids, there are number of booklets, journals and articles to review of literature.

Rosentein- Rodan (1957), one of the development economists as a very famous writer of economic, has given in his book, “Notes on the theory of Big Push” the indivisibilities as a basis of the Big Push theory to remove the original inertia of a less developed country deserve consideration, one of these indivisibilities speaks. In view of the saving gap, he adds foreign aid assumes much importance as a means to break the “vicious circle of poverty” and to accelerate the pace of growth.

Lebenstein (1957), in his “**critical minimum efforts thesis**”, consider that foreign aid is essential for the “critical minimum efforts” in

terms of the investment that would increase the level of income creation environment and to neutralize the income depression one. (**Mathema 2000**)

Mandal (1968), in his book “**Japan as a modal for developing nations**” has explained that, from 1951 units now, Japans record can be used by currently developing nations as a guide. In his view, the developing countries should take lessons from Japans development.

A research study carried out by Mr. **Poudal** (1983) entitled, impact of foreign aid in Nepalese development under CEDA, TU Kirtiput, Looks at complementary of foreign aided projects and the relationship between aid and gross domestic product, aid and saving, aid and consumptions in Nepal.

The study is primarily based on secondary data and materials and fields observation. Both descriptions as well as quantitative techniques are employed to examine the issues. The study has taken western development region as the case study. To evaluate the effects of foreign aid on GDP, saving and consumption number of linear single equation models are used.

The main findings of this research are:

- a. Foreign aid is heavily concentrated on infrastructure and has neglected other sectors.
- b. The GDP, domestic saving and consumption are all highly stable increasing functions of foreign aid.

c. Elastically between GDP and domestic saving is higher than that between GDP and foreign aid, suggesting that GDP growth is more responsive to domestic saving than foreign aid.

Misra and Sharma (1983) in “**Foreign aid and Development in Nepal**” has written that in the context of a country like Nepal, ‘development’ through foreign aid essentially becomes a metaphor for the malignances and strengthening of the traditional native power structure. Definite social classes in such recipient countries play a decisive role in determining, in collusion with the donors both the context and the channel of foreign aid inflow. The upper social classes of such countries derive the major benefits from foreign aided development. Foreign aids, therefore, enhances the position of the upper social classes who benefit from the maintenance of the existing system of political and economic power. The need to legitimize such a power gives foreign aided development the halo of a ‘people- oriented development’ while at the same time increasing the dependence of the lower classes. This façade, in turn, sets up a major contradiction within the nature social structure.

Sigdel (1997) analyzed the diplomacy, foreign policy and aid programmed of Japan. He employed the secondary time series data from 1960 to 1993. He used descriptive method to analyze the data. His finding showed a positive impact of Japanese assistance to the least developed countries but in the context of Nepal the impact of Japanese aid was not found so favorable because it always created adverse balance of trade rather than narrowing trade deficit and demonstration effects of various kinds to Nepal.

Pant in his book, “problem of development of smaller countries; A study in problems and prospects of development process” has written

in the topic external assistance as a separate chapter. According to his, the external assistance available to the least developed and smaller countries can be discussed under the headings of foreign aid in the form of grants, loans and technical assistance. According to him, shortage of capital will be supported by foreign aid at least in the initial stage of development plans. He further says that rapid formation of capital for accelerating the growth of least developed countries cannot be possible without foreign aid, even if domestic resources are mobilized to the optimum level. He claims on the international flows of resources that lower the stage of development, greater the percentage of imports of met loans and grant. The efforts advanced countries and international agencies to impart knowledge and skills to developing countries through technical assistances have been increasing in recent years.

Sharma (2000), in his article “**Foreign aid management in Nepal**”, explained the need of foreign aid management. He emphasized on the effective utilization and mobilization of aid. Further, he has said that Nepal should be able not only to utilize foreign resources but also should be able to mobilize it in productive sector and effective utilization of foreign aid is the most challenging task of our development efforts.

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

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

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

Finally this book presents how the committed aid can be disbursed by means of effective absorptive capability. Absorptive capability determined by its institutions and its capital, human or otherwise aid disbursement beyond these limits is bound to have an effective impact.

Myradal (1970) in his book, “**International Inequality and Foreign Aid**” states that the need for aid is continually growing and he would certainly not make any recommendations to lower the appropriations for aid but continue to ask more. He was very much in

favor of development aid for increasing food production and meeting of other basic needs such as drinking water, health and sanitation, better education, etc. He totally rejected the idea the aid should finance large modern industrial projects because first of all it absorbs only a small fraction of unemployment labor force and secondly, there are responsible for rural- urban migration, and socio- economic disparity. However Myrdal also supported the Bauer hypothesis with regard to promotion of elitism and inequality and supporting a political regime that is either unpopular or do not represent masses. He also suggested that the form of aid should be more bilateral and informal, i.e., aid should be canalized through non- governmental organization as there are more ‘successful than government agencies in keeping their activities in underdevelopment countries free from side influence from their government’.

Todaro outlines three major reasons given in favor of foreign assistance.

- a. The major reason is clearly economic and the rationale for aid is based on the acceptance of the donor’s perception of what the poor countries require to promote their economic development.
- b. The second reason is that both donors and the recipients see the aid as providing greater political leverage to the existing leadership to suppress opposition and maintain itself in power.
- c. The final rationale is that it is obligation to support the socio- economic development of the developing countries and both kinds of perceptions come under the broader theories of aid: the economic theories and political theories. (Todaro, 1997)

United Nation (1960) on the least development countries report defined foreign assistance as ‘all transaction (for a country or an international organization), which result in a permanent net addition to total resources available for economic development of another country’. According to the United Nation aid consists only by leading international aid consists only of outright grants and net loan term by leading international organization. Nowadays giving foreign aid either in the form of grant or loans has been considered as the responsibility of the international community. (UN, 1997)

Mr. Dhramdasani in his book “**Dynamics of Foreign Aid in South Asia** (1988)” Nepal has been taken as a main component in his study regarding to foreign aid. In which, an attempt has been made to analyze the nature, dimensions and implication of Nepal’s dependence on foreign aid to sustain her development process. The central theme of the study in that with in the prevailing structure constraints of Nepal society, the process of development has itself contributed to the growth of external assistance.

Mikesell in his book, ‘**Economics of Foreign Aid**’ has defined foreign aid “as a transfer of real resources or immediate claims on resources (for example foreign exchange) from are country to another which would not have taken place as a consequence of the operation of market forces or in the absence of specific official action designed to promote the transfer of the donor country”. From the above concept of foreign aid Mikesell has generalize the following categories which might be regarded as, ‘Foreign Aid’.

a. Bilateral loans and grants of commodities, services, and foreign exchange, by government to foreign countries.

- b. Loans and grants of commodities, services, and foreign exchange, by multilateral agencies out of funds supplied directly by government or from funds borrowed in private international capital markets, guaranteed by member government.
- c. Assistance to compensate countries for balance of payments deficits arising from unforeseen or temporary causes or for short term fluctuations in price of exported commodities or in export earnings.
- d. Government sales commodities to foreign countries for local currencies which are subjected to restriction as to use by the recipient.
- e. Import of commodities by government at higher prices than international market prices for by private entities required by their government to pay higher than international market prices, including participation and cooperation by government of importing countries in international commodities at level higher than would prevail in the absence of such arrangement.
- f. Private loans, credit or direct investment guaranteed by the government of the capital exporter against loss from all or specific risks.

Dr. Khadka in his book “**Foreign Aid Poverty and Stagnation of Nepal**” (1991) has written that Nepal is heavily relied on aid whose reliance on aid increased from 45% development expenditure in 1975 to about 56% in 1986 and aid GDP ration increased from 2.6% to 6.9% during the same period.

The main objectives of this study are;

- a. To examine the socio- cultural and political constraints to development.

- b. To find out the source wise and sector wise allocation of aid over the past three decades.
- c. To evaluate the macro- economics impact of aid on the economy.
- d. To analyze the policy implications for aid and development in the future.

The following objectives of this study regarding the aid inflow are significant; these objectives try to examine every aspects of aid clearly. So far aid has not been effective in alleviating poverty in Nepal. On the contrary aid has created socio- economic dualism by favoring urban sector rather than rural areas where in terms of consumption. It further widened gaps in between haves and have- not and social disparity is still growing. Neither aid neither contributed to attain of a lot of goals nor helped to establish institutional political machineries through which the distribution of benefits would trickle down, hence aid failed to alleviate poverty of the country because it was unable to grasp the majority population who live in the rural areas. Actually, there was a euphoric support for increasing the volume of aid from the capable and developed to the weak and underdeveloped countries in order to make latter group capable of attaining the desired ratio of growth of output. The first phase of euphoria remained until satires.

Through this international concern contributed to some extent to the nominal flows of concessional resources. It did not however improve, and as a matter of fact declined in real terms by the 1970s. The aid GNP ratio endorsed by international organization and bodies also remained unfulfilled.

Encarta clarifies the reasons for giving foreign aid:

“Countries give foreign aid for humanitarian reason and to advance their own foreign policy objective. Countries provide money, food, and other service to help meet basic human needs such as feeding the poor, and assisting with economic development. Countries also give military and economic aid to provide better security for another country against external threats and to promote a closer working relationship with that country”.

Sharma (2004) apprehended that the root cause of anti- aid lies on conflict and instability. “We have also realized the development activities have been declining in the rural and remote areas due to conflicts....some donors postponed the program saying they could not program under the existing situation as they have been facing threat from the rebels....the postponement has caused a loss over 70000 jobs”, says Sharma. He further emphasizes: “Whatever we can do that cannot be sustained without resolving political instability and the problem of the country”. Sharma realizes on under utilization of aid, which means that there is commitment of the donor for aid but they make slow disbursement.

Gyawali, a forthright social scientist and a former minister for water resources and electricity, observes: ‘while Japans generosity with grants has endeared Japan to Nepali politicians, and most bureaucrats, these grants have the technocrats worried. The primary reasons cited are that items to be bought with Japanese grants are almost three times costlier than items finances by credit with international competitive bidding in order projects in Nepal. Also, the items supplied are difficult to maintain with locally available spare parts, necessitating subsequent import of spares from Japan at high prices’.

Khatiwoda (2004), describes the magnitude of aid how it went back to the donor country partly and misused partly domestically more than its utilization. He is of the opinion; “we have received about Rs.4 billion in aid over the last 50 years or so. The money was spent on development on physical infrastructure mainly transportation, electricity, telecommunication, irrigation and drinking water on social infrastructure particularly in education and health and an agriculture and industry. Part of the aid also went back in the form of payment to expensive expatriate consultants, procurement of foreign goods and services as prescribed by the donor; some assistance also evaporates out to corruption and leakage”.

According to **Mason** (1964, p.51), the rationale for foreign aid program should be “the demonstrated facts (1) that in at least a large part of the less developed world foreign aid can make and has made an effective contribution to economic development; and (2) that most countries, developed and underdeveloped, desperately want to be independent of external control”. Few would deny that foreign aid has contributed to economic development, but to date the success stories on foreign aid for development must be limited to a rather small proportion of the developing world. As to the desire of developing countries for independence from external controls, there is no obvious correlation between the realization of this desire and the provision of foreign aid.

Shrestha (1990) analyzed the trend of foreign aid inflow in Nepal. He used the time series data from 1964/65 to 1987/88 and used the descriptive method to analyze the data. The findings were as follows:

- a. Although there had been a continuous rise in total foreign aid since 1956, the grant assistance as a percentage of development expenditure fell after 1973. However, bilateral loan increased steadily.
- b. Multilateral aid was increasing over bilateral aid, and the loan component was becoming much more prominent. As a result, the external debt service as a percent of GNP increased from 0.3 of 1970 to 1.2 in 1986. Likewise, the debt service ratio as a percentage of the export of goods and services also increased from 3.1 of 1970 to 9.4 in 1986.
- c. The increasing number of foreign aided projects caused Nepal a big financial liability in terms of providing matching funds, which in itself was becoming a constraint.

OECD defined aid as “Net financial flows to the less developed countries and multilateral organizations”. The net financial flow was also categorized as official and private flows. The transaction included in the financial resources flows were; bilateral grants, bilateral loans repayable in the recipients currencies transfer of resources through sales for recipients currencies, bilateral loan with a maturity of more than one year, grants and capital subscription payments to international organizations and obligations with maturity of more than one year or international institutions.

Gurung in his paper ‘**Economic Implication of Foreign Aid**’ (Truman international conference, Israel, 1970, pp.27) remarks that foreign assistance to the developing countries are related less with economic consideration but more with strategic and political implication. He states that low literacy, poor health, weak communication and archaic administration have conspired to frustrate the early efforts at development. Economic development continues to be externally oriented

and most of foreign agencies had had to rely on its own infrastructure before plunging, into aid programmers. As a result of slow and difficult process of institution building some agencies are going for a project which in terms of local involvement is minimum. Such practices might be better as far as fulfilling the objectives faster is concerned but it will not do anything when it comes to building the countries capabilities and attain self sustained growth.

Prof. Dr. Poudyal in his work “**Trends in Foreign Aid in Nepal**” has highly observed that “The conventional approach to analyzing the impact of foreign aid in terms of its role as filling either the savings gap or the trade gap, depending upon which ever is larger is not relevant for a country like Nepal. The gap approach assumes that the lack of investible fund is the main constraint to growth, that the relationship between investment and growth is fairly stable, the consumption makes no contribution to output and that domestic and foreign savings are interchangeable. Though no one can deny the importance of capital in production process, what is also equally and even more important is the social framework consisting of political, administrative, economic, and social values and institutions. Had the assistance been productively used, they would have generated the funds for payment, but since they have not been, the debt servicing is becoming increasingly burdensome to the country. Thus, the way in which foreign aid has been used makes it look as if it is going to become a self perpetuation process”.

According to the ‘**Country Presentation of Nepal**’ (U.N. conference on LDC’s, 1981, p.170) for the UN conference donor courtiers should consider the need of indigenous structure of the country and also to consider domestic views regarding assistance. The paper stresses on the need of commodity aid and states that it should of

strategically important commodities. Regarding extensive poverty and pressing consumption demand particularly relating to the basic needs, there is an urgent need for commodity in Nepal. Commodity aids would frames to help raise production.

Mr. Panday, in his article “**Role of Foreign Aid in Economic Development on Nepal**” published in the Nepalese journal of public finance and development (October 1999) has written that, foreign aid has been more controversial subject for undeveloped. Being not only under development, because of the lack of domestic resources, Nepal is facing the serious problem of foreign assistance since the past decades. The article examines the role of foreign aid in Nepal’s economic development and analyzes the various aspects of Nepalese foreign policy.

Chenery, who defines foreign aid as an instrument of bridging various gaps and relieving various bottlenecks existing in an underdeveloped economy for a country to develop on its own, it would require “skills, domestic saving, and export earnings as well as an allocation of these rising levels of income” (Chenery and Strout 1966; 680), which would be almost impossible for a developing country to achieve; the role of foreign aid would be to provide capital and other resources to fill these shortcomings

Todaro and Smith (2003) in their book “**Economic Development**” stressed that in addition to export earnings and private foreign direct and portfolio investment, the final two Major source of LDC foreign exchange are public (official) bilateral and multilateral development assistance and private (unofficial) assistance provided by non- governmental organizations. Both of these activities are forms of foreign aid, although only public a id is usually measured in official

statistics. In principle, all government resource 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 transfer can take disguised forms, such as the granting of preferential tariffs by developed countries to LDC to 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 flows should be counted in qualifying foreign aid flows. Normally, however, they are not.

Economists have defined foreign aid, therefore, as any flow of capital to LDCs that meets two criteria:

- a. Its objective should be non commercial from the point of the donor, and
- b. It should be characterized by concessional terms; i.e. interest rate and repayment period for borrowed capital should be softer than commercial terms. Even this definition can be inappropriate, for it could include military aid, which is both non commercial and concessional. Normally, military aid is excluded from international economic measurements of foreign aid flows. The concept of foreign aid that is now widely used and accepted, therefore, is one that encompasses all official and concessional loans, in currency or in kind, that are broadly aimed at transferring resource from developed to less developed countries on development or income distribution grounds. Unfortunately, there often is a thin line separating purely developmental grants and loans from sources ultimately motivated by security or commercial interests.

Furthermore, they have a conceptual problem associated with the definition of foreign aid, so too there are measurements and conceptual problems in the calculation of actual development assistance flows. In particular, their findings regarding this include:

a. We cannot simply add together the dollar values of grants and loans; each has a different significance to both donor and recipient countries. Loan must be repaid and therefore cost the donor and benefit the recipient less than the nominal value of the loan itself. Conceptually, we should deflate or discount the dollar value of interest-bearing loans before adding them to the value of outright grants.

b. Aid can be tied either by source (loans or grants have to be spent on the purchase of donor-country goods and services) or by project (funds can also be used for a specific project, such as a road or a steel mill). In either case, the real value of the aid is reduced because the specified source is likely to be an expensive supplier or the project is not of highest priority (otherwise there is no need to tie the aid). Furthermore, aid may be tied to the importation of capital-intensive equipment, which may impose an additional real resource cost, in the form of higher unemployment, on the recipient nation. On the other hand, the project itself may require purchase of new machinery and equipments from monopolistic suppliers while existing productive equipment in the same industry is being operated at very low levels of capacity.

Finally, we always need to distinguish between the nominal and real value of foreign assistance, especially during period of rapid inflation. Aid flows are usually calculated at nominal levels and tend to show a steady rise over time. However, when deflated for rising prices,

the real volume of aid from most donor countries has declined substantially during the past decade.

The paper of **Morrison** 'Aid Effectiveness: The World Bank and Japan' has highlighted that Japan's ODA approach has changed significantly too. Like other bilateral donors, for most of its history Japan's aid has served many non- development purposes. In Japan's case, these purposes were largely based on either domestic economic interests or international political interests. Domestic economic interests included securing markets for Japan's good and establishing and maintaining friendly relations with countries endowed with energy and natural resources that are scarce in Japan (this was especially true after the first oil shock in 1973). International politics, and particularly Japan's relationship with the United States, meant that part of Japan's aid during the Cold War went to supporting America's geo-strategic and ideological interests.

His intensive study has given priority to the following items which can be considered as major findings of his paper.

a. Aid in the past has catered more to the desires of donors than to the needs of recipients. While this was a somewhat workable approach if the goal was political, it has been shown to be ineffective when the goal is development. This is largely for two reasons-one of substance and one of process.

b. Substantially, in line with broadening conceptions of development, it has been shown that development is largely determined by local conditions, including social institutions, social capability, ethnic fragmentation, inequality, and geography. These variables significantly account for the variation in growth rates over the past 30 years. Not

surprisingly, these factors also affect aid effectiveness. If development depends on local condition, and donors are not putting attention to local conditions, it is unlikely that their aid will be effective.

c. From a process standpoint, it has been shown that “ownership” of projects—that is, whether or not the local population believes in and subscribes to the project—has a large impact on whether or not project is successful. If people do not think that the project is in their best interests, they will not contribute their own effort or funds in times of difficulty, and they will not continue the project once the donor has left—two key elements of projects success.

Sherestha in his thesis has focused that it seems the trade relation between Japan and Nepal is very encouraging. Thus the magnitude of trade with Japan has been growing over the years. But the trade is not in favor of Nepal because there is huge amount of trade deficit with Japan. So, to normalize this trade deficit, we have to utilize Japanese aid to produce goods and services that are highly demanded in Japan. Major findings and recommendations made in his study are listed hereunder

a. The government should try to discourage imports of luxurious goods and should give proper emphasis to the import of basic construction materials and equipment for industrial and infrastructural development.

b. In order to develop exports on a sound basis, a detailed survey of the export potentials of the country should be undertaken in each of the main products areas such as agriculture, horticulture, spices, medicinal herbs, garments, dairy products, honey and was and cottage industrial products.

Overall, having found out that foreign aid positively affects GDP, its importance to lift every sector of the economy in Nepal viz:

infrastructure development, minimizing resource gap etc. but on the other side, the inefficiencies, misuses, cost of dependence syndrome aid has generated makes every concerned citizen to ponder about its existence in Nepal. In the Nepalese context also there are sufficient studies but individual donor wise studies and Japanese aid in particular are too few. These are the guiding factors that have prompt me to undertake this research.

CHAPTER – III

FOREIGN AID IN NEPAL

3.1 Historical Background

Foreign aid is one of the most original political innovations of twentieth century. Never before had wealthy countries transfer unilaterally and non- reciprocally, such financial resources to the poorer nations. Foreign aid has become well entrenched as a pillar of modern North. South relations, that many observers now regard it as an integral part of international law. Development assistance has also gradually emerged as one of the principal forces for the globalization of social policies. Since the late forties, the Developed countries have allotted around US \$1 trillion worth development cooperation. The average amount of foreign aid transferred to developing countries world wide is small compared with the size of their economies -2 to 3 percent of their GDP. The foreign aid spending of bilateral donors has tended to follow their political and economic interest.

Nepal's first experience of foreign economic aid heralded by the Point Four Programme signed on 23 January 1951. The American Government's assistance of Rs. 22,000.00 provided under President Harry Truman's point Four Programme was soon followed by formal economic assistance from India in October in the same year. China and USSR came into the strategically located Himalayan country's foreign aid scenario in 1956 and 1958, respectively. Nepal's experience with economic assistance offers a valuable source for answers to the questions that aid has been raised. Trust into prominence by its strategic

position in the Himalayas fastness separating India and China, Nepal has attracted unusual attention from aid donors.

Japan continued its support to Nepal in the field of economic cooperation that dates back to year 1956. Since that period, Nepal has been remarkably recognized as one of the major recipient countries of the Japanese aid in south Asia. Japanese assistance to Nepal has substantially increased after state visit of their Majesties King Mahendra and Queen Ratna to Japan in 1970. Japan has been contributing to Nepal according to priority given by Government of Nepal.

After joining the Colombo Plan, Nepal got many opportunities to have aid from USSR, China, UK, France, Germany, Canada, etc which to contribute considerable amounts of foreign aid for various projects. After the late 1970s, Nepal has been receiving foreign aid mostly from Nepal aid Group (Japan, Canada, Denmark, France, Germany, Italy, Netherlands, Norway, Switzerland, UK, USA, Sweden, Belgium, Saudi Arabia and eight multilateral donors- ADB, IFAD, OECD, SFD, UNDP, IDA, EFC, and UNCTAD). Beside these Nepal has received foreign aid from other bilateral donors as well as multilateral agencies like- IBRD, SFP, WHO, UNICEF, OPEC fund, DAC, etc.

Foreign aid has covered many fields like agriculture, public health, education, transportation, communication, electrification, industrialization, public administration, poverty alleviation, emergency relief as well as family planning and various allied training programs and expert services for socio- economic development in Nepal. Foreign aid plays an important role in the development of Nepal, everywhere that foreign aid transmits not only money but also ideas, values and technology. In Nepal this linkage between Aid and Development has

become more pronounced. After all talk and action about development in the country is started virtually simultaneously with the inflow of foreign assistance. The records of Nepal's development performance have thus become indistinguishable from that of foreign aid.

3.2 Need for Aid

Foreign aid is indispensable in an initial stage of development. It is an economic necessity of development process. Even the highly developed countries of today took the foreign aid in the initial stage of their development, such as Japan aid European countries. In the form of aid a donor country gives training to the people of the recipient country in various subjects or provides ideas 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 recipient country. Besides these, sometimes a foreign country aids other countries in the forms of foreign investment. Foreign investment helps sufficiently to the recipient country in utilizing her unutilized human power physically as well as mentally and utilized or underutilized or mis- utilized in the economic development of the country.

On the context of Nepal, WDR of 2001 ranks Nepal, with 220.00\$ per capita income, as the ninth least developed country in the world. Similarly, the human development report 2001 (published by UNDP) place Nepal as 128th among the 162 countries in its human development index (HDI). Human poverty index ranks Nepal 77th among the developing countries. The HDR, 2001 places Nepal 5th among the seventh South Asian nations.

This shows the real situation of Nepal in South Asia. Nepal is one of the poorest countries of the world. Vicious circle of poverty and mass

unemployment with illiteracy is the greatest challenge for the development of Nepal. Foreign aid for the poor nation like Nepal is not only requirement but also compulsion. To achieve economic, social and cultural development, to eradicate poverty and to mobilize internal resources (both human and physical) foreign aid plays an important role.

3.3 Basic Features of Foreign Aid in Nepal

Nepal began to receive foreign aid since 1951/52. The size of aid inflow began to expand steadily after 1956. The main reasons for the remarkable increase in the aid receipts of Nepal are;

- i) Nepal's expanding international relations increased and diversified the source of aid,
- ii) The introduction of development plan helped it to rationalize the demand for aid.
- iii) The bonus effect of the cold war and selling of the competition among some donors pushed up the level of aid.

Trends in aid inflow over the past half century show five distinctive features. First, the magnitude of aid has increased rapidly. The quantum of aid has more than tripled in each successive decade. Second, development activities for poverty reduction are successively becoming more dependent on foreign aid. Third, the composition of foreign aid has been changing over time. In terms of the future burden, the loan component of aid has been changing. In terms of source, the share in total of multilateral loans has been increasing. Similarly, sectoral allocation of aid too has been changing. Fourth, foreign aid is being used to finance an increasingly wide range of economic and social activities. Fifth, the country's absorptive capacity has been perpetually low.

3.4 Resource Gap

Resource gap is the difference between total expenditure and total revenue of the government of a country. Resource gap creates problem of balance of payment and foreign exchange gap. Nepal also has to face the problem of resource gap in his finance.

Nepal has been suffering from the lack of availability of capital, technical knowledge, and institution condition of growth, necessary infrastructure and incentive to capital investment. So we must have to develop new sources to solve these problems very soon. And this resource gap percentage can be bridged with the help of external assistance and the country can attain the desired goal.

The extent of resource gap is widening as indicated by the table below.

Table – 3.1
Resource Gap in the Nepalese Finance.

(Rs in million)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap
1990/91	25549.8	10729.9	12819.9
1991/92	26418.2	13512.6	12905.6
1992/93	30897.7	15148.7	15749.0
1993/94	31335.0	19580.8	11754.2

1994/95	41496.6	24704.4	16790.2
1995/96	46542.4	27893.1	16649.3
1996/97	56723.7	30373.5	20350.2
1997/98	57707.2	32937.9	23180.4
1998/99	59579.0	37251.0	22328.0
1999/00	66272.5	42893.8	23378.7
2000/01	79835.1	48893.8	30941.5
2001/02	80072.2	50445.5	29626.7
2002/03	84006.1	56229.8	17776.3
2003/04	89442.6	62331.0	27111.6
2004/05	102560.4	70122.7	32438.4

Source: Various Issues of Economic Survey; MOF, Government of Nepal.

Table – 3.1 shows that every year the resource gap has been growing up. In the FY 1990/91 the resource gap was Rs. 12819.9 million. It increased to Rs. 32438.4 million in the FY 2004/05. Due to increase in total expenditure, greater than the actual revenue, the resource gap has widened from year to year. The trend of increasing resource gap shows that this is fulfilled by the foreign aid, which is considered as an important instrument in the economic development.

3.5 Saving – Investment Gap in Nepal

In a macro-economic context, foreign aid is considered as an instrument to fill up the resource gap of the recipient economies. The gap can be defined in terms of saving, foreign exchange and technology skills. So let us analyze to what extent foreign aid has been successful in bridging these three types of resource gap in Nepal, but here we have taken into account the saving investment gap only.

Growth of a country primarily depends upon the investment that is possible only through saving which is earned by mobilization of internal resources. The gap between level of investment and saving is so wide that is not possible for Nepal to sustain growth if it is entirely dependent on its on savings. It is in this context that foreign aid seems to be almost an

indispensable condition of development. The shares of foreign aid in financing the development expenditure has played significant role.

The table- 3.2 shows the saving investment gap during the period FY 1990/91 to 2004/05.

Table – 3.2
Saving- Investment Gap in Nepal.

Fiscal Year	Total Investment(I)	Total Saving(S)	Gap(I-S)
1990/91	25074	11514	13560
1991/92	31619	16207	15412
1992/93	39653	23172	16481
1993/94	44644	29220	15424
1994/95	55231	32465	22766
1995/96	68017	34426	33591
1996/97	71084	39162	31922
1997/98	74728	41438	33130
1998/99	70061	46563	23498
1999/00	91690	56995	34695
2000/01	98815	61532	37283
2001/02	108226	50718	57508
2002/03	122171	51510	70661
2003/04	130993	62386	68607
2004/05	154132	66336	87796

Source: Economic Survey, Government of Nepal.

Above table shows that last 15 year's total investment saving data. The gap between investment and saving has been raised sharply up to Rs. 87796 million in the FY 2004/05 from Rs. 13560 million in the FY 1990/91. Which gone through the data of table – 3.2, we clearly get that investment was rising dramatically except in the FY 2004/05. The saving was also rising continuously except some FY, but comparatively investment growth rate was higher than the saving growth rate, which was the main cause of growing saving- investment gap in Nepalese economy. One of the causes behind that can be governments expected growth rate, in order to meet that required growth rate, investment will

have to be mobilized to the full extent but the saving cannot occur in the same ratios, as a result gap will be much wider than in the previous year.

Internal sources and external sources are the key factors that will use to bridge the gap prevailing in the economy. Internal borrowing first of all can be taken as a necessary element of fulfilling the gap, but it cannot be sufficient in itself. Because such a country like Nepal, where GDP/GNP per capita is in the least amount. Instead of that mpc being almost near about one, whatever they earn will be spent for the consumption purposes. So, internal borrowing will not be effective as we expect. On the contrary, external sources that include grant and loan can be the effective means to solve the problem of saving- investment gap. The gap that exists in between saving and investment is so wide. That is not possible for Nepal to sustain her growth if she is entirely dependent on her own domestic savings. It is in this context that foreign aid seems to be almost inevitable condition of Nepal's development.

3.6 Aid Commitment and Disbursement

Aid commitment shows the expression of the donors to provide financial support of specified amount under agreed terms and conditions for specific purpose to the recipient country whereas disbursement shows the recipient country whereas disbursement shows the time lag. Aids for many projects are committed in one year and committed aid is disbursed in subsequent years. Besides, failure to receive the committed amount is due to the political instability and lack of commitment on the part of recipient government. Burecratic delays and inefficiency, absence of institutionalization in development administration, corruption and poor management of development projects, the capacity to utilize committed

amount of aid productivity continues to remain as a crucial problem for the Nepalese government ever since it began to receive aid.

Between 1990/91 to 2004/05, Aid commitments have always exceeded disbursements except in 1990/91 when the amount committed was quite low. In recent years, however, overall absorptive capacity improved to 88.2 in 1998, and 85.7 percent in 1999/2000. It subsequently decreased to 43.3 percent in 2001/02 and 36.7 percent in 2002/03. But in 2004/05, disbursement was nearly 62.01 percent of committed aid. Table – 3.3 shows the status of foreign aid commitment and disbursement.

Table – 3.3

Foreign Aid Commitment and Disbursement.

(Rs. in

million)

Fiscal year	Commitment	Disbursement	Disbursement as % of commitment
1984/85	5991.4	2676.4	44.7
1985/86	9504.2	3491.5	36.7
1986/87	8727.5	3314.4	38.0
1987/88	6449.6	5078.5	78.7
1988/89	10403.0	5666.9	54.5
1989/90	15830.0	6427.1	40.6
1990/91	5665.4	5990.0	105.6
1991/92	21084.1	7800.4	37.0
1992/93	20526.7	9235.6	45.0
1993/94	13172.2	11557.2	87.7
1994/95	12876.9	11249.0	87.4
1995/96	16537.3	14289.0	86.4
1996/97	36643.0	15031.9	37.1
1997/98	32022.1	16457.1	51.4
1998/99	18352.5	16189.0	88.2

1999/00	20448.0	17523.9	85.7
2000/01	31287.0	18797.4	60.1
2001/02	33227.7	14384.8	43.3
2002/03	43202.7	15885.5	36.7
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.01

Source: Various Issues of Economic Survey, MoF, Government of Nepal.

The difference between aid commitment and disbursement is mainly due to poor absorptive as well as non performance on the side of Nepal. Every donor wants to provide assistance according to its own priority and on installment basis and they also observe the performance in implementing the projects. If, they do not find good performance of utilizing the assistance, they may not disburse the second and subsequent installment of committed aid.

3.7 Source of Foreign Aid

Along with an increase in its magnitude, the structure as well as composition of foreign aid has also changed over time. The trends in composition (Grant verses Loan), source (Bilateral versus Multilateral) and sectoral disbursement of aid inflow in Nepal are presented below.

Since the late fifties, Nepal has been receiving aid from both bilateral and multilateral sources. Until 1956, aid was only being provided by India and the USA. Later, other countries began contributing; China from 1956 on words, the erstwhile USSR from 1959 and other countries including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Japan, Kuwait, Netherlands, New Zealand, Norway, Saudi Arabia and Switzerland. Japan has been the largest bilateral donor for the past several years.

The Asian Development Bank (ADB), the World Bank and the UN agencies are Nepal's major multilateral donors. Technical assistance had been provided a year earlier in the form of the first advisor to the Agricultural Development Bank of Nepal.

The following table indicates amounts of bilateral and multilateral assistance received during 1984/85- 2004/05.

Table – 3.4

Bilateral and Multilateral Aid Inflow in Nepal.

(Rs.In

million)

Fiscal year	Bilateral	Multilateral	Total	% of Bilateral in total	% of Multilateral in total
1984/85	1156.3	1520.1	2676.4	43.2	56.8
1985/86	1481.1	2110.4	3491.5	42.4	57.6
1986/87	1078.4	2236.1	3314.4	32.5	67.5
1987/88	2251.6	2826.9	5078.5	44.3	55.7
1988/89	1707.0	3959.2	5666.9	30.1	69.9
1989/90	1544.9	3882.2	6427.1	39.6	60.4
1990/91	2939.9	3050.1	5990.0	49.1	50.9
1991/92	3597.3	4203.1	7800.4	46.1	53.6
1992/93	3638.5	5597.1	9235.6	39.4	60.6
1993/94	2627.1	8930.1	11557.2	22.7	77.3
1994/95	3988.7	7260.7	11249.4	35.5	64.5
1995/96	3533.3	10755.7	14289.0	24.7	75.3
1996/97	6012.7	9019.2	15031.9	40.0	60.0
1997/98	6297.7	10159.4	16457.1	38.3	61.7
1998/99	4167.6	12021.4	16189.0	25.7	74.3
1999/00	4929.1	12594.8	17523.9	28.1	71.9
2000/01	2771.2	16026.2	18797.4	14.8	85.2
2001/02	4675.3	9709.5	14383.8	32.5	67.5
2002/03	10044.4	5841.1	15885.5	63.2	36.8

2003/04	9013.2	9899.2	18912.4	47.7	52.3
2004/05	9230.8	14426.5	23657.3	39.1	60.1
Total	8768.6	15602.9	24371.5		

Source: Various Issues of Economic Survey; MoF, Government of Nepal.

Above table shows that the share of bilateral aid has been gradually decreasing while the share of multilateral aid in the total aid has been gradually increasing but erratically. Nepal has received the first bilateral aid from USA under the Point Four Programs. Recent trend indicates that bilateral aid has been declining from 43.2 percent of total aid in FY 1984/85 to 30.1 percent in FY 1988/89. Nepal has a strong support from various multilateral donors and the trend of multilateral aid has been increased from 56.8 percent of total aid in FY 1984/85 to 85.2 percent in FY 2000/01. The share of bilateral aid in the total aid declined from 49.1 percent in the FY 1990/91 to 14.8 percent in the FY 2000/01, whereas the share of multilateral aid in the total aid increased 50.9 percent in the FY 1990/91 to 85.2 percent in the FY 2000/01. Comparatively, for the same period, the rise in the volume of bilateral aid was only 2 fold, from Rs. 1156.3 million to 2771.2 million therefore, on comparative shares of aid from these two sources indicate that multilateralism is going in aid financing to Nepal.

3.8 Foreign Aid Disbursement by Sectors

Foreign assistance has been provided for each and every sector of Nepalese economy. Nepal has completed various development plans with the help of large amount of foreign assistance. The sectoral distribution or allocation of foreign aid is not smooth and has a fluctuating nature. Sometime it seems that foreign aid actually had not been allocated according to the plan targets. This is due to the strategic interests of some major donors. For example, neighboring countries such as India and

China proposed certain road projects having strategic importance to them and Nepal accepted. All in all, donor countries were competing for “prestige projects” which have high extrinsic demonstration effects both for donor community and the population of Nepal. Some donors, who haven’t direct strategic interests in Nepal, provided aid for agriculture and institution building.

In 1956, when Nepal started for planned development, it did not have required infrastructure like transportation and communication in the country. There was an indispensable need to like country through a modern transportation system. Realizing its importance, road construction emerged as the priority investment at the initial periods.

Table – 3.5 shows the general information on sectoral aid priority during FY 1984/85 to FY 2004/05.

Table – 3.5

Distribution of Foreign Aid by Major Sectors.

(Rs. in million)					
Fiscal year	Agriculture, irrigation and forestry	Transport, power and communication	Industry and commerce	Social service and others	Total aid disbursement
1984/85	1053.1	969.1	191.8	586.4	2676.4
1985/86	1298.8	1321.0	275.7	585.4	3491.5
1986/87	1037.6	1473.0	183.4	522.3	3314.4
1987/88	1226.3	2784.0	445.7	845.0	5078.5
1988/89	1466.3	3120.0	191.2	1555.8	5666.9
1989/90	1489.7	2679.0	656.6	667.9	6427.1
1990/91	1253.2	2575.0	1390.9	1191.3	5990.0
1991/92	1945.4	2485.1	2174.3	2667.6	7800.4
1992/93	1927.4	2939.6	696.9	2680.1	9235.6
1993/94	5519.1	4169.4	389.3	2636.2	11557.2
1994/95	3462.4	4574.9	480.3	36665.0	11249.4
1995/96	3399.6	8052.7	15.9	4417.3	14289.0
1996/97	2827.5	8504.5	23.4	3676.5	15031.9
1997/98	2852.1	8989.2	198.1	4417.3	16457.1
1998/99	3383.9	7892.2	404.7	4508.2	16189.0
1999/00	3209.8	8159.3	238.5	5856.3	17523.9

2000/01	3774.8	9235.1	19.9	5767.6	18797.4
2001/02	3285.8	5905.7	368.7	4824.6	14384.8
2002/03	2177.9	7774.1	401.2	5532.3	15885.5
2003/04	2429.6	7570.8	146.8	8765.2	18912.4
2004/05	2595.7	9860.0	123.9	10746.8	23657.3
Total	5161.6	11103.4	907.7	10506.5	297526

Source: Various Issues of Economic survey; MoF, Government of Nepal.

The above table shows that since the very beginning, the transportation, power and communications sector has been the biggest recipient of foreign aid. This sector has received greater amounts of loans than grants. The industries and commerce sector has declined in priority successively, possible due to the governments adoption of a privatization policy. The social services sector has also remained an important sector from the perspective of aid receipt. During the last 20 years, it can be seen that the ‘transport, power and communication’ sector has absorbed the largest share, 46 percent of the total aid, ‘social services’ sector and ‘agriculture, irrigation and forestry’ sector has accounted 23 percent and 25 percent respectively.

3.9 Foreign Aid and the Development Plans

Nepal required undertaking new strategies to enhance the standard of the people. Therefore, the government started to make plans for development from FY 1956 to FY 2002, nine development plans have been implemented (there were a one- year plan holiday between 1st and 2nd plans and a two year plan holiday between 8th and 9th plans) and 10th plan (2002- 2007) has already started. Foreign aid has played a significant role in the Nepalese economy under the plans period. Each and every government, from 1950 to the present is seeking aid whatever the situation is Nepal always headed for more aid assistance to accelerate its economy from others the following table- 3.6 shows the contribution of

the foreign aid in public sector development expenditure under various plans period.

Table – 3.6
Dimension of Aid Dependence.

Plan period	Development expenditure	Foreign aid	% of Foreign aid
1 st (1956-61)	382.9	382.9	100.0
2 nd (1962-65)	614.7	478.3	77.8
3 rd (1965-70)	1639.1	919.8	56.1
4 th (1970-75)	3356.9	1509.1	45.0
5 th (1975-80)	8870.6	4264.1	48.1
6 th (1980-85)	21750.0	13260.0	61.0
7 th (1985-90)	48345.4	23978.5	49.6
8 th (1992-97)	113519.1	74355.0	65.5
9 th (1997-02)	215154.4	114290.0	53.1
10 th (2002-07)*	234030.0	134620.0	57.5

Source: Various Issues of Economic survey; MoF, Government of Nepal.

The above table shows that foreign government and agencies have been the major sources of financing of our development expenditure during plans period. During the First plan, Nepal's development expenditure was fully funded by foreign aid. In subsequent plan periods from second to ninth plan, the extent of foreign aid was as high as 52 percent of development expenditures in Nepal. This is indicative of Nepal's heavy dependence of foreign aid, which ballooned to the level of Rs. 215154.4 million during the ninth plan from a diminutive sum of Rs. 382.9 million in the first plan.

The priority sectors for different plans seem to be different. The first and second plans had the priority to build the foundation for economic planning and the third plan was more concerned with the development of agriculture sector. Other plans had set priority for the growth of GDP. The Eight Plan had the priority for sustainable development and the ninth plan had priorities for alleviation of poverty. The changed in plan priorities, in spite of the resources gap, might also be the reasons of growing foreign aid in Nepal.

3.10 Burden of Foreign Aid

If foreign aid is not properly used, future generation of recipient countries will be forced to bear heavy burdens. Foreign loans pose a burden to the country mainly due to their debt servicing requirement. Debt servicing not only impinges on already scarce revenues, it also claims foreign exchange since repayment has to be made in foreign exchange. The global experience shows that debt servicing drains the public budget and reduces the availability of counterpart funds and additional domestic resources required for operating and maintaining aid investment facilities. However, when returns from loans exceed the debt servicing burden, there is no cause of concern. Otherwise, foreign debt becomes a long term burden to the recipient country. Greater the amount of foreign aid required, greater the burden to be faced. Moreover, if foreign assistance is not used properly, foreign grants also become burdensome to the recipient economy.

Though, Nepal has been borrowing external capital only since the early 1960s, debt servicing began only in the 1960s. A few governments guaranteed loans were carrying comparatively higher rate of interest and a few other direct loans were not mature until the mid 1970s. Nepal's

debt servicing burden has been reduced to some extent by the conversion of some loans into grants. Although, Nepal has been receiving foreign loans with very low rate of interest and the time of maturity period is very long ranging from 25 to 40 years, the debt burden has been growing consequently.

Table – 3.7
Foreign Loan and Debt Servicing.

(Rs. in million)

Fiscal year	Net outstanding	Repayment	Interest payment	Total debt service
1984/85	9203.2	69.2	120.3	189.5
1985/86	10330.2	160.5	125.3	285.6
1986/87	15171.9	250.6	236.4	487.0
1987/88	20826.0	297.5	293.5	591.0
1988/89	29216.9	388.6	312.7	701.3
1989/90	36800.9	701.8	421.8	1123.6
1990/91	59505.3	589.0	479.5	1086.5
1991/92	70923.9	942.4	722.7	1664.9
1992/93	87420.8	1252.9	879.0	2131.9
1993/94	101966.8	1468.2	1020.0	2488.7
1994/95	13000.9	1828.2	1156.5	2984.7
1995/96	128044.4	1987.7	1316.56	3304.3
1996/97	132086.4	2102.4	1247.0	3349.4
1997/98	161208.0	2780.2	1421.0	4201.2
1998/99	169465.9	3196.5	1549.0	4745.5
1999/00	190691.2	3681.1	1640.3	5321.4
2000/01	200404.4	4500.6	1700.8	6201.4
2001/02	220125.6	4751.4	1816.1	6567.5
2002/03	223433.2	5497.5	2021.7	7519.2
2003/04	232779.3	5767.1	2141.8	7908.9
2004/05	219641.9	5954.5	2146.8	8101.3

Source: Various Issues of Economic survey; MoF, Government of Nepal.

The rate, at which Nepal is acquiring loans from abroad, is increasing over time. Net outstanding foreign debt was just Rs. 59505.3 million in FY 1990/91. Repayment was Rs. 589.0 million. The total debt

servicing was 1068.5 million. In the FY 2004/05, the net outstanding debt was Rs. 219641.9 million and total debt servicing was Rs. 8101.3 million. In every subsequent year, the debt dynamics is increasing. This shows the real debt situation in Nepal.

3.11 Aid Performance

Nepal is considered a late started in development in the South Asian region. The country was opened to the outside world only in the early fifties and planned development effort and aid inflow began almost simultaneously. Over time, foreign aid has historically proved to be an effective instrument contributing to significant improvement in the socio-economic development of the country and much of the physical infrastructure such as roads, irrigation facilities, hydropower as well as education and health services, drinking water and sanitation facilities have been built with foreign aid. It has also contributed to the development of policy dialogue, catalyzed economic reforms, enhanced the capability of public policy makers and provided financial assistance to public services. A longitudinal relationship can be observed among foreign aid, economic reform and development in Nepal. Notwithstanding these achievements, foreign aid in Nepal has had shortcomings as well. Progress in economic growth and poverty reduction has not been commensurate with the inflow of aid into the country. Foreign aid has become very effective in some areas but less effective in others. This perception of mixed results is shared by donor community as well as Nepalese recipients.

Of course, problems associated with foreign aid are not unique to Nepal. Elsewhere, both recipient and donor countries have expressed major concerns regarding the policies and procedures that govern foreign

aid. Although there are common issues, which concern most recipient countries these are also problems unique to individual countries. In Nepal's case, there are many country-specific constraints such as shortcomings in institutional capacities, its geographical location and mountainous terrain. Widespread poverty and its high growth rate of population and urgent environmental concerns among others which pose daunting challenges to development and the effective absorption of aid. When examining the problems relating to foreign aid. It is essential that these special challenge confronting Nepal borne in mind.

Despite an increasing flow of external resources for Nepal's development, the country has not been able to optimize the gains from aid. Discrepancy between the results achieved from aid resources and their potential for enhancement is still wide. The growth impulses generated from past investment have remained weak, fundamentals of overall economic stability continue to remain shaky and absorptive capacity has not significantly increased and institutional capacity in many areas is inadequate to respond to development needs. It is rather disappointing that such a situation continues to persist, despite efforts spanning almost five decades and the increasing inflow of financial and technical assistance into the country. The key problems contributing to ineffective foreign aid management and poor development results from both the donor and country perspectives are briefly outlined below.

a. Donor Perspectives

Over the few years, there has been considerable discussion about the mixed record of aid effectiveness in Nepal. The factors contribution to this phenomena and possible solution to the problem among the major concerns identified by the donor communities have been the following ;

lack of ownership by the recipient of development projects and programs, particularly those financed by donor; lack of leadership and direction by recipient particularly in expenditure prioritization and asking more responsibility in designing and implementing projects and programs a poor often unrealistic and top down planning and budgeting process with little involvement of other stakeholders, including local level institutions community group and beneficiaries in program preparation implementation an increase in development projects and programs beyond the levels that can be effectively handled within the country's limited institutional and absorptive capacity, poor program supervision and monitoring in turn leading to lack of accountability and transparency, leakages and misuse of resources and so on. To circumvent these problems, while urging the government to take more ownership and leadership, some donors have reduced their aid and levels and formulated strong condition in their aid programs; other have reduced their efforts to work through the central government and tried to work more directly with local bodies, NGOs and community groups or engage their own implementing agencies.

b. National Perspectives

These donor's perceptions are largely shared by the Nepalese recipients, who also see donor practices as important factors contributing to the issue of aid effectiveness. Despite considerable efforts made to reconcile Nepal's priorities and those of its donors, there is the perception that many projects and programs are still excessively driven by donor demands. This needs to be accompanied by an improvement on the part of the donors in matching their priorities with those of Nepal. The lack of an adequate project planning and management system that involves rigorous review of project formulation, implementation, supervision and

evaluation has prevented the economy from deriving maximum benefits from aid financed investments. Nepal receives aid from a large number of donor countries and organization. In the absence of prioritization based on sectoral and national needs and effective donor coordination on the basis of such prioritization there have been difficulties in coordinating and establishing complementarities between these aid channels. An increasing concern especially from the Nepali prospective is the changing composition of foreign aid. Of the total foreign aid received in 1999, capital assistance accounts for only half and technical assistance accounts for around 40 percent with the residual 10 percent being balance of payments support and emergency and relief assistance. Technical assistance has fallen short of the contribution that it could have made, largely due to excessive reliance on foreign expertise. Technical assistance especially when obtained through loans instead of grants creates enormous burdens for the future.

Foreign aided projects often involve choices in the types of technologies utilized at various levels of their operation; whatever the sector they are in Nepal still does not have any appropriate and effective mechanism to evaluate technology aspects of foreign assistance, particularly capital assistance. This has implications in the long-term sustainability of such projects and their repair and maintenance. There is and inadequate or no provision for Research and Development with a view to minimizing costs and improving the quality of the projects.

The conditionality that is linked to the provision of foreign aid varies between donor institutions, project and programs. The practice of enforcing conditionality tied to aid present another set of problems in terms of making best use of available foreign resources. Further, the practice has constrained the used of appropriate and less costly

technology, materials and services. Because of various policy related and procedural conditionality, which are at times not compatible with the prevailing situation and the needs of the country aid has had only a limited beneficial impact and at times run counter to the outcomes expected from some projects. While donors need some conditionality they need to be looked at an agreed jointly by the donors and government. Moreover, the formulation and adherence to sectoral program frameworks, as suggested below would help to minimize and rationalize such conditionality.

Disbursing the aid committed to Nepal has been a slow process. The weakness in the country's institutional capacities has contributed to this phenomenon. However, delays have also occurred as a result of the policies, practice and procedures of donor institutions themselves, which have not recognized the limitations inherent in Nepal it is not only a matter of refining procedures but also a problem, which starts with the conception and design of projects themselves and these aspects need to be improved.

Sizeable amount of foreign aid have been flowing through various international non- government organization. While these organizations are making an important contribution, they have also established their own priorities and methodologies of operation, without adequate regard to development priorities of the country and also to the overriding need to create sustainability. To ensure greater consistency with national priorities better use of aid resources and greater transparency, it is necessary to improve the reporting and monitoring of resources channeled to such organizations. Again, the aid resources available to HMG have not all been reflected in the budget. Donors at times make direct payments to the projects accounts without informing the related

Ministry of Department. As a result, there are difficulties in updating the records and ensuring transparency and accountability in such transactions.

Project implementation capacity of the economy is less than satisfactory. Lack of a reliable information system and the absence of regular supervision and monitoring are major deterrents to the smooth implementation of programs and projects. Consequently, most projects suffer from time and cost overruns.

Gradually over the years, Nepal's stock of outstanding foreign debt and its debt servicing obligations have risen because of utilizing loans. Although these loans are concessional in nature with high degree of grant element, yet they constitute a growing burden on the budget. Therefore, Nepal has to be highly selective and productive in utilizing such loans.

There are some issues which had hampered the efficient and effective utilization of development aid. A major reason for this state of affairs has to do with the lack of policies and guidelines required for streamlining aid activities. It is natural that in the absences of such national perspectives and policies, development projects may at times be heavily influenced by donor's ideas and perception are not fully related to those with the local needs and requirements. The new aid policy is supposed to seeks to address all these issues.

CHAPTER- IV

JAPANESE AID TO NEPAL

4.1 Historical Background of Nepal- Japan Relation.

The history of economic co- operation between Nepal and Japan is based on friendship and amity. In 1899, the Buddhist monk, Ekai Kawaguchi visited on his search for the origin of Tibetan Buddhism and stayed in Nepal seeking a chance to reach Tibet. He was not only a monk, but a keen socio- political observer and visionary for the future Nepal- Japan relationship. He tries to make social and cultural exchange between each other countries. In April 1902, three years after Kawaguchis visit, Prime Minister Chandra Shamsher sent right Nepali students to Japan. They were also the first Nepali to go overseas for study under government scholarship. Upon their return to Nepal in 1905, all eight students were employed in their respective fields.

In 1905, during his second visit to Nepal, Kawaguchi wrote a 75 pages long letter to Prime Minister Chandra Shamsher 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 two countries now enjoy wide ranging bilateral relations conducted in a lasting spirit of friendship and co-operation.

The year 1956 is important in the history of Japan- Nepal ties; this was the year that diplomatic relations were established between the two countries. On September 1, 1956, official letters were signed between Japan and Nepal agreeing on a mutual exchange at the diplomatic level. Japanese Embassy was established in 1968 A.D. in Katmandu and Nepalese Embassy was established in 1956 A.D. in Japan. In the same month, Ambassador Seijiro Yoshizawa, then the residential ambassador of Japan to India, visited Nepal as its first Japanese ambassador and submitted his credentials to king Mahendra. Hedomichikira was first residential Ambassador of Japan to Nepal who came in 1968 and from the side of Nepal; Bharat Raj Rajbhandari was the 1st Ambassador of Nepal to Japan.

In 1960, after the diplomatic relations were established between Nepal and Japan, their Majesties King Mahendra and Queen Ratna paid a state visit to Japan. They visited Japan at a time when strong economic growth was about to take off through the governments income doubling policy. Nepal- Japan Relationship was further strengthened by the state visit of late King Mahendra to Japan and the visit of crown Prince of Japan Akihito and Princes Mechico to Nepal in 1960. This economic movement, as well as Japans success in modernization may have motivated His Majesty to send then Crown Princes Birendra to study in Japan. His Royal Highness Crown Prince Birendra studied in Tokyo University in 1967.

In 1975, coronation of His Majesty King Birendra was held and the occasion was graced by the presence of crown prince and crown princes of Japan. The royal couple also presided over a commemorative planting of several varieties of Japanese Cherry samplings at the Royal Botanical

Gardens in Godawari. The lasting beauty of the Himalayan cherries of Godawari symbolized strong and intimate ties between the two royal families and the people of Japan and Nepal.

The year 2002 marked the completion of a hundred years of Nepalese students in Japan, which was one of the most recent memorable events in Japan- Nepal relations. There were commemorative events in both countries that took place in 2002 to mark the centenary in Nepal and Japan. The embassy of Japan in collaboration with the Japan University students Association in Nepal and the Japan- Nepal Association in Japan organized the celebrations respectively. Among the commemorative events, there has been a symposium. On ‘A century of Nepalese students in Japan and perspective for the 21st century’, plantation programs for seedling originally brought from Japan by the eight students, release of the book on the life and study of the eight Nepalese students, as well as a portrait of Ekai Kawaguchi was printed on a postal stamp in 2002. This gesture highlights the deep respect that exists between the people of Japan and Nepal. 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 values are the foundation 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 the 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 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 nations.

Nepal and Japan not only share historical and traditional ties of friendship and cooperation and not only do they have many cultural and religious similarities, but both countries respect the values and ideals of democracy with constitutional monarchy. The heartily socio- cultural and diplomatic relationship between Nepal and Japan proves to be a sufficient reason for Japan being top donor country in development effort of Nepal.

4.2 Major Events in Nepal- Japan Relations

It would not be out of place to present major events between Nepal- Japan relations to under stand Japanese co- operation to Nepal. An attempt has made to show these events chronologically.

1990: Nepali- style open garden exhibited during Osaka Expo'90.

1991: Japanese, parliamentary Election observation Mission, led by Keiwa Okuda, president, Japan- Nepal parliamentarians friendship league, visits Nepal.

1991: Finance Minister Ryutaro Mashimoto visits Nepal.

1991: Acting president of Nepali Congress Krishna Prasad Bhattarai visits Japan.

1994: Inaugural flight by Royal Nepal Airlines between Katmandu and Osaka.

1994: Completion of the construction of Udayapur Cement factory, with a Japanese government loan.

1995: Deputy Prime Minister and Minister for foreign Affairs Madav Kumar Nepal pays an official visit to Japan.

1995: Dr. Prakash Chandra Lohani, Minister for Foreign Affairs, visits Japan.

1995: Completion of the construction of Bagmati Bridge (under Japanese grant- in- aid program).

1996: King Birendra inaugurates the international Buddhist Research centre in Lumbini, constructed by the Reiyukai international.

1996: Completion on the I- Baha- Bahi Temple Renovation program in patan.

1997: Their Highness Prince and Princess Akishino visit Japan.

1998: Former Prime Minister Sher Bahadur Deuwa visits Japan.

1998: Nepali parliamentary Delegation led by Rt. Hon. Beni Bahadur Karki, visits Japan.

1998: Prime Minister Girja Prasad Koirala pays an official working visit to Japan.

1998: Section 1 of Sindhuli road construction project completed.

1998: Japanese parliamentary Delegation led by vice speaker of the House of Representations Kozo watanable visits Nepal.

1999: His Majesty King Birendra confers suprasiddhe Prabala Gorkha Dakshin Bahu on former Prime Minister Ryutaro Hashimoto of Japan.

1999: Embassy of Japan commemorates the centennial of Nepal- Japan relations.

2000: Nepali parliamentary delegation led by Rt. Hon. Tara Nath Ranabhat, speaker of the House of Representatives visits Japan.

2001: JILCI (JAAN information, language and culture institute), the autonomous Japanese language institute under JICA was established in Nepal.

2001: Members of “volunteer work camp” from yashima high school visited Nepal as a study tour.

2001: Study on “Earthquake Disaster Mitigation in Katmandu valley” started with the request of the Ministry of Home Affairs of Nepal.

2001: Katmandu valley, Jen intersection project started (with grant aid on Japan).

2002: This year marked the completion of a century of the first Nepali students in Japan in 1902.

2002: Japanese Ambassador Zenji Kaminaga and Mr. Mukunda Sharma Paudel, secretary at Ministry of communications, jointly stamped the postal coverage at a function organized by the Japan University students association, Nepal (JUSAN).

2002: 69TH Birthday of Japanese Emperor Akihito was celebrated.

2002: Seven inter- sections in Katmandu city were complete.

2002: JALTAN (Japanese language Teachers Association, Nepal) hosted the 18th Japanese speech contest.

2002: Japanese Alpinists hit the New Record of climbing Sagarmatha (Mt. Everest).

2002: A portrait of Reverend Ekai Kawaguchi was printed on a postal stamp.

2003: Parliamentary Secretary for public management, Home Affairs, posts and Telecommunication, Rokuzae Mon yoshida visits Nepal.

2003: Chief Judge Kedar Nath Upadhaya visits Japan.

2003: Vice- speaker of the lower House of Representative Chirta Lekhe Yadav visits Japan.

2003: Minister for Information and communication Ramesh Pandey visits Japan.

2004: Chief of Army staff Pyarhan Thapa visits Japan.

2004: Chief of commission for investigation of Abuse of Authority Surya Nath Upadhaya visits Japan.

4.3 Organization and Agencies for Cooperation

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

A. Japan International Cooperation Agency (JICA)

In Nepal, JICA was established in August 1978. It is an executing organ of government sponsored technical cooperation for developing countries and as agent to administer emigration service. JICA carries out variety of programs to support national development of the developing countries through such technical cooperation. Technical cooperation is aimed a transfer of technology and knowledge that serve socio- economic development of developing countries.

Japan has been providing technical assistance to Nepal since 1954, prior to other kinds of assistance. Japan provides technical assistance through different sources. But after the establishment of JICA in 1970, Japan is mainly providing technical assistance to Nepal through its executing organ and effective organization. JICA and Japanese volunteers

are sent through JOCV, which was established on 1972, the monetary amount of Japanese assistance to Nepal is shown in table- 4.1.

Table- 4.1

Japanese Technical Assistance to Nepal

(Rs. in million)

Fiscal year	Total technical assistance	Japanese technical assistance	%
1984/85	279.8	84.8	30.3
1985/86	551.8	190.4	34.3
1986/87	1752.5	315.4	34.5
1987/88	2192.9	342.1	18.1
1988/89	1743.2	399.2	15.6
1989/90	1195.5	374.2	22.9
1990/91	181.8	66.2	31.3
1991/92	4370.8	1228.2	36.4
1992/93	3356.6	1728.7	28.1
1993/94	3808.9	1531.2	51.1
1994/95	3365.5	1484.2	40.2
1995/96	5983.4	1699.3	44.1
1996/97	3953.3	1387.6	28.4
1997/98	3344.5	1173.9	35.1
1998/99	5107.7	2216.7	43.4
1999/00	5314.2	1865.3	35.1
2000/01	5475.3	2190.1	40.0
2001/02	753.6	354.9	47.1
Total	52731.3	18632.4	

Source: Various Issues of Japan's ODA annual report, MoF, Japan.

From the table- 4.1, it is clearly seen that Japanese technical assistance is increasing smoothly except in few years. During the period up to the fiscal year 1996/97, Japanese technical assistance is totaled to Rs. 1387.6 million. Japan is cooperating to Nepal through technical assistance annually by supporting the ideas, machinery and money values. In Japanese technical assistance, Japan's training program, experts dispatch program (number of Japanese exports), survey mission, equipment supply and JOCVs 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.

JICA's program includes;

- a. Technical cooperation, training in Japan, dispatch of experts, provision of equipment, projects type technical cooperation, development study.
- b. Dispatch of JOCV.
- c. Training and recruitment of qualified personal for technical cooperation.
- d. Survey and administration of grant aid.
- e. Development investment and financing.
- f. Emigration services.
- g. Disaster relief.
- h. Education/Health (Social Issues).

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

JICA has always been supporting and encouraging developing countries to reduce dependency and promote self- help efforts by providing guidance and advice to the counterparts. In the recent years, JICA has tried to address the development issues of the developing countries through various four approaches:

- a. Regional and country specific approach,
- b. Project cycle management approach,
- c. Integrative approach and
- d. Cooperative approach

JICA's main activities at present can be summarized as follows;

- e. Human Resource Development: it includes training for Nepalese professionals and counterparts in Japan and other types of technology transfers as well.
- f. Dispatch of experts for technological backstopping.

- g. Provision of equipment for skill handover.
- h. Project type technical co-operation: it integrates the technology transfer program covering dispatch of experts, provision of equipment, and training in aboard.
- i. Grant Aid program: it constitutes a major portion of Japan's bilateral ODA without repayment obligation out of many forms of grant aid categories recognized by Japan. JICA has been commissioned to execute three types. They are; General Grant Aid, Fishery Grant Aid and Grant Aid for increased Food production. The philosophy of providing grant aid is in the field of basis human need requirement.
- j. Dispatch of JOCV (Japan Overseas Cooperation Volunteers): under it, volunteers and senior volunteers are dispatched to work in various development field hand-in-hands with the recipient countries counterparts.
- k. Disaster Relief Cooperation: This includes emergency relief upon request as well as short and long term cooperation, as warranted.
- l. Development study: it covers from master plan studies on technical subjects to other types of feasibility studies.

The Japan overseas cooperation volunteers (JOCV) was established in 1995 as an agency under the Ministry of Foreign Affairs for the purpose of providing official technical assistance programs to developing countries. Japan Overseas Cooperation Volunteers was introduced in

Nepal as the eleventh host countries, in accordance with the exchange of notes between the government of Japan and His Majesty's Government of Nepal on February on 2, 1970. Since then about 838 young Japanese volunteers have shared their technology in the development activities of the kingdom of Nepal at the request of different Ministries and Department of His Majesty's Government of Nepal.

The office of JICA and JOCV in Nepal were amalgamated into one roof in 1983. Since then resident representative of JICA Nepal office has been made responsible for carrying out both the activities together.

B. Japan Overseas Cooperation Volunteers (JOCV)

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

C. Overseas Economic Cooperation Fund (OECF)

Overseas Economic Cooperation Fund (OECF) was established in 1961 and is responsible for providing yen loans in public cooperation. The objective of OECF is to contribute to industrial development and economic stability of the developing countries. The fund is considered with bilateral loan on the government level. This fund has provided loan assistance to Kulekhani Hydropower project. OECF cuts off loans to underdeveloped countries when the country's income surpluses a per

capita GDP of US\$ 1000. (B.D.Sigdel, 97 Japanese Economies and Economic Diplomacy)

D. Export Import Bank of Japan (EIBJ)

EIBJ was established in 1951 in Japan which is a public cooperation oriented bank. The bank extends loans with a grant element to less than one percent to foreign government. The objective of the bank is to promote economic exchange between Japan and other countries. It provides assistance to both developing and developed countries for the economic cooperation only parts of business undertaken by the bank.

E. Other Organizations

Besides JICA, OECF, ECBJ, there are also other organizations with economic as well as technical cooperation from Japan to the developing countries. There are namely; The Overseas Fisheries Cooperation Foundation (OFCF), Japan Overseas Development Cooperation (JODC) and the Metal Mining Agency of Japan (MMAJ).

There are also some private organizations which are helping developing countries with the economic cooperation. These are the Association for Promotion of Industrial Cooperation (APIC), International Development Centre of Japan (IDCJ), Association for Overseas Technical Scholarship (AOTS), Internal Management Association of Japan (IMAJ), the OISCA Industrial Development Body etc.

4.4 Scholarship Program

The government of Japan has provided scholarship programs to Nepali students for education in Japan. The government of Japan provides Monbukagakusho scholarship to students from across the world every year. More than 100 Nepalese students have already received this kind of scholarship and pursued their higher studies in Japan and they are now contributing to the task of nation building in Nepal.

The government of Japan started providing technical training to Nepalese since Japan joined the Colombo Plan in 1952. Scholarship has been provided for University students by the government of Japan since the early 1960s, few years after the establishment of diplomatic relations. As a result, many Nepalese got the scholarship and returned home after completing their study/research and technical training in Japan. Nepalese who have become acquainted with Japanese society and culture have organized the Japan University Students Association of Nepal (JUSAN) and JICA Alumni Association of Nepal (JAAN) respectively and have played a vital role in promoting mutual understanding between the people of two countries. JUSAN has been conducting a wide range of cultural and academic exchange activities.

As a part of active people to people exchange between the two countries, sister city and sister village relations were established between Katmandu with Matsumoto of Nagano prefecture and Tukuche VDC with Toga Village of Toyama prefecture in 1989.

In addition, Pokhara and Komagane of Nagane prefecture signed an agreement of international cooperation and friendship between the two

cities in April 2001. After the affiliation, both cities have been jointly improving the park in Pokhara as Pokhara Komagane Friendship Park as a symbol of friendship by providing a design for the park as well as support projects to beautiful the area.

4.5 Section- Wise Distribution of Japanese Aid

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

Major beneficiaries of the Japanese ODA are agriculture, industry, water supply, power, education and communication and transport sectors of Nepal. Sector- wise distribution of Japanese aid to Nepal is shown in Table- 4.2.

Table- 4.2

Sector-wise Japanese Grant Assistance to Nepal (1970-2003)

Sectors	Grant Assistance	Percentage
Agriculture, Irrigation & Forestry	66142.4	27.5
Power, Communication & Transport	87719.1	36.4
Social sectors	32183.2	13.3
Debt relief	30044.2	12.4

Other	25095.6	10.4
Total	241184.5	100.0

Source; Japanese Embassy

Table- 4.2 shows that the Japanese aid to the different sectors. Japanese grant assistance has highly concentrated in Agriculture. Japanese grant assistance has highly concentrated in Debt Relief Measure, Transport, Agriculture, Power and Water supply. Japanese grant assistance is provided to the industrial amount of loans is provided in industry and power sector. In the industrial sector Rs. 424 million and in power sector Rs. 9993.4 million loans have been provided. The data in the table shows that the total amount of grant is less than loan assistance. In total Rs. 7631.4 million appeared as grant assistance and Rs. 14392.6 million appeared as loan assistance. In the period covered by the study, total Japanese assistance to Nepal was Rs. 13339.8 million. Data relief assistance to Nepal is also another remarkable feature of Japanese aid to Nepal.

4.6 Major Projects Supported by Nepal Japanese Loan Assistance

Nepal has been receiving foreign loan entered into Nepal only in the fiscal year 1961/62. Through loan assistance, has founded in the implementation of energy, industry and disaster prevention projects. Mainly Japan is providing loan in hydro- power projects. The following table shows the main projects completed with the loan assistance of Japan.

Table- 4.3

Major Project by Japan under Loan Assistance.

(Rs in million)

Project	Amount in Rs. '000
Kulekhani No.1 Hydropower station project	10224.00
Kulekhani No.1 Hydropower station project ph 1	108900.00
Kulekhani No.1 Hydropower station project ph 2	59496.00
kulekhani No.2 Hydropower station project ph 1	384091.26
Kulekhani No.2 Hydropower station project ph 2	268360.00
Ueaypur Cement plan project	2753559.0
Kulekhani Disaster prevention project I	539290.00
Kaligandaki A Hydroelectric project	8728656.00
Kulekhani Disaster project II	1797744.00
Total	14670320.26

Ph= phase

Source; JICA office, Nepal

Above table shows that the extended Japanese loan assistance is basically concentrated in the Hydropower station projects and Kulekhani disaster prevention project. There is single industry assisted by the Japanese government under loan assistance to Nepal, which is Udaypur Cement Plant project. Hydropower station projects occupied 65.16 percent (Rs. 9559727.20) of the total amount of project extended under loan assistance of Rs. 14670320.26 to the Nepalese government. Udaypur Cement plant project occupied 18.77 percent (Rs. 2753559.0) of the extended total project loan. Kulekhani disaster prevention project occupied only 15.93 percent (Rs. 2337034.0) of the total project extended loan assistance by Japan.

4.7 Grant Assistance for Grassroots Projects

Not only the Japanese Government, but also many Japanese Non-Government Organizations (NGOs) and numerous individuals are

actively dedicating themselves to help enhance the welfare of the Nepalese people. The Japanese government supports these grassroots activities of both the Japanese and Nepalese NGOs through the Grant Assistance for Grassroots Project (GGP).

The GGP scheme provides non- refundable financial assistance to NGOs, hospitals, primary schools and other non profit oriented associations for implementing their development projects successfully. As of February, 2006, government of Japan has extended GGP grant assistance to 98 grassroots projects. The total amount of grant assistance for grassroots project provided to Nepal is Rs. 313,492,567. The details about grant assistance to GGP are shown in table below.

Table- 4.4

Grant Assistance for Grassroots Projects to Nepal (1992-2004)

FY	No. of projects	Total in Yen	Total NRs
1992	3	12055179	4311785
1993	6	13154040	5281379
1994	3	20072160	9494511
1995	9	46269587	29298921
1996	17	48056613	28115664
1997	5	15516712	9149059
1998	5	21888292	11166153
1999	8	35952000	20507768
2000	8	48442800	33760752
2001	16	138990111	98691717
2002	9	52832305	33442337

2003	7	33658918	20963333
2004	2	14234880	9309188
Total	98	501123597	313492567

Source; Japanese Embassy

A number of Japanese NGOs are actively engaged in diverse areas of development activities. These NGOs have been rendering services to the community people at the grass roots level even in the hilly areas far from the city. The above mentioned activities have brought the people of both countries closer and have further strengthened friendship and understanding.

As a part of Japan's ODA to Nepal, the government of Japan provides grant assistance for Grass Roots Projects mainly to be implemented by the local government and NGOs, for socio- economic development as grass roots level. The following are the outlines of the projects which were completed and handed over in January and February 2003.

4.8 Japanese Aid to Nepal

Nepal has been receiving foreign aid from both the bilateral and multilateral source. The pattern of foreign aids varies from projects to projects and donor to donor. Present, Japan is in the top position in providing foreign assistance to Nepal. The following Table- 4.5 shows the total amount of Japanese aid from the FY 1984/85 to FY 2003/04.

Table- 4.5

Inflow of Total and Japanese Aid in Nepal.

(Rs. In Million)			
Fiscal year	Total foreign aid	Total Japanese aid (Grant+loan)	% of Japanese aid to total aid
1984/85	2676.4	231.8	8.9
1985/86	3491.5	659.4	18.9
1986/87	3314.4	929.0	28.0
1987/88	5078.5	1104.6	21.8
1988/89	5666.9	897.7	15.8
1989/90	6427.1	1069.5	16.6
1990/91	5990.0	1781.9	29.7
1991/92	7800.4	1757.4	22.5
1992/93	9235.6	3501.4	37.9
1993/94	11557.2	1571.9	13.6
1994/95	11249.4	6928.3	61.6
1995/96	14289.0	5295.5	37.1
1996/97	15031.9	4994.4	33.2
1997/98	16457.1	1746.6	10.6
1998/99	16189.0	2894.5	17.9
1999/00	17523.9	8394.1	47.9
2000/01	18797.4	7090.3	37.7
2001/02	14384.8	5326.2	37.
2002/03	15885.5	2802.2	17.7
2003/04	18912.4	1494.6	7.9
Total	219958.4	60471.3	27.5

Source: i) Various Issues of Economic survey, MoF, Government of Nepal.
ii) Various Issues of Japans ODA Annual Report MoFA, Japan.

Table- 4.5 shows that the increasing trend of Japanese aid inflow in Nepal leaving apart some fluctuation. Total Japanese aid to Nepal was Rs. 231.8 million in FY 1984/85 and moved up to Rs. 1781.9 million in FY 1990/91 and Rs. 8394.1 million in FY 1999/00. During the period (FY 1984/85 to 2003/04), it is observed that the highest share of Japanese aid inflow was in the FY 1994/95, which was 61.6 percent of total foreign aid to Nepal during that year. During the study period of FY 1984/85 to 2003/04, Japanese aid covered average per annum of 27.5 percent total external assistance received by Nepal with these periods.

Some of the major projects successfully completed under Japan's Aid are Kulekhani Hydropower project I and II, Udaypur cement plant, TU Teaching Hospital, National Tuberculosis Centre, modernization of Tribhuvan International Airport and Gongobu Bus park. On going projects that are yet to be completed include Kaligandaki A Hydropower, Benepa Sindhuli Bardibas road, Bagmati Irrigation Project and so on. Japan has also provided loan assistance to Melamchi Water supply project, which will help to reduce the problems of water supply in Katmandu valley.

We should really be grateful to Japanese government for granting only grant assistance considering our present crisis of the country. But still the overall trend of Japanese aid is increasing in Nepal.

4.8.1 Japanese Grant Assistance to Nepal

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

aid. Japanese grant assistance and its share in the total inflow to Nepal is shown in Table- 4.6

Table- 4.6

Share of Japanese Grant to total Grant

(Rs. in million)

Fiscal year	Total foreign grant aid	Total grant	Japanese	% of Japanese grant to total grant aid
1984/85	123.0	68.1		7.4
1985/96	1120.6	331.0		29.5
1986/87	1078.3	282.8		26.2
1987/88	1984.2	233.9		11.8
1988/89	1478.0	N.A		N.A
1989/90	1798.8	500.0		27.8
1990/91	1630.0	296.9		18.2
1991/92	1531.0	11.0		0.7
1992/93	3273.9	78.6		2.4
1993/94	2393.6	170.6		7.1
1994/95	3937.1	555.8		14.1
1995/96	4825.1	145.5		3.0
1996/97	5988.3	531.9		8.9
1997/98	5402.6	1746.6		32.3

1998/99	4336.6	2894.5	66.7
1999/00	5711.7	1029.8	18.0
2000/01	6753.4	3793.8	56.2
2001/02	6686.2	5326.3	79.6
2002/03	11339.1	2802.2	24.8
2003/04	11283.4	1494.6	13.2
Total	82674.9	21378.1	25.9

Note: N.A. means non available of data

Source: i) Economy survey

ii) Various Issues of Japan's ODA annual report

The table- 4.6 shows that the total amount of Japanese grants assistance to Nepal is 21378.1 million during 1984/85 to 2003/04 which is 25.9 percent out of total external grant.

The table- 4.6 reflects that in FY 1984/85 Nepal received Rs. 68.1 million grant assistance from Japan sharing out of total foreign grant assistance which moved up to Rs. 5326.3 million in FY 2001/02 covering 79.6 percent of total grant inflow in Nepal, which was maximum share of Japanese grant to total grant.

Since the establishment of Nepal- Japan diplomatic relationship in 1956, Japan has begun to provide technical assistance to Nepal through the Overseas Technical Cooperation Agency (OTCA). From 1970, Japan's assistance to Nepal has not concentrated only in the form of technical assistance but also in the form of grant and loan assistance. In 1974, OTCA was merged into a newly created statutory organization, the Japanese International Cooperation Agency (JICA). Since then the technical assistance from Japan is gradually coming through JICA and its branch agency Japan Overseas Cooperation Volunteers (JOCV) in Nepal. In the later years from 1970s Japanese official Development assistance (ODA) to Nepal increased rapidly. Japan is providing assistance in

different forms under three headings viz. grant assistance, loan assistance and technical assistance through ODA, JICA, JOCA and OECF.

Japan assists Nepal taking in consideration of the following factors:

- a. Nepal has amicable relation with Japan.

- b. Nepal has the lowest income level of any country in south west Asia. The fact that Nepal is a land locked nation makes its situation all the more serve. Consequently, Nepal has a strong demand for foreign aid.

- c. Since democratization in 1990, Nepal has pursued economic development in an environment in which democracy has taken root and the economy has been liberalized (Japan's ODA report 1999).

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

4.8.2 Japanese Loan Assistance to Nepal

Japan started to provide loan assistance to Nepal since March 1970. At present Japan is one of the top donors to Nepal and involved in every important sector of the economy.

Japanese loan assistance is a recent phenomenon. Japanese loan assistance is only direct bilateral loan provided by government and it is usually called “Japan’s ODA loan”. This is classified as a form of ODA in accordance with the criteria of Development Assistance Committee (DAC) of organization for Economic Cooperation and Development (OECD), and it fulfills most of the following prerequisites (APIC, 1989).

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

Now we can analyze the Japanese loan assistance comparatively with the total loan assistance received by Nepal. In other words what kind of contribution has been doing in the total assistance by the Japanese assistance in the certain period. Below Table- 4.7 simply shows the Japanese loan assistance and its percentage share in the total loan assistance received by Nepal within the period of FY 1984/85 to FY 2003/04.

Table- 4.7
Share of Japanese Loan to Total Loan

Fiscal year	Total foreign loan	Total Japanese loan	%
1984/85	1753.0	163.7	9.3
1985/86	2370.9	298.4	12.6
1986/87	2236.1	646.2	28.9
1987/88	3094.3	870.7	28.1

1988/89	4188.7	0.0	0.0
1989/90	4628.3	569.5	12.3
1990/91	4360.0	1485.0	34.1
1991/92	6269.4	3746.7	29.8
1992/93	5961.7	3422.8	57.4
1993/94	9163.6	1401.3	15.3
1994/95	7312.3	6372.5	87.1
1995/96	9463.9	5150.0	54.4
1996/97	9043.6	4462.5	49.3
1997/98	11054.5	0.0	0.0
1998/99	11852.4	0.0	0.0
1999/00	11812.2	4364.3	62.3
2000/01	12044.0	3296.4	27.4
2001/02	7698.6	*	
2002/03	4546.4	*	
2003/04	7629.0	*	
Total	136482.9	36250.0	26.6

Note: * means not available of data

Source: i) Economic Survey

ii) Foreign aid division

iii) Various issues if Japan's ODA annual report MOFA, Japan

Table- 4.7 shows that in the initial years, the loan amount provided by Japan to Nepal was small. In FY 1984/85, Japan provides Rs. 163.7 million loan assistance which was 9.3 percent of the total foreign loan of Rs. 1753.0 million. There was no loan from the FY 1997/98 to FY 1998/99. In FY 1994/95, Japan provided Rs. 6372.5 million loan assistance which was 87.1 percent of the total foreign loan of Rs. 7312.3 million. From FY 1990/91 to FY 2003/04, total Japanese loan assistance is Rs. 33701.5 million which is 18.31 percent to the total loan assistance during the last 15 years. It is thus clear that Japanese loan assistance has occupied an important place in the total loan assistance to Nepal.

4.8.3 Japanese Technical Assistance to Nepal

Technical Cooperation refers assistance provided to develop human resources that lay the foundations of developing countries efforts

to build their nations. The term “Technical Assistance” is related to the Human Resource Development. It is the fundamental force to drive the country along the path of peace and prosperity. In the context of Nepal, “Human Development” is required for the process of nation building.

However, its supply is below what is required in such circumstances, the existing inadequately trained human resources may not be sufficient to meet with the growing challenges for all round development foreign countries have been supporting to Nepal not only in terms of money but also in the forms of ideas, values, technology and technical machinery.

Japanese technical assistance covers wide area of activities, from accepting the students from Nepal as well as the supply of technique and modern equipment in different field like health, education, agriculture, hydro- power, transportation and communication. The foreign development partners of Nepal are not only helping through the government agencies but also through the INGOs. It has an important role in the economic and social development of Nepal.

The donor countries and agencies have shown a tendency of providing assistance in the field of social service through the NGOs and INGOs. In the case of Japan, Official Bilateral Technical Cooperation is executed through the Japan International Cooperation Agency (JICA). Scheme of technical cooperation includes acceptance of trainees, dispatch of experts, provision of equipment, project type technical cooperation, development studies and dispatch of Japan Overseas Cooperation Volunteers (JOCV). Technical cooperation financed by ODA funds, including accepting students, from developing countries as well as studies and research jointly conducted by auxiliary organizations affiliated to

ministries and agencies of Japan. In addition to this technical assistance, the local, government and of non- governmental organizations (NGOs) receive government subsidies (Japan's ODA, 1996).

CHAPTER-V

IMPACT OF JAPANESE AID IN NEPAL

5.1 Empirical Analysis

Foreign aid is said to have effects on economic growth and overall welfare of the country. Larger amount of foreign aid becomes essential for further growth of the country. In a situation, there may be arise questions 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 Nepalese economy and is necessary for the further growth of economy.

The chapter intends to analyze the impact of Japanese aid to the gross domestic product (GDP) of Nepal. Thus the basic starting point is the examination of a direct relationship between the GDP and the amount of Japanese aid. Different lagged and unlagged models have been used to analyze the impact. Models have been estimated in log linear forms. All the data in the analysis are taken from various economic survey and Japanese Aid booklets during the period FY 1984/85 to FY 2003/04. In all statistical analysis, numbers in parenthesis below the co-efficient of independent variables indicate their respective t-values with its corresponding significance. All regression lines in this chapter are computed by using SPSS program.

Impact of Japanese aid in time period, t.

$$(1) \quad Y_t = 117978.321 + 34.45 J_t$$

(2.754)	(3.058)
(.001)	(.000)

$$R^2 = 0.59, \quad \text{Adj } R^2 = 0.52, \quad F = 9.351, \quad D-W = 0.432, \quad N=20$$

Where,

Y_t = Gross Domestic product in time period,t (dependent variables)

J_t = Japanese aid in time period t (Independent variable)

Equation (1) shows a positive relationship between nominal GDP and Japanese aid inflow. Beta coefficient is equal to 34.45 implying that one million changes in Japanese Aid have produced 34.45 million changes in the GDP. Though it seems impossible but logically it has given the approximate figure. As change in GDP is not simply explained by the change in Japanese Aid, it is also explained by other variables. The adjusted R^2 value is 0.52 implying that 52 percent of the total variations in the dependent variable being explained by the independent variable.

The calculated value of $F(V_1, V_2)$ i.e. $F(1,18)$ degrees of freedom is 9.351, which is greater than tabulated value of F for 5 percent level of significance (4.41). Hence it can be said that the overall significance of the specified equation is significant. t statistics also supports the best fit of theoretical distribution of the parameters at 5% level of significance.

The D-W 'd' statistics from the data is $0.432 = d^*$. From D-W table with 5% level of significance, $n = 20$ observations and $K' = 1$ independent variable, the significance point of d_l & d_u are $d_l = 1.20$ & $d_u = 1.41$.

Since $d_l > d^*$ and $d_u > d^*$ there is positive auto correlation in the GDP function.

Impact of Japanese aid with one year lag.

$$2. \quad Y_t = 1062643.998 + 40.412 J_{t-1}$$

(6.193)	(2.883)
(.010)	(.000)

$$R^2=0.71, \quad \text{Adj. } R^2 = 0.57, \quad F = 17.251, \quad D-W = 0.863, \quad N=19$$

Where,

J_{t-1} = Japanese Aid in one year lag.

In equation (2) GDP is regressed with the Japanese aid in the lagged 1 year. The equation itself is a better fit, with 57 percent of the variations in dependent variable being explained by the independent variable. Beta coefficient is equal to 40.412 implying that one million changes in Japanese aid has produced 40.412 million changes in GDP.

The calculated value of $F(V_1, V_2)$ i.e., $F(1, 17)$ degrees of freedom is 17.251 which is greater than tabulated value of F for 5% level of significance (4.45). Hence, it can be said that there is strong association among variables in the equation.

The D-W 'd' statistics from the data is 0.863. From D-W table with 5% level of significance, $n = 19$ observations $K' = 1$ in

dependent variable, the significance print of d_1 & d_u are $d_1 = 1.18$ & $d_u = 1.40$. Since, $d_1 > d^*$ & $d_u > d^*$ there is positive auto correlation in the GDP function.

Impact of Japanese aid with two-year lag.

$$\begin{aligned}
 3. \quad \ln Y_t &= 108824.011 + 42.569 J_{t-2} \\
 &\quad (6.043) \quad (2.291) \\
 &\quad (.005) \quad (.000) \\
 R^2 &= 0.79, \quad \text{Adj. } R^2 = 0.59, \quad F = 25.784, \quad D-W = 1.277, \\
 N &= 18
 \end{aligned}$$

Where,

J_{t-2} = Japanese aid in two year lag.

In equation (3) GDP is regressed with the Japanese Aid two year lag. The beta coefficient is 42.569 implying that one million changes in Japanese aid has produced 42.569 million changes in the GDP. The value of R^2 and adjusted R^2 show the good fit of the model. Adjusted R^2 (0.59) implies that 59% change in GDP is explained by the change in Japanese aid & rest 41% change is due to the other variable.

The calculated value of F (V_1, V_2), F (1,16) at degrees of freedom is 25.784 which is greater than tabulated value of F for 5% level of significance (4.49). Since calculated F-value is higher it can be said that there is strong association among variables in the equation.

The D-W d^* statistics from the data is $d^* = 1.277$. From D-W table at 5% level of significance $n = 18$, & $k' = 1$ independent variable, the significance point of d_1 & d_u are $d_1 = 1.16$ & $d_u = 1.39$.

Since $d_l < d^*$ and $d_u > d^*$, there is no auto correlation in the GDP function.

Keeping the R^2 and Adjusted R^2 in mind, the one year lag model is not strong as the two year lag model. That's why we can conclude that Japanese Aid has been primarily made with short gestation period of two year.

5.2 Micro-Performance

Analysis of impact of foreign aid on the process of economic development of a country is difficult because it consists of short as well as long term effects, tangible and intangible effects. In certain areas, like education, infrastructure, the contribution of foreign aid does not give immediate results. Similarly, foreign aid may change socioeconomic environment of the country, improvement in health of the public, but the impact in these areas is invisible. So, it is difficult to evaluate the impact of foreign aid quantitatively.

The ultimate goal of Japanese aid is to develop the country up to the point, where Nepal could meet the needs of its people on a sustainable basis with its own resources. Japanese aid to Nepal has been mainly directed to agriculture development, health, transportation, education, communication, development of human resources, environment preservation and so on. The large scale Japanese grant assistance was also distributed as debt relief of Nepal, which is also important of relief from the burden of external debt.

This chapter tries to evaluate the impact of Japanese aid on the basis of contribution in different sector.

5.2.1 Impact on Agriculture Development

The Nepalese economy is agro-based economy. Ultimately 39 percent of GDP is only contributed by agriculture sector. About 80 percent of population of Nepal are living in rural area, and are engaged in agriculture as their main way of living. The government of Nepal formulated an agriculture prospective plan in 1995 to reduce poverty by improvement of production and productivity in agriculture sector, but much remains to be implemented to active the goal. Agriculture in Nepal is in nature with the traditional farming practice that is not cost effective and does not improve the living standard substantially.

- a. To provide irrigation and fertilizer which are necessary agricultural input for food security.
- b. To expand high value crop, fisheries and livestock through technical assistance for income and employment generations especially in the hill area.
- c. Capacity building of human resources and institutions at different levels such as former work of decentralization.

Starting with the cooperation in Janakpur Agricultural Development Project, Japan has been continuously assisting in the development of agriculture sector of Nepalese economy. Japan also provided agricultural experimental farming in Rapti Zone by way of providing equipments and experts under the Colombo Plan. Since 1990 to 1999, Japan has provided \$63.14 million for the provision of fertilizer. More than \$7.5 million assistance has been provided for the promotion of fish production and fisheries development. In this regard about \$5.78 million has been provided to Ministry of Agriculture. About a million have been invested by Japan for the formulation of agricultural

development, protection of environment, irrigation project and development of silkworm.

5.2.2 Impact on Economic and Social Infrastructure

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

In transpiration improvement project, Japan has been providing buses, trucks and repair shops, which have been very useful for the social life of Nepalese people in Kathmandu valley. Japanese contribution to medium wave radio broadcasting network improvement projects has played a significant role for the communicative development of Nepal. Radio Nepal was able to broadcast in medium wave only after completing this project. For the educational development Japan has been providing materials and equipments for the construction of primary schools in regions of Nepal. Japan also providing assistance for the primary education in Nepal through JICA, which effective in 75 districts since

2005 Japan has also provided assistance to Janak Education Material Center and Tribhuvan University Teaching Hospital is a landmark in social development of Nepal. Japan has also been providing higher level of education in medical science with the help of these cooperation basis statuses of Nepalese people is changing gradually

5.2.3 Impact on Industrial Development

Industrialization is a pre-requisite for economic development as the history of advanced country shows. It is also equally important in our context because it provides employment opportunity and to reduce the increasing pressure of population in agriculture sector by diverting in from agriculture to industrial sector. Industrial development is essential for the Nepalese economy in order to attain the rapid growth rate. Most of the familiar industries have been established with the help of foreign assistance in Nepal. Japan also cooperated in the field of industrial development. Nepal Industrial Development Corporation (NIDC) and Udayapur Cement Factory are the major industries, which have been benefited by Japanese assistance. Not only these, Japan is also contributing in the development of different small scale industries in Nepal. They are also providing ideas for the development of grassroots projects in Nepal.

5.2.4 Impact on Capital Formation

Capital formation or accumulation is regarded as one of the important and principal factors in economic development. Capital is an essential tool for financing the development budget in developing countries. Japan has been providing both financial and human capital to Nepal. Japanese training facilities have been used in different fields of

development. Japanese training facilities have contributed to building human capital formation. In the field of capital formation, Japan has been providing different types of assistance in the form of grant, loan, commodity and technical assistance as well as equipment and machinery in order to increase the capital. The nature of Japanese aid has multidimensional effects.

Japan has emerged as the most important bilateral aid donor for the development of Nepal. Role of Japanese aid has become very important after 1975. Japan has provided different types of cooperation through JICA, OECF, EIBJ and other institutions to Nepal. Japanese assistance has been increasing, which consists of grant assistance, loan assistance and technical assistance to Nepal. Among them grant is very important for Nepal. Japanese assistance to Nepal covers most of the sectors, such as agriculture, power generation, health, transportation, education, communication, human resource development environment preservation, etc.

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

5.3 Macro Performance

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

Savings Gap

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

In the Nepalese economy, savings and investment gap has been increasing subsequent year and foreign aid is considered as an instrument of saving gap.

Foreign Exchange Gap

Domestic savings are not perfect substitute of financial outlays beyond a point on account of what is described as the structural balance of payments problem of the less developed countries. As most of the less developed countries conspicuously lack the requisite equipment, know how and skills, a given rate of development will imply a certain volume of imported goods. It is in this context that foreign aid helps in meeting out the exchange gap. The role of external assistance in Nepal on the overall foreign exchange situations has been extremely favorable. In this situation, foreign aid has played the important role in Nepal. However, the remittance obtained from the foreign employment has helped this situation to some extent recently.

Technology Gap

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

By technology we generally mean a combination of technical knowledge and skills. Given that higher level of technology implies more efficient utilization of resources and therefore, a higher output. The problem of raising the level of technology is one of the pressing needs of the less developed countries. Foreign aid fulfils the deficiency of technical know how and skills in the form of technical assistance.

CHAPTER- VI

SUMMARY, FINDINGS AND RECOMMENDATION

6.1 Summary

Least developed countries are characterized as 'capital poor' in economics. Nepal, as other developing countries, remains within the territory of capital poor economy. Effort to mobilize savings through taxation and public borrowing are hardly sufficient to raise the current rate of capital formation via investment. The importation of foreign capital becomes a prime mover to reduce the shortage of domestic savings through the inflow of capital equipment and raw materials. Foreign aid, on the other hand, is advantageous to minimize inflationary pressure when consumer goods through foreign raises the level of consumption which, in turn, enhance the productive efficiency of the community. Foreign aid aiming at the following developmental works will have effective results.

- To utilize the internal resources to the maximum intent possible.
- To invest the aid in private and public sectors for maximum social and economic progress.
- To invest in capital formation.

A possible reason for the low disbursement of grant assistance can be attributed to the government's inability to come up with matching funds. This has in turn, resulted in the low absorptive capacity of foreign assistance. But even more important is the weak institutional capability of

the government machinery. If the government is seriously committed to the efficient utilization of foreign assistance concerted efforts should be directed towards maximum use of grant assistance by strengthening its institutional capabilities and fulfilling its matching fund commitments. Donors should be pressured to match their commitments of grant aid with actual disbursements. This will contribute to a large extent, in reducing the debt burden, especially for future generations.

The empirical study shows that there is positive relationship between the inflow of Japanese aid to Nepal and GDP. The beta coefficient is 34.5 implies one million changes in Japanese Aid have produced 34.45 million changes in the GDP of Nepal positively. The value of R^2 and adjusted R^2 show the good fit of the model. Adjusted R^2 (0.59) implies that 59% change in GDP is explained by the change in Japanese aid & rest 41% change is due to the other variable. T-test and F-test also shows the best theoretical fit of the parameters. Though Nepalese economy is foreign aid based utilization of foreign aid indicates that there is extreme necessity to improve the method of utilization of foreign aid the absence of clear and transparent policy on the mobilization of foreign aid is the main problem of the Nepalese economy. In extreme necessity cases we must accept foreign loan and properly utilize it, in order to get more benefit through the development works (Foreign Aid policy 2003).

6.2 Findings

1. Foreign aid has covered many fields like agriculture, public health, education, transportation, communication, electrification, industrialization, public administration, poverty alleviation, emergency

relief as well as family planning and various allied training programs and expert services for socio-economic development in Nepal.

2. The total foreign aid inflow in Nepal since FY 1990/91 to FY 2004/05 is Rs. 218960.9 million. In FY 1991/92 lowest grant assistance only of 19.63 percent of total inflow of foreign aid but in FY 2000/01 grant aid comprised of 35.93 percent of the total aid and 64.07 percent as a loan.

3. Recent trend indicate Bilateral aid which depends on the mutual cooperation has between two countries has been declining from 22.7 percent of total aid in FY 1993/94 to 14.8 percent of total aid in FY 2000/01.

4. Multilateral assistance begins with the establishment of international labor organization and them IMF and IBRD. The trends of multilateral aid shows that it has been increased 56.8 percent of total aid in FY 1984/85 to 60.1 percent of total aid in FY 2004/05.

5. Aid Disbursements have been much lower than the commitments by huge proportions except in FY 1990/91 when disbursements are higher than commitment.

6. Sectoral disbursement of foreign assistance from FY 1984/85 to FY 2004/05.

a. Transport, power and communication	11103.4
b. Agriculture, irrigation and forestry	5161.6
c. Social services	10506.5
d. Industry and commerce	907.7

7. The resource gap is grater than the foreign aid in each year upto the FY 2000/01. The resources gap is increasing in each year and the amount of

difference between the expenditure and revenue in the FY 2000/01 is Rs. 30941.5 million. The amount of difference between the expenditure and revenue in FY 2004/05 is Rs. 32438.4 million.

8. Japan has been participating in the economic development programs of Nepal since 1956 after the diplomatic relations between two countries has been established. Till then during the period of 1951 to 1956, Japan did not provide any assistance to Nepal. This was due to over busy of Japan in rebuilding of her War-Devastated economy, which she could build-up by 1955.

9. Japanese aid to Nepal is in the form of Grant, Loan and technical assistance. Technical assistance is being provided in the form of equipment supply, training to Nepalese dispatch of Japanese experts to Nepal and development survey.

10. Until Japan's fiscal year 2001, the govt. of Japan has provided a total assistance of Japanese Yen 259.7 billion that constitutes grants Japanese Yen 149.4 billion which is 58 percent of total Japanese aid, loans Yen 63.9 billion which is 24 percent of total Japanese aid and technical assistance of Yen 46.4 billion which is 18 percent of total Japanese aid mainly in the following sectors:

- a. Economic infrastructure likes roads, bridge, transportation, safe drinking water supply, civil aviation, telecommunication and so on.
- b. Agricultural development.
- c. Social sector which consist health and education.
- d. Human Resource Development.
- e. Cultural Grant aid.

f. Environment conservation and sustainable development.

11. Nepal's exports to Japan were valued at Rs. 492.8 million and Nepal's imports from Japan were valued at Rs. 2179 million during fiscal year 2001/02.

12. By the end of fiscal year 2001/02 a total of 81 Japanese companies had made their into Nepal.

13. Tourism has played a very important role in enhancing the bilateral relations between both our countries. Some 28,000 Japanese visited the country in 2001, which constitutes the largest group in the world, next to Indians.

14. From the fiscal year FY 1984/85 to 2003/04, the total foreign aid Rs. 219958.4 million. The highest share of Japanese aid inflow is in the FY 1999/00. which is Rs. 8394.1 million out of foreign aid Rs. 17523.9 million, that is 47.9 percent. The least share of Japanese aid inflow is in the FY 2003/04 which is Rs. 1494.6 million out of Rs. 18912.4 million foreign aid that is 7.9 percent.

15. In the fiscal year 2003, the government of Japan is considering to provide to assistance to Nepal in the order of nine billion Japanese Yen (9000000000) in total for grant financial aid, technical cooperation and development study under the grant aid scheme.

16. The government Japan has agreed to provided a grant assistance of Japanese Yen 80.153 million (equivalent to about Rs. 51.378 million) to Nepal the grant assistance is in lieu of repayment of the principal and the accrued interest of the outstanding loans extended by the government of Japan to Nepal. This new arrangement covers the five loans including

first and second Kulekhani Hydroelectric project and Udaypur Cement project. Signed in or before 1987, is in effect from the Japanese FY 2003.

18. The government of Japan in its FY 2002 has provisioned to extend a grant assistance amounting of Rs. 543.5 million approximated to Nepal under the debt relief incisures.

19. In Nepal, there are many projects to which Japan has extended its assistance and also assisted in the implementation of Grass root projects in the various sectors of Nepalese economy. There were 89 projects under GGP from JFY 1992 to JFY 2002.

20. In FY 1984/85 Japan provided Rs. 163.7 million loan assistance to Nepal which covered only 9.3 percent of total foreign aid. In FY 1999/2000, it increased to 62.3 percent and again reduced to 27.4 percent in 2000/01 and FY 2001/02 Japan has not provided any loans.

21. The government of Japan provides Monk Kagakushjo Scholarship to students from across the world every year. In FY 2002, eight students obtained this scholarship. More than 100 Nepalese students have already received this kind of scholarship and received this kind of scholarship and pursued their higher students in Japan.

22. Japanese Grant assistance has highly concentrated in Agriculture Debt Relief Measures, Transport, Education, Communication Energy and supply. Agriculture got the highest share that is 21% and then Debt Relief Measure that is 12 percent similarly; Road/Bridge got 11 percent, 8 percent to education and 7 percent to supply water.

5.3 Recommendations

Even today's simple norms of access to information as a fundamental human right and as a matter of transparency and democratic practice, all ODA needs to be fully reviewed, made untied and brought into the framework of human rights as defined under both national and international laws and treaties. We can trust and respect ODA only when a country like Japan believes in the framework of international cooperation as defined under the United Nations system that it really believes in the benefit of the recipient countries first. Even in the case of private lending and the operations of multinational corporations and consultants, the framework of transparency and accountability needs to apply. This helps not only in the effective realization of the ODA but also helps combat corruption that is rampant in recipient countries due to the existence of corporate-led undemocratic governments in most of these countries. Nepal is certainly not an exception.

It is very sad to say that Nepal is poor of the poorest nation in the world as her every policy has to be matched with the donor's policy. Because of lack of independent economic policy in Nepal, the development processes always remain standstill. Foreign aid is no more exception in Nepal as every large projects demand high amount of financial resources that is not managed by Nepal. So from the very beginning of our planned development, we heavily depend on foreign aid. Now the quantum of foreign debt has reached the height and there is no way out. Based on above observations and conclusion, the following sector wise-recommendations are absolutely relevant for the better effectiveness and legitimacy of Japanese ODA in the future.

Recommendations on Agricultural Development

Japan has been providing assistance in areas such as agricultural infrastructures as well as development and diffusion of agricultural technologies with a view to uplift the employment opportunities and raise the income of low income farmers. The progress achieved in the field of horticulture, fisheries and sericulture through Japanese assistance is an example of successful assistance. In addition to this, following recommendations are suggested in the field of agricultural development of Nepal.

- a. We have to receive the assistance from Japan to improve the agricultural sector as per the objectives and goals of Agricultural Perspective Plan (APP).
- b. It is necessary to use the Japanese aid for the dissemination and replication of the production of income generation crops. We have to improve and create enabling environment for the market access and circulation of the agricultural product to the rural population.
- c. Nepal must develop internal market and promote export opportunities by promoting agro-based industries and enterprises with the participation of cooperative and private sector using Japanese aid effectively.

Recommendations on Social Sector

For developing country like Nepal, it is important to strengthen the human resources for effective mobilization of its nation building efforts. Under the technical cooperation to Nepal, the basic activities are acceptance of participants for training under the JICA training programs, dispatch of experts, senior volunteers and JOCVs to cooperate in plans and various kinds of development activities and the supply of equipment

i.e. machinery and materials. More particularly, following points should be considered.

- a. We have to encourage greater use of local expertise and define specific roles for international experts where needed.
- b. Full attention should be paid in promoting democratization and introduction of a market-oriented economy and to the situation regarding the security of basic human rights and freedoms in the recipient country.
- c. Japanese assistance is more capital intensive. So the Government should give emphasis on labour intensive technologies as Nepal has high unemployment cases.

Recommendations on Development of Economic Infrastructure

Improvement of basic infrastructure is particularly important in areas such as power generation, roads, bridges, water supply facilities and telecommunication in order to achieve greater effectiveness for economic cooperation in social sector and agricultural development. The recommendations made are listed hereunder.

- a. Nepal has to set such objectives that focus on long-run capacity building rather than achieving short-term performance improvements.
- b. Japan has to avoid aid conditionality and the flow of aid should be spontaneous.
- c. While seeking aid for economic infrastructure, Nepal should not sacrifice its right to choose its developments strategy in favor of the strategy suggested by the donor.

- d. We have to define objectives in terms of outcomes that are going to be achieved not in terms of inputs that are going to be provided.
- e. We have to put forward our strong economic interest in front of the circle of donor.

With particular reference to technical assistance, potentially a key ingredient in the international community's assistance to development, it is urgent that Japan has to drastically improve the quality of aid. This will help Japan learn about what sort of aid works and what does not. The model employed by Japan is request based approach and there are many problems associated with this. So, disbursement of aid by Japan should be made recipient friendly. Instead, more emphasis should be placed on using local expertise, in line with DAC guidelines. On the whole, Nepal has to develop concrete and fine policies for the benefit of Nepalese people regarding the foreign aid to achieve the United Nation Millennium Development Goals.

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ANNEX I

The member of Nepal Aid Group-Nepal Development Forum

Asian Development Bank

Canada

France

Germany

International Fund for Agriculture Development

International Monetary Fund

Italy

Japan

Netherlands

Norway*

Organization for Economic Co-operation and Development

Saudi Fund for Development

Switzerland

United Kingdom

United Nations Development Program

United States of America

World Bank

Norway* Participated as an observer (Paris, April 1996) and expressed its international to become a permanent member of the Nepal Aid Group in future.

ANNEX II

List of Bilateral, Multilateral Donors and INGOs

Bilateral

Australia, Canada, Denmark, France, Germany, Italy, Israel, Japan, Netherlands, Norway, Switzerland, United States of America, United Kingdom, Finland and Republic of Korea.

Multilateral

ADB, European Union, FAO, IDA, IFAD, ILO, IMF, ITU, UNCDF, UNDP, UNESCO, UNFPA, UNICEF, UNIFEM, UNV, UPV, WFP, SFD, UNCHR, and WHO.

INGOs

Action Aid, CARE International, Communication Cultural Promotion Foundations, International Nepal Fellowship, Lutheran World Federation, PLAN International, Save the Children/USA, Save the Children/UK, Save the Children/Norway, The Asia Foundation, United Mission to Nepal, World Neighbor INC., Danish Association for International Co-operation, Fredark Neumann Foundation, Sir Edmund Hillary Foundation, Canadian Lutheran World Relief, Cam, Rose International Institute, Jesuits International South Asia Partnership, DISUI, Save the Children/New Zealand and Trans Himalayan Aid Society.

ANNEX III

Total Japanese Aid and GDP (at Nominal Price)

(Rs in Millions)

Fiscal Year	GDP	Japanese Aid
1984/85	44441	231.8
1985/86	53215	659.4
1986/87	61140	929.0
1987/88	73170	1104.6
1988/89	85830	897.7
1989/90	99702	1069.5
1990/91	116128	1781.9
1991/92	144931	1757.4
1992/93	165262	3501.4
1993/94	191540	1571.9
1994/95	209974	6928.3
1995/96	239388	5295.5
1996/97	269570	4994.4
1997/98	289798	1746.6
1998/99	330018	2894.5
1999/00	366251	8394.1
2000/01	394052	7090.3
2001/02	406138	5326.2
2002/03	437546	2802.2
2003/04	474129	1494.6

Source: *Economic Survey, 1998 and 2004*

ANNEXIV

Total Aid inflow in Nepal.

(Rs. in Million)

Fiscal year	Total aid inflow	Grants	% of Grants	Loans	% of Loans
1984/85	2676.4	923.4	34.5	1753.0	65.5
1985/86	3491.5	1120.6	32.1	2370.9	67.9
1986/87	3314.4	1078.3	32.5	2236.1	67.5
1987/88	5078.5	1984.2	39.1	3094.3	60.9
1988/89	5666.9	1478.2	26.1	4188.7	73.9
1989/90	6427.1	1798.8	28.0	4628.3	72.0
1990/91	5990.0	1630.0	27.2	4360.0	72.8
1991/92	7800.4	1531.0	19.6	6269.4	80.4
1992/93	9235.6	3273.9	35.4	5961.7	64.6
1993/94	11557.2	2393.6	20.7	9163.6	79.3
1994/95	11249.4	3937.1	35.0	7312.3	65.0
1995/96	14289.0	4825.1	33.8	9463.9	66.2
1996/97	15031.9	5988.3	39.8	9043.6	60.2
1997/98	16457.1	5402.6	32.8	11054.5	67.2
1998/99	16189.0	4336.6	26.8	11852.4	73.2
1999/00	17523.9	5711.7	32.6	11812.2	67.4
2000/01	18797.4	6753.4	35.9	12044.0	64.1
2001/02	14384.8	6686.2	46.5	7698.6	53.5
2002/03	15885.5	11339.1	71.4	4546.4	28.6
2003/04	18912.4	11283.4	59.4	7629.0	40.3
2004/05	23657.3	14391.2	60.8	9266.1	39.2

Source: Various Economic Survey, MOF/N

ANNEX V

Regression

Variables Entered/Removed^b

Model	Variables Entered	Variables removed	Method
1	JAID_X ^a		Enter

- a. All requested variables entered
 b. Dependent Variable: GDP_Y

Model Summary^b

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin Watson
1	.585(a)	.342	.515	.209	.432

- a. Predictors: (Constant), JAID_X
 b. Dependent Variable: GDP_Y

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	130485390227.171	1	130485390227.17	9.351	.007a
	Residual	251179909739.379	18	13954439429.965		
	Total	381665299966.550	19			

- a. Predictors: (Constant), JAID_X
 b. Dependent Variable: GDP_Y

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std Error	Beta		
1.	(Constant)	117978.32164	42839.276	.585	2.754	0.01
	JAID_X	34.452	11.266			

- a. Dependent variable: GDP_Y

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	125964.1797	407167.71	221111.1500	82871.29851	20
Residual	-126023.796	304659.46	.00000	114978.23816	20
Std. Predicted Value	-1.148	2.245	.000	1.000	20
Std. Residual	-1.067	2.579	.000	.973	20

- a. Dependent Variable: GDP

ANNEX VI

Regression

Variables Entered/Removed^b

Model	Variables Entered	Variables removed	Method
1	JAID_1		Enter

- a. All requested variables entered
 b. Dependent Variable: GDP_Y

Model Summary^b

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin Watson
1	.710(a)	.504	.574	.504	.863

- a. Predictors: (Constant), JAID_1, JAID_X
 b. Dependent Variable: GDP_Y

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	175683410833.868	1	175683410833.86	17.25	.001a
	Residual	173126792394.764	17	10183928964.398		
	Total	348810203228.632	18			

- a. Predictors: (Constant), JAID_1, JAID_X
 b. Dependent Variable: GDP_Y

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std Error	Beta		
1. (Constant)	106243.998	37811.197	.710	2.810	.010
JAID_1	40.412	9.730		4.153	.000

- a. Dependent variable: GDP_Y

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	115611.6094	445470.2188	230409.5789	98793.67131	19
Residual	-122598.16406	254641.20313	.00000	98072.19348	19
Std. Predicted Value	-1.162	2.177	.000	1.000	19
Std. Residual	-1.215	2.523	.000	.972	19

a. Dependent Variable: GDP

ANNEX VII

Regression

Variables Entered/Removed^b

Model	Variables Entered	Variables removed	Method
1	JAID_2		Enter

- a. All requested variables entered
 b. Dependent Variable: GDP_Y

Model Summary^b

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin Watson
1	.786(a)	.617	.593	.617	1.277

- a. Predictors: (Constant), JAID_2, JAID_X
 b. Dependent Variable: GDP_Y

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	194791409455.159	1	194791409455.15	25.78	.000a
	Residual	120876546142.452	16	7554784133.903		
	Total	315667955597.611	17			

- a. Predictors: (Constant), JAID_2, JAID_X
 b. Dependent Variable: GDP_Y

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std Error	Beta		
2.	(Constant)	108824.011	33009.931	.786	3.297	.005
	JAID_2	42.569	8.383		5.078	.000

- b. Dependent variable: GDP_Y

Residuals Statistics

Residuals Statistics(a)					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	118691.4375	466150.0313	240253.7222	107043.53415	18
Residual	-108641.57813	183076.48438	.00000	84323.09925	18
Std. Predicted Value	-1.136	2.110	.000	1.000	18
Std. Residual	-1.250	2.106	.000	.970	18

a. Dependent Variable: GDP