

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a small and land-locked country between China and India. About 80 percent of its population resides in rural area and the literacy rate is estimated to be 65.9 percent. The per capita income of single Nepali is US\$ 716. Agriculture is the backbone of Nepalese economy contributing 35 percent to GDP with the engagement of people mostly in rural area of Nepal.

Despite the various efforts made by Nepal, through the periodical plans in the past " the development effort has fallen behind to meet the expectations of poverty reduction and growth, poverty is more widespread particularly in rural areas and it is deeper and more severe among Women, ethnic groups and Dalits, and those living in the backward areas of Nepal" (12<sup>th</sup> plan). The manifesto that despite the pouring of various type of foreign aid in the past, Nepal could not succeed in doing much with it. By the end of FY 2011 economic performance of Nepal remained exceptionally low, registering a negative growth rate for the first time in the past two decades. The GDP growth rate fall from 4.2 percent in 2010, 3.5 percent in 2012 the lowest in South Asia (ADB, 2012).A series of domestic and international factors especially the continued escalation of insurgency, irregular monsoon and weak external demand have exacerbated the economic down- turn that began in 2010.

The term 'Foreign Aid' is found to be defined in different perspectives: The Dictionary of modern Economics defines the term as "Any capital inflow or other assistance given to a country which would

not have been provided by natural market forces." The definition includes both financial and non-financial aids such as technical support consultancy etc. Aid is generally provided to less developed country by relatively developed country or countries.

Foreign aid is concerned with economic, political and social progress of the country. The main aim of foreign aid to a developing country is to accelerate the economic development up to a satisfactory rate of growth (Resenting Rodin, 1961).

In early days of initiation of aid, countries that had to face natural calamities like earthquakes, war, draught and floods etc. were provided with help from other countries. The scope of foreign aid has broadened and these days, such aids especially include assistances made for Socio-economic betterment of a country given by development countries and multilateral agencies.

Nepal, one of the least developed country of the world, is characterized by low saving ratio, lack of advanced technology, lack of skilled man power etc. like other many developing countries aspirations for development and needs for foreign aid almost are contemporaneous phenomenon in Nepal. Nepal sit out on the path of development and modernization with poor traditional economy after the political change in 1951. Domestic saving capacity was very low and modern technical know how was almost non-existent. On many counts right from the inception, Nepal's development efforts had to fall back upon foreign assistance, which has emerged as a very significant aspect of the Nepalese economy.

Going back to the history of foreign aid, Nepal's first experience of foreign economic aid heralded by the point four program agreement

signed on 23 January, 1951. The American government assistance of Rs. 22000 provided under president Harry Truman's point four program, was soon followed by formal economic assistance from India in October in the same year (Sigdel, 1996), china and USSR came into the strategically located Himalayan countries foreign Aid Scenario in 1956 and 1958, respectively. Nepal's experience with economic assistance offers a valuable source for answers to the queries about aid thrust into prominence by its strategic position in the Himalayas fastness separating India and China, Nepal has attracted unusual attention from aid donors. (Minalay, 1965)

The economic assistance of India in Nepal began to flow from October 1951 when two Nepalese officials took six months training in statistics in India. The main purpose behind the India aid is to act as a supplement of the efforts of government of Nepal to increase the standard of living as well as to develop the national economy. India aid is based on humanitarian grounds and sometimes on political motives as well. India has offered help to Nepal in almost all economic sectors like infrastructure development, industry, agriculture, health, education etc. On the main grounds of India aid is that 'poverty any where is a threat to prosperity everywhere: It provides aids in the form of financial, manpower, commodity and technical terms. Indian aid has been taken for the completion of many projects for development purpose. The aid also helps to enhance mutual relationship and to seek solution for the common problems of both nations.

Foreign aid plays an important role in the development of Nepal, which has covered almost all the economic sectors of the country. In Nepal, the linkage between aid and development has become more pronounced, after all talk and action about development in the country started virtually simultaneously with the inflow of foreign aid. The record

of Nepal's development performance has thus become indistinguishable from that of foreign aid.

## **1.2 Statement of Problem**

Foreign aid has been playing a great role for the economic development of Nepal. The main economic problem of underdeveloped countries is the deficiency in capital formation due to low level of saving, which is the result of low productivity and lack of appropriate technological development to exploit available resources in the country. Nepal has been rely on foreign assistance as it lacks of capital and advanced technology too. With its own sources, Nepal can not move away in the path of development. LDCs like Nepal cannot accumulate sufficient capital mobilizing their limited resources with limited amount of investment. To break the 'vicious circle of poverty' and to provide fuel for self-motivated growth-pace inflow of outer investment is the must. Foreign aid in this respect is a good remedy. But aid in the form of debt may sometimes, entangle LDC to debt-trap which worsens the situation. This is one reason why Nepal is not achieving expected level of growth despite increasing foreign aids. Though these aids are not sufficient to maintain the increasing 'resource gap' in the budget, they are saving the country from being a 'failure state'. Nepal is receiving assistance in almost all the fields like industry, commerce, agriculture, transportation, communication, physical infrastructure, electricity and even administrative fields. The economic issues are not properly handled nor has any clear-cut solution been explored by anyone yet. It requires serious effort to acquire accurate solution for such intricate problems. The main concern here is to study why foreign assistance inflow in Nepal is increasing with fluctuating amplitudes, what type of trend and patterns of Indian aid to Nepal. What are the areas of Indian aid in the economy of Nepal, is the main concern problem of this study.

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

The prominent objectives of the study to analyze the contribution of Indian aid in the Nepalese economy. The objectives as whole can be pointed out as follows:

- i. To analyze the trend and patterns of foreign aid to Nepal.
- ii. To analyze the trends and patterns of Indian aid to Nepal.
- iii. To examine the area of Indian aid to Nepal.

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

Nepal, one of the least development country in the world, is characterized by low income and high consumption economy. But Nepal is rich in natural resources, due to deficiency of appropriate technology, skilled manpower, financial resources and inadequate infrastructure development the resources are not fully exploited. Nepal's economy is moving with very low pace of development. To accelerate the pace of economic development there is desperate need of efficient use of internal resources. For the use of internal resources there is a need of technology, foreign capital and skilled man-power which the country does not have in required quantum. Revenue collected each year cannot even bear half of annual development expenditure. As a consequences to mobilize the internal potentials, to fulfill other development needs, and to increase investment Nepal has been increasingly relying on foreign assistance. Nepal has been a continuously receiving foreign aid during the past five decades and India has been one of the major donors. India is one of the major countries, which have to help Nepal to accelerate the pace of economic development in Nepal. India has assisted in every field of Nepalese economy and massive economic aid from India to Nepal has helped to promote Nepal's economic development.

## **1.5 Methodology of the Study**

This study is based on descriptive research design. The required data and information are collected from secondary sources i.e., collected from various sources.

This analysis is based on already published materials and records of various offices. The appropriate data are collected from MOF, economic surveys, CBS, central library of TU, Nepal Rastra Bank (NRB), Nepal planning commission (NPC), various web sites etc. Besides this, information has been collected from various articles, journals, magazines and newspapers. Collected data are presented according to the need of the study. Appropriate and simple statistical tools are used to see the pattern and trend of aid inflow in Nepal. The available data from various sources are collected and classified and then tabulated to meet the need of the study.

## **1.6 Limitations of the Study**

Foreign aid influences maximum sectors of the Nepalese economy because there is hardly any sector in which such aid has not been taken. Moreover, Nepal has taken aids from so many countries and multilateral agencies. The study has following limitations.

- i. The study is based on limited data and information available from secondary sources.
- ii. It covers the foreign aid to Nepal dating from FY 1985/86 up to 2010/11
- iii. Foreign private investments are not included in the analysis.
- iv. Military assistance is also excluded from the study, as it is not closely related to economic development.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

Though the concept of foreign aid is not a recent phenomenon, it has global significance especially in the developing countries and is associated normally with the national government and international organizations although there are certain private institutions or organizations which extend support to the aid seeking countries. The scope of foreign aid became more prominent and played pivotal role in aftermath of Second World War with the growing independence of many developing countries along with Marshall Plan to uplift the economy in totality.

Foreign aid is a concept that refers to the flow of capital and technical resources from the government of a donor country or through international channels in the form of loan or grant to the aid seeking countries. The flow of capital and technical resources is basically from the advanced industrialized countries to the less developed countries.

In the context of foreign aid, several publications are published in the form of books, booklets, journals and useful articles. Likewise, there are several books, booklets, journals and articles written by Nepalese as well as foreign writers in the context of foreign aid in Nepal. There are also some dissertations referring to foreign aid submitted by the students of economics for the fulfillment of the master's degree. Similarly, there are several articles in local news paper referring to this field.

Rosentain – Rodan(1957) one of the development economists as a very famous writer of economics, 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..

Friedman, Milton(1958) believes that the fact that foreign aid effectively promotes economic development rests in three basic proportions: first, that the key to economic development is the availability of capital; second, that under developed countries are poor to provide the capital for themselves; third that the centralized and comprehensive economic planning and control by government is an essential requisite for economic development.

Higgins, Benjamin (1968) Economic Development problems, principles and policies 'views that aid is given for moral obligation to help the poor, the threat to national security entailed in the widening gap allies and the possibilities of expanding world traders have all been cited as reasons for helping the underdevelopment countries with their development programme.

He further writes about the role of capital assistance in economic development, 'in the complex process of interacting economic, social and political forces which brings economic development, what contribution can capital assistance make ? It is quite clear that capital assistance cannot being to do job alone. At the same time the availability or absence of foreign aid of the right kinds and in right amounts might make the



difference between success and failure of country's own efforts to launch a process of sustained economic growth.

Mihaly, E.B. (1965), in his book 'foreign aid and politics in Nepal gives descriptive facts about foreign affairs and political conditions of Nepal. According to him, 'Nepal has attracted unusual attention from aid donors. Nepal received aid from so many sources from initial until today they are USA, India, USSR, Isreal, Japan, UN, and it's agencies and the ford foundations.'. He also includes that in Nepal there are tribes and groups of people, diversity of religious and language that are barrier to national unity and national affects to advance economic growth. Hence the aid giving country has to face various difficulties. He further argues that Indian and Chinese aid conflict in purpose. 'India gave a greater urgency to implement the economic aid programme after the political change of Nepal. To exclude Chinese influence from Nepal.

He showed the impact of the minor aid programs provided by the different donor countries. According to him, in minor aid programme, few of them are successful to fulfill their indicated aim but in aggregate, they created serious problem in Nepal. In addition, he has shown the impact of two types of foreign aid in Nepal: short term and long-term impacts. In short term impact, aid project did not improve political consciousness as hoped by donors. In long-term impact aid did not only failed to give a significant boost of Nepal's economy but also it may even have made growth more difficult to achieve.

Foreign aid has played an important and decisive role in economic development of Nepal, which constitutes over fifty percent of total outlay, envisaged under the development plans. According to him, foreign aid has gone in three major directions i.e., infrastructural development, health

and education. He defines three major engines of growth in Nepal - foreign aid, tourism and smuggling, out of which first is definitely major sources of financial inflow without which it would be difficult for nation like Nepal to sustain its economic growth and development efforts. Due to low savings and lack of viable taxation system and inability to generate internal resources, it is not possible for Nepal to discard foreign assistance. Dharamdasani, M.D. (1980).

In his another work 'Political economy of foreign aid' (1984) attempts 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 is that within the prevailing structural constraints to Nepalese society the process of development has itself contributed to the growth of external dependence. He argues that because of limited resources and economic backwardness, foreign aid was considered as an important source to fill up the resource gap' needed to accelerate the process of economic planning in Nepal. Moreover, aid has also played an important role to the formulation and execution of different plans in Nepal. Foreign aid occupies a prominent place in the policies, plan and programme of development of Nepal.

Dinesh Poudyal (1980) in his thesis "Contribution of Indian aid on economic development of Nepal" concludes that India has been a pioneer and continues to be the foremost in the field of assistance to Nepal in initiating and accelerating the process of its economic development. The joint achievements of the past should inspire both countries to further expand and diversify mutually beneficial economic co-operation there by giving new dimensions. He also writes that in spite of massive flow of foreign aid there has been no praiseworthy improvement in the GDP, standard of living and in the rate of capital formation. There are various

reasons behind this ineffectiveness of foreign aid. The problems which he mentions are:

- Donors are guided by various motives.
- Foreign experts and advisors are highly paid.
- Donor's misconception about the exact Nepalese condition also one of the serious problems.
- Large number of foreign labourers are employed in foreign assisted projects.

At last, he concludes that these problems could be overcome by transferring our experiences, knowledge and skills in the field of manpower development. In these respect, India's help in sharing her experience with Nepal will contribute more in this field i.e. Manpower development.

K.B. Pandey (1981) in his thesis "Structure of Foreign aid in Nepal" makes the study on the foreign aid to Nepal. His main objectives are to analyze the structure of foreign aid in Nepal, to find the contribution of foreign aid to GDP, and the actual resource gap problem in Nepal. On his study, he finds that the flow of foreign aid in Nepal's increasing from both bilateral and multilateral sources and the aid that inflow in the country encourages inflation. The contribution of aid to GDP is increasing in Nepal. He finds that aid in Nepal is highly correlated with GDP. He remarks that although the impact of aid on Nepalese economy is positive, there is misdirection, mix-utilization and corruption of the aid, which is responsible for the low growth of the country.

Subha Banskota (1981) has suggested that foreign assistance has been a crucial factor in Nepal's overall development. He also suggested

that in light of the recent declining rate of growth in domestic revenue, it is but natural that donors should be concerned with the country's absorptive capacity, which is greatly limited by shortage of skilled people, construction materials, medical supplies and an increasing responsibility of government of Nepal to maintain projects terminated by donor countries. These factor may combine to have an adverse effect on new development programs. Therefore donor countries may be called up on to explore possibilities to extend assistance to include not only the economic development but also some components of the regular budget, foreign aid in Nepal past and present with reference to U.s. Assistance, "The Economic Journal of Nepal."

Narandra Kumar Singh in his work "Foreign Aid, economic growth and politics in Nepal" Analyzes the natue of Indian aid to Nepal. To him Indian aid to Nepal is both economic and technological, and bilateral and semi-bilateral. Bilateral aid though preferred by most of the donor countries serve as an instrument of diplomacy. Bilateral aid to Nepal is also an instrument of diplomacy. India has given most of its aid for specific projects. Thus, it is project - tied aid. Indian aid has largely been spent on the infrastructural development.

Singh adds that "the pattern of Indian aid to Nepal over a period of three decades provide some interesting facts. Between 1954-78 India has 80 agreements involving a total investment of Rs. 11049 lakhs. Between 1960-72 aid projects were undertaken at a feverish speed but slowed down after 1972. It may be noted that after 1972 more emphasis was on the completion of the ongoing project:

Mahindra P. Lama (1985) in his work "The economics of indo-Nepalese cooperation "Says that the impact of India aid to Nepal has not

been as effective as expected mainly because of the lack of foresight in both the countries. He argues that political factor is the root cause of smooth and proper implementation of Indian aided projects. Had the absorptive capacity of Nepal been higher and advanced the impact of Indian aid could have been more. Finally, he says due to the lack in proper planning and presence of leakages of aid in Nepal, have made the Indo-Nepalese co-operation more complex.

Sigdel, Bamdev (1991) in his Ph. D. thesis says that The country has made significant progress in the field of economic and social infrastructure since 1950 and this progress would not have been possible without foreign aid. Foreign aid has played positive role in the development of national economy. He assumes foreign aid is an addition to nation's real resources, which can and have been with varying degree of success used for nations economic development. Never the less, expectations, which have naturally run high, have not been fulfilled; can genuinely invite charges of mis-management or worse collusion of the donor's country with the government.

Nepal received substantial amount of foreign aid in the last five decades. She received various kinds of economic assistance from all donors irrespective of their political systems and ideologies. As it's percapita income is one of the lowest in the world, even resources are effectively used and directed to productive investment, required level of development may not be substantially achieved. In this context, he says additional foreign capital can be most beneficial. With significant gap between saving and investment in Nepal, a substantial portion of development expenditure is met by foreign aid. But he adds because of priorities of donors, their interest and complexities the absorptive capacity of aid in Nepal is very low. (Sigdel, 2004).

Poudyal, (1998:191) has performed calculation for the effect of foreign aid on the growth of Nepal's GDP, and has found that 'the real growth rate does not seem to be related to the ratio of aid to GDP'. He explains it by saying that the inflow of aid has not been significant enough to make an impact on development. He further writes that the level of GDP is positively related to the inflow of foreign aid. Foreign aid by making more funds available for investment (and positively releasing funds for consumption and other wasteful activities) has raised the economic welfare of the country.

Pant in his book 'problem of development of smaller countries' (1984) remarks that the external assistance available to the least developed and smaller countries can be discussed under the topic 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 in developing countries. He further argues that rapid formation of capital for accelerating the growth of LDCs cannot be possible without foreign aid even if domestic resources are mobilized to the optimum level. He claims an international flow of resources that lower the stage of development, greater will be the percentage of imports often loans and grants.

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.

Naresh Nepal (2000) in his thesis 'Foreign Aid in Nepal with special reference to Japanese Aid,' shows that foreign aid inflow to Nepal has been increasing from bilateral as well as multilateral agencies in the form of grant, loan and technical assistance. He further states, "Japan has been aiding to Nepal in different fields in a friendly manner since 1954. Up to 1975, Japanese assistance was not regular. Only after 1975, grant assistance is increasing in a regular manner. The volume of Japanese assistance sharply increased from 1980 and now Japan become the biggest supporting country to Nepal.

Acharya Keshav P. (2000), shows the importance of foreign aid in his research study 'A review of foreign aid in Nepal'. foreign aid holds critical importance in Nepalese economy. Economic importance of aid resides not only in the fact it provides resource for the national budget. Foreign aid helps bridge between the short falls of the national savings to national investment. It also supports to fill the gap between the excess of imports of goods and services over their exports. There are hardly any economic activities in Nepal, particularly relation to government that does not have the element of foreign aid. Many of Nepal's economic, social and political policy makings are done with the support of foreign assistance. Such horizontal and vertical pervasiveness of foreign aid in economic management of Nepal transcends its influence to non-economic spheres such as social, political and regional dimensions as well through their redistributive effect that emanate from the resource allocation perspectives.

Rizal, Minendra P. (2001) in his article 'Foreign aid in Nepal' writes that Nepal's economy is characterized by various structural constraints leading to low per capita income. The growth of Nepali revenue is diminutive and the rate of public and private savings is low

too. Investment GDP ratio has been declining for the last ten years. Thus, the mobilization of adequate domestic resources to carry out infrastructure and social development programs, remain as a major challenge to Nepal. But at the same time, the national efforts to mobilize saving and to create a favourable climate for the attraction of investment are praise worthy.

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, telecommunication, irrigation, electricity 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 expertiante consultants, procurement of foreign goods and services as prescribed by the donor; some assistance evaporates out to corruption and leakage."

Bhattari (2009) said that "Nepal experiences for foreign economic aid heralded by the point four program agreements signed on 23 January 1951. The Amercian assistance of NRS. 22000 provided under president Harry Truman's point four programs was soon followed by formal economic assistance from India, October in the same year. China and USSR came in 1956 and 1958 respectively.

Reviewing most of the literatures concerning foreign aid, it is found that, to some extent foreign aid positively affects economic growth. These concluded that foreign aid is important for infrastructure development as well as to meet a large portion of our development



expenditure. On the other hand, it has seen that donors are providing the assistance to generate their political power in the recipient country and competition between the developed donor countries also increases the assistance in Nepal. So that recipient country may have to be concerned about the objectives of the aid given by the donor countries. It is quite certain that in the absence of aid from external sources, the country can not develop its economy in a reasonable period of time.

## **CHAPTER THREE**

### **FOREIGN AID IN NEPAL**

#### **3.1 Introduction**

Foreign aid occupies a very important place in concluding Nepalese economy. Nepal started its development or modernization process as national mission in early 1950s. Before that period, Nepal was not familiar with the concept of aid. Whatever Nepal got before that period was more connected with the military assistance, so the history of formal foreign aid program in Nepal is not very old. After the overthrow of Rana Regime in 1951, Nepal entered into the international community and started to get foreign assistance. The first foreign assistance in Nepal started in 23 January 1951 with the signing of 'point four' agreement' with united states of America which had village development, agriculture, health and education as the four concern areas. Moreover, various institution building, road transport and manpower development activities had been taken similar priority by U.S. assistance. India started his assistance in 1951 AD. The first capita assistance came from India in 1952 and US in 1956, the only two donors to Nepal till 1956.

United states became the first country to provide foreign assistance to Nepal on January 23, 1951 valued at Rs 22000 through point four agreement, India was only the country to follow suit almost immediately in 1951 by providing assistance on training in statistics to prepare the development planning for Nepal. In 1952 Nepal took part in Colombo plan which gave her sound progress in the field of receiving technical assistance. Later, Colombo plan aid gradually involved into support for capital projects. United Nation assistance to Nepal was first authorized on 19 February 1953 in an agreement under the consisting of funds for small

demonstration projects, scholarship, experts and aid for administration of pilot projects. Nepal had also received economic assistance from both of its neighbors. In 1956 China began adding to Nepal. With that aid Nepal became the first recipient country of Chinese aid out of other South Asian countries. China has started his first aid in Nepal through road project. Prime Minister Tanka P. Acharya visited China in 1956 and it provided aid dollar 21.6 million for the first plan of Nepal. Another socialist donor soviet Union joins the group in April 1959. Japan had been assisting to Nepal in different fields since 1954 but only after 1975 assistance in the form of grants and loan assistance after 1982/83 has been receiving in regular manner. The strategic location of Nepal between India and China and its non-aligned relation with all countries including two super powers, helped increase in volume of aid after 1956. The role of strategic location evidenced from the fact that up to 1979/80, the US, India and China together provided more than three-fourth of the total bilateral grants.

In 1976, Nepal aid group was formed with the objective of providing a forum to help integrated form according to governments development priorities. Australia, France, Germany, Canada, Switzerland, UK, Japan, USA, ADB, WB, IMF, JICA, DANIDA, OPEC as bilateral and multilateral donors were grouped under this forum. The establishment of the group helps to achieve more assistance in the form of grants as well as loans concessional term.

Nepal is a land locked country, situated in the South Asia. Geographically its shape is rectangular and an area of 147181 sq.km. Administratively, Nepal is divided into five development region, 14 zones and 75 districts. There are 16 districts in the eastern region, 19 districts in the mid region, 16 districts in western region, 15 districts mid

western region and 9 districts in far western region. For administrative efficiency and decentralization policies, districts are further divided into number of VDC and municipalities.

Nepal is one of the less developed countries ranked as one of the poorest country in the world with a per capita income of dollar 311. In Nepal poverty is estimated to be about 30.8 percent with 14 percent of the population estimated to be very poor and 17 percent are estimated to be moderately poor. In 2005, Nepal was ranked 140 among 174 countries in the human development index. There is greater poverty in rural areas than Urban areas. The far and mid western regions are significantly poorer than the central and eastern region.

However, after the historical revolution of 11 Baishak 2063, Nepal enters the pace of sustainable peace with managing conflict. If the endeavors of the conflict management go in successive path and get peace and security. It will easy to develop nations economic through foreign Aid.

### **3.2 Need of foreign aid and resource gap problem**

Foreign aid plays an important role for the development of developing economies like Nepal. Because of slow pace of GDP growth, regional disparity and poverty there is huge saving investment gap in Nepal. To fulfill this gap foreign aid plays prominent role. It is helpful in accelerating the rate of economic growth. Foreign aid doesn't provide resource for annual budget but it helps to bridge the gap between saving and investment. Like other countries, Nepal is also in a vicious circle of poverty. In Nepal the present level of capital formation is very low and increase in saving is not possible because of high consumption, on the other hand scope of public borrowing is also very low because of low

percapita income. Because of its inflationary effects deficit financing is desirable. So, the problem of resource gap can be filled up with the help of foreign aid and the country can get the desired goal.

Moreover Nepal had been experienced burning problem of resource gap in her budgetary expenditure. Resource gap is the difference between the total expenditure and total revenue of the government of a country. Following table shows the extent of resource gap in Nepal from FY 1985/86 up to 2010/11..

**Table 3.1**  
**Resource Gap Problem in Nepalese Economy**

FY	Total Expenditure	Total Revenue	Resource Gap	Percentage Gap NRs in million
1985/86	10097.1	4644.5	5452.6	54.00
1986/87	11513.2	5975.1	5538.1	48.10
1987/88	140105.0	7350.4	6754.6	62.06
1988/89	18005.0	7776.9	10228.1	56.80
1989/90	19669.3	9297.5	10381.8	52.78
1990/91	23549.3	10729.9	12819.9	58.00
1991/92	26418.2	13512.7	12905.5	48.85
1992/93	30867.7	15148.4	15749.3	50.97
1993/94	35597.4	19580.2	16016.6	37.50
1994/95	39060.0	24575.2	14484.8	40.46
1995/96	46542.4	27839.1	18649.3	40.07
1996/97	50723.7	30773.5	20350.2	41.11
1997/98	56118.3	32937.0	23180.2	42.92
1998/99	59579	37251.0	23328.0	37.47
1999/2000	66272.5	42893.6	23378.7	35.27
2000/2001	79835.1	48893.6	30941.5	38.75
2001/02	80072.2	50445.5	29626.7	36.99
2002/03	84006.1	56229.8	27776.3	33.06
2003/04	89442.6	62331.0	27111.6	30.31
2004/05	102560.4	70122.7	32437.7	31.62
2005/06	110889.2	72282.1	38607.1	34.81
2006/07	133604.6	87712.1	45892.5	34.34
2007/08	161350	107875.6	53474.4	33.14
2008/09	183662.	143474.5	40187.5	21.88
2009/10	259689.1	159345.3	100343.8	38.63
2010/11	295333.6	199819	95514.6	32.34

Source: Various Issues of Economic Survey, MOF, GON.

The above table shows about the resource gap which is a serious problem of Nepal's development activities. Because the lack of non-economical social structure and infrastructural development, Nepalese economy cannot invest that much amount which is necessary for governments annual budget. To fulfill the development plan outlay and to narrow the resource gap, foreign aid is necessary in Nepal. In F.Y 1985/86, the resource gap was Rs 5452.6 million which has come to become 54 percent of the total government expenditure.

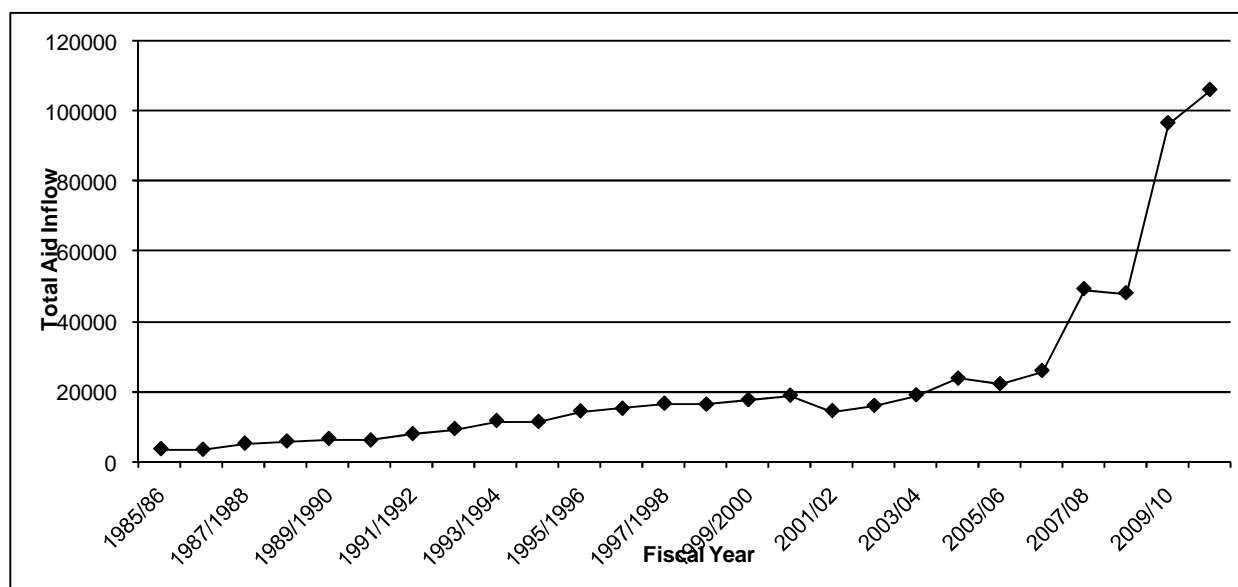
From 1985/86 to 1990/91 the resource gap has been increasing from the beginning. After 1992/93, it has slightly decreased up to 2003/04. Thus, there are fluctuations in resource gap. The internal resource gap is increasing year by year and to manage this problem effectively foreign aid is necessary. But the resource gap has not been totally covered by foreign aid. For example, the total amount of foreign aid in F.Y 1991/2000 12000 is Rs 17523.9 million which covers only 78.5 percent of the resource gap. The amount Rs 100343.8 million is the maximum gap found in review period of FY 2009/10. So, on an average basis of it touched only 40.25 percent. Hence, Nepal is facing high percentage of resource gap.

### **3.3 Trend of Foreign aid in Nepal**

About the historical background of foreign aid in Nepal, the point four-program agreement signed between Nepal and US on January 23, 1951 heralded Nepal's first experience of foreign assistance. At that time US government provided RS 22000 under president Harry Truman. Then, India began its assistance in October at the same year. It was followed by China in 1956 and USSR in 1958. However, the trend of foreign assistance inflow began to increase continuously after 1956. Until 1963/64, most of foreign assistance had been provided in the form of

grants. Afterwards, the trend of foreign aid changed with the inclusion of inflow of loan amount. Until FY 1982/83 the grant amount has exceeded the loan amount, then loan amount has been present gradually up to FY 2001/02 and than grant amount exceeds loan amount upto now. We can sum up the foreign assistance like equipment, financial, technical, machinery and experts in two broad titles grant and loan. The overall inflow of foreign assistance in the form of grant and loan is shown by the appendix 1

**Figure 3.1**  
**Trend and Pattern of Foreign Aid in Nepal.**



Source: Appendix 1.

The appendix 1 shows the total inflow of foreign aid in Nepal from fiscal year 1985/86 to 2010/11. The total amount of foreign assistance received by Nepal is Rs. 588747.5 million. This is composed of Rs. 345778.4 million in the form of grant element and Rs. 242969.1 millions in the form of loan. The total foreign aid is in increasing trend which is clearly shown in the trend line of the graph.

The amount of loan was increasing trend up to fiscal year 1997/98. The table shows that the amount of loan in the fiscal year 1985/86 was Rs. 2370.9 million, which is 67.9 percentage of total aid inflow. Whereas in the fiscal year 1997/98 was Rs. 11054.6 million, which is 67.2 percent of total aid inflow. The portion of loan aid seems to decline. In the fiscal year 2002/03, 71.4 percent of total foreign aid consists of grants while only 28.6 percent of total aid consists of loan. But in the fiscal year 2000/01 the percent of grant out of total foreign aid declines to 35.9 percent where the loan consists of 64.1 percent.

From the fiscal year 2003/04 the grant is in increasing trend where as the amount of loan is decreasing trend. In the fiscal year 2010/11 the amount of grant element was Rs. 64737.8 millions and at that time, the amount of loan consists of Rs. 41362.9 millions. The increasing trend of foreign aid represents that the burden of foreign debt is increasing day by day.

### **3.4 Source of foreign Aid**

Before 1955, due to the several reasons, including the die exposure, donors to Nepal was very few. India and USA occupied the first and second rank respectively and remained predominant in aid scenario. Membership in Colombo plan (1952), non-aligned movement (1955) and united nation (1955) widened the number of donor countries and agencies. Nepal began to receive aid from quite a few other sources, both bilateral and multilateral since the early sixties.

The bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of USA, GTZ of Germany, FINIDA of finland, SDC of Switzerland, DANIDA of Denmark, JICA of Japan, governments of UK, INDIA, people's Republic of China, Belgium



etc. Multilateral donors include the international agencies like World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF) and the UN agencies like UNDP, FAO, EU, WHO, UNESCO, UNFPA, UNHCR, UNV etc. There exist one more source of foreign aid namely international non-government organization as CARE, UMN, OXFAM, HELVETAS, and International Nepal Fellowship.

### **3.5 Contribution of Foreign Aid in Nepalese Plan**

Foreign aid has been played an important role in the implementation of different plans. In the process of planning in Nepal, a 15 years programme of development framed by Juddha Shumsher, a 20 years plan framed by national Planning commission in 1949, institution of planning subcommittee in 1953 etc, were the initial steps taken by the Nepalese government to formulate development process in a planned way. But these steps were confined only in paper. The government started planning procedure from 1956.

But the government of Nepal had not enough financial and technical resources to implement those plans. Having low level of revenue collection government should have forced to take foreign aid in a various forms like technician manpower, experts etc. Then up to now inefficient internal resources and technologies often fully or some time partially depends upon foreign aid. So foreign aid has been an important role in development expenditure since the very beginning of planned development effort in Nepal.

Following table shows the reliance of Nepalese plan on the foreign aid.

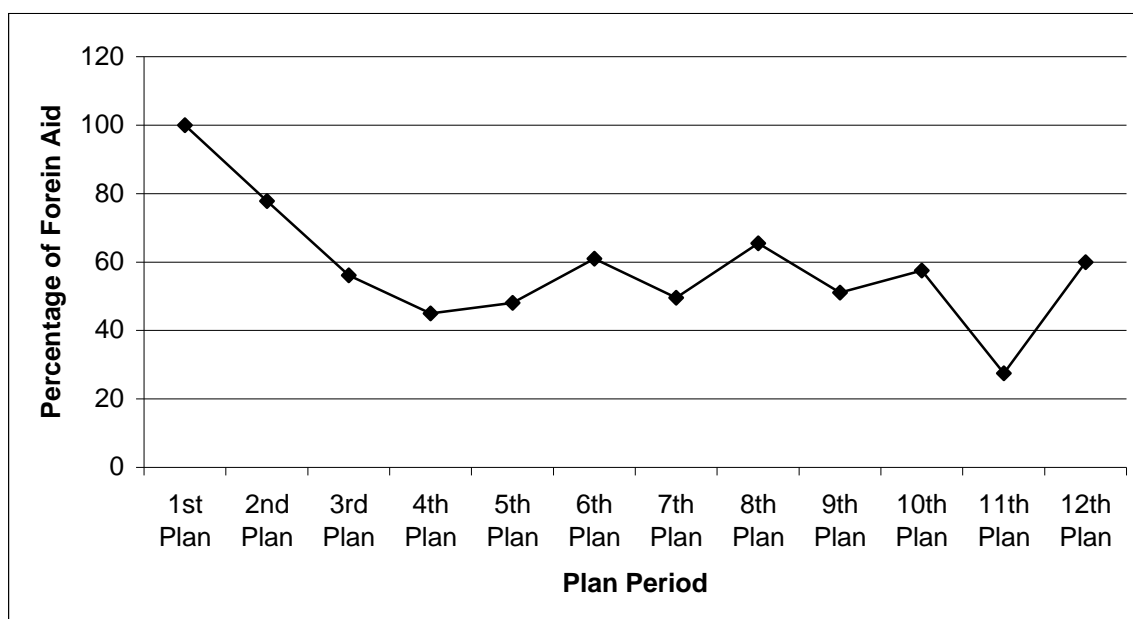
**Table 3.2**  
**Foreign Aid and Nepalese plan period**

Rs in Million

Plan	Plan period	Total Development Expenditure	Amount of Foreign aid	Percentage of foreign Aid W.r. to Development Expenditure
1st Plan	1956-61	382.9	382.9	100
2nd Plan	1962-65	614.7	478.5	77.8
3rd Plan	1965-70	1639.1	919.81	56.1
4th Plan	1970-75	3356.9	1509.1	45.0
5th Plan	1975-80	8870.6	4264.1	48.1
6th Plan	1980-85	21750.0	13260.0	61.0
7th Plan	1985-90	48345.4	23978.5	49.6
8th Plan	1992-97	111919.8	74335.0	65.5
9th Plan	1997-2002	215154.4	111549.0	51.8
10th Plan	2002-2007	234030.0	134620.0	57.5
11th Plan	2007/8-09/10	140660.0	3865.6	27.51
12th Plan	2010/11-12/13	149568	89740.8	60
Total		786723.80	403989.3	Average 51.35

Source: National Planning Commission 2012

**Figure 3.2**  
**Foreign Aid and Nepal Plan**



Foreign aid constituted 100 percent of the development expenditure in the first plan. In the fifth plan period development expenditure was Rs. 8870.6 million and the share of foreign aid was Rs. 4264.1 which constituted 48.1 percent of the development expenditure. The share of foreign aid in the sixth plan period is 61 percent, which is significantly higher than the previous plan period. The share of foreign aid in the seventh plan was 49.6 percent of the total development expenditure (Rs. 48345.49 million). The share of foreign aid in the Eight and Ninth plan was 65.5 percent and 51.8 percent of the development expenditure. In the tenth plan it remains 57.5 percent. Overall, on an average basis the contribution of foreign aid in Nepalese development plan remains 51.35 percent. In Interim plan (20010-13) also foreign aid contributes about 60 percent of the total development expenditure (149568) of Nepal.

The total development expenditure up to Interim plan was Rs. 786723.8 million. The total foreign aid up to Interim plan was Rs. 403989.3 million which was 51.35 percent of the total development expenditure. The data and the analysis presented in the above paragraphs clearly shows the heavy dependency of Nepal of foreign aid for financing development expenditure. It seems that without foreign aid the country could not afford to implement development plans in a real sense.

### **3.6 Bilateral and Multilateral Aid to Nepal**

Nepal is heavily dependent on foreign aid and since 1952 she has been a recipient of foreign aid assistance. Before 1952, because of several causes, including the die exposure, donors to Nepal were very few and India and USA had dominated the full scenario of aid. China and soviet union were the other main donors during the 1950s. Australia, Japan, Switzerland, Britain and New Zealand also were involved in lower

assistance programs. Some technical assistance also provide by the united nations.

Nepal receives a maximum amount of capital and technical aid from bilateral and multilateral basis. There are so many sources of foreign aid. Seven multilateral agencies (such as IMF, WB, etc.), eight private agencies (Such as the Ford Foundation) and Eleven UN agencies had participated in aid programs. At least seventeen countries offered bilateral assistance to Nepal. Until mid 1960s, Nepal depended mostly if not totally on foreign aid for its development projects and most of these were on a bilateral basis. In 1970s multilateral assistance programs started to play an important role in development planning and accounted for more than 70 percent of funding for development planning. By the end of the 1980s, the great majority of foreign aid was in the form of multilateral assistance programs. After the FY 1990/91 the multilateral aid has heavily increased as compared to bilateral aid, it may be due to liberal and market oriented economic policies that Nepal adopted at that time. Therefore, influences of multilateral agencies in Nepal has increased in foreign aid. It may be the causes of profit - making motive of multilateral agencies. The appendix 2 shows the assistance in the form of bilateral and multilateral aid basis to Nepal.

The appendix 2 shows that in FY 1985/86 the share of Bilateral aid was Rs. 1481.1 million while the share of multilateral aid of the same year was Rs. 2010.4 million which is slightly higher, then bilateral in FY 2000/01, the share of multilateral aid is about 5 times greater than the share of bilateral aid.

The trend of aid shows that multilateral aid has been dominant over bilateral aid. However, in the percentage of share of aid, the ratio has

been varying, Except, in FY 2002/03, 2006/07,2007/08 and 2008/09 the percentage of bilateral aid is lesser than multilateral aid instead of the increasing number of individually supporting nation.

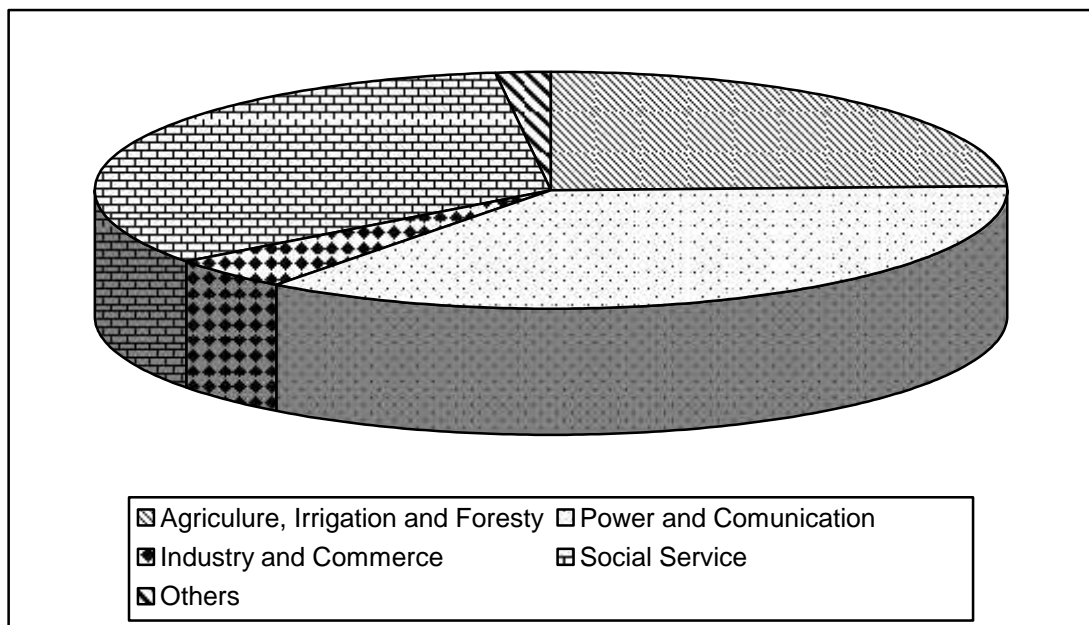
### **3.7 Sectoral Allocation of Foreign aid**

The follow of foreign aid depends upon the priority of the receiving country if the aid is to attach with strings. nevertheless, the strategic interests of the donor countries sometimes play the dominant role for sectoral composition of foreign aid. The sectoral priority attached by the Nepalese government in each successive development plan shows that more than 30 percent of the resources estimated were invested in transport, communication and power generation projects. In addition, virtually most of these projects were implemented through the financial and technical assistance from donor agencies. However, in the case of neighboring countries such as India and China, certain road projects having strategic importance were proposed by them and accepted by Nepal. Other donors which have no strategic interests in Nepal, however political, in conspicuously provided aid for institution building and agriculture sector. The largest share of foreign aid has been allocated to develop transport, power and communication in early plans period. The table 3.1 shows the allocation of foreign aid in different economic sectors of Nepal.

Different sector of Nepalese economy benefited from foreign aid either in the form of technical assistance or in financial term. The appendix 3 shows that power and communication sectors are major receipts of foreign aid. There has been continuous allocation of aid to these sectors. On an average basis, about 35.53 percent of foreign aid has been directed towards transport, power and communication sector from

FY 1985/86 to 2010/11. Social service sector, agriculture is next in priority. Social service sector got much priority in 1990s where allocation of aid in agriculture sector decreased in the same period. The appendix 3 shows that industry and commerce have received very low amount (5.23%) of foreign aid. Appendix 3 shows that donors are interested to build physical infrastructure however the priority has been changed towards social infrastructure development is remarkable.

**Figure 3.3**  
**Sector Wise Distribution of Foreign Aid**



Source: Appendix 3

The above pie-chart shows the concentration of foreign aid in Nepalese economy. Transport, Power and communication sectors are the key sector of Nepalese economy to push development efforts and attracted about 35.53 percent of aid from total aid that Nepal received. The social service sector succeeded in attracting large amount of aid in 1990s. Agriculture sector also received substantial amount of aid about 24.48 percent but the sector which can be crucial to Nepalese development process i.e. industry and commerce seemed to be out of

priority sector of donor, it only received about 4.54 percent of total aid and other sectors only received about 1.93 percent of total aid from FY 1985/86 to 2010/11.

### **3.8 Commitment and Disbursement of Foreign Aid**

Most of the developing countries have been unable to utilize the total amount of foreign aid which they received. Developing countries have low absorption capacity. Due to delay in implementation of projects, they are usually unable to disburse the amount of foreign aid committed by the donor countries. Hence they are inefficient in using foreign aid. The main causes of lesser use of foreign aid are low absorption capacity and the time lag between initiation of the plan and implementation of the plan. Hence Nepal usually gets less foreign aid than the foreign governments have committed to provide. The considerable gap between committed aid and disbursed of aid indicates a low absorption capacity of aid in Nepal. In the appendix 4, the committed aid and disburse aid, difference between them and the percentage of disbursement are presented.

The appendix 4 shows that the committed aid is higher than the disbursed aid. The total committed aid is Rs. 683723.9 million and the total disbursed aid is only Rs. 437080.5 million since the fiscal year 1985/86 to the FY 2010/11. The total difference between committed aid and disbursed aid is Rs. 246643.4 million during the same period of time.

Commitment of foreign aid depends upon the implementation of the projects and their performance. If implementation of projects are delayed and take longer than the planned period of time, utilization of aid will decline, it will decline commitment of aid in the future years. In the

some manner, its performance of the projects leads to decline in the commitment of aid.

The total committed aid in the FY 1985/86 was Rs. 9504.2 million and the disbursed aid was Rs. 3491.5 million. Which was greater than disbursed aid. In FY 1990/91 the total committed aid was Rs. 5665.4 million and the disbursed aid was Rs. 5990.0 million. Which was greater than committed aid. The percentage of disbursed aid was Rs. 105.7 percent of the committed aid in the FY 1990/91. In FY 2005/06 the total disbursement aid was Rs. 22101.5 million and the committed aid was Rs. 20924.2 million, which was greater than the committed aid. Except in the F/Y 1990/91 and F/Y 2005/06 and in other every fiscal year the committed aid is higher than the disburse aid.

The disbursed aid was Rs 3491.5 million in the F/Y 1985/86 whereas it was RS 44216.5 million in the F/Y 2010/11. The total disbursed aid from 1985/86 upto 2010/11 was Rs. 437080.5 million, which is 63.92 percent of the total committed aid. The total difference in between committed and disbursed aid was Rs. 246643.4 million.



## **CHAPTER FOUR**

### **INDIAN AID TO NEPAL**

#### **4.1 Introduction**

The Economic relation between Nepal and India started from the Nepal's trade with India before the 19<sup>th</sup> century. Their relation is further strengthened by people to people through an open and long border which came into force with the advent of India-Nepal peace and friendship treaty of 1950. After the introduction of democracy in Nepal in 1951, India was a premier donor country that played an important role in mobilizing aid to Nepal under the Colombo plan (Dahal, 2003).

Nepal, India and others South Asian Countries have similar religious, cultural, environmental, physical and natural heritages. After independence movement in India, the relationship between these country has been increasing. Reciprocal help for the betterment of political and economic condition is another factor of increasing our relation. In the reign of Prime Minister Janga Bahadur Rana, the existing British government in India got armed forces for the first world war from Nepal. They were satisfied with the assistance and gifted four districts (Banke, Bardiya, Kailali and Kanchanpur) to Nepal which were lost during the battle of integrating process of Nepal. In 1947 many Nepalese citizen played active role to free India from British colony. After the end of British colony in India, they helped to overthrow Rana family regime from Nepal.

The first indication that India was willing to assist Nepal in the field of economic sphere was given by Indian Prime Minister Nehru during his visit to Kathmandu in July 1951. He had said, "if you seek our

help in say, technical or other spheres, we do our almost to be useful to you. But we never want to interfere" (Dharamdasani, 1985).

India and Nepal experience a unique economic interdependence but not found elsewhere. The interdependence has a long history of five decades of economic cooperation. Indo-Nepalese cooperation in the field of modern economic development began as early as 1951 (Pyakuryal, 2005).

The Indian aid mission was established two years before the introduction of planned economic development in 1956 and three years before the formulation of industrial policy in Nepal in 1957. The bilateral agreement for Koshi project was signed by India and Nepal in April 1954 before the initiation of industrial policy. The estimated cost of this project was Rs. 68.4 million. consequently, in 1956 India provided US \$22 million as grant for the first plan (1956-1961). In 1958, India also agreed to build a 1.8MW hydroelectric project on Trishuli at cost of US \$ 47.9 million (Mihaly, 1965).

Although the economic cooperation of India to Nepal has been institutionalized for about fifty years, the beginning of Indian capital flow initiated from 1936 when the company Act was promulated. After the mid 1930s, Indian entrepreneurs entered into Nepal to establish basic need industries due to the availability of low cost raw materials and unskilled manual labors in domestic market. They established jute mill in 1936 in Biratnagar, rice mill in the same year, a cotton mill in 1942 and sugar mill in 1946, which are noteworthy in industrial development of Nepal (Pyakuryal et.al: 2005).

After the Sino-India conflict, India increased her assistance to Nepal considerably both in quantity and quality for expending its economic development. Contemprry His Majesty the King of Nepal inaugurated in

Indian aided Patan Industrial Estate in November 1963 (Dharamdasani, 1981).

One of the important sectors of cooperation was irrigation. Therefore it was necessary to emphasize on agricultural sector constructing major as well as minor irrigation projects in the country. The Chatara Canel project, Nepal's biggest irrigation scheme, is a symbol of cooperation between Nepal and India in irrigation field. The project, which consists of 35 mile long canal, 16 distributaries of a total length 185 miles and minor up to 5 cusec capacity, cost Rs. 13.5 crores (IC). The scheme after its completion was expected to annually irrigate 2.12 lakh acres of land in Morang and Sunsari districts (ICM , 1972 P.13). after the accomplishment of this project, India ha been providing various minor and major irrigation projects for the agricultural development over the country.

In the field of health service in Nepal, the Indian aid has been utilized for the construction of doctor's quarters, nurses hostel, OPD unit and additional ward for Paropakar maternity home in Kathmandu. Similarly building equipments and furniture have been provided for 25 bed hospital at Dhangadhi and Rajbiraj, 15 bed hospitals at Taulihawa, Gulmi and Ilam and some health posts and health centres at various other places in Nepal.

In the early years of Indian aid, construction of transportation link and telecommunication were given key priority for infrastructural development of Nepal by which economic development would be facilitated. During 1960s Indian aid began to grasp the complex problem of changing backward economy into modern one. India's cooperation to

Nepal in the field of education has began with the establishment of TU in 1953.

In 1980s Indian assistance appears to have shrunk a little. During the people movement, India imposed economic blockade to Nepal, as a result Indian assistance was postponed for some months. After the restoration of democracy in 1990, economic cooperation are mutual resumed with reformed terms.

Indian also supplied aid for airport in Kathmandu and Tribhuwan highway linking the India border to the capital of Nepal. Later its contribution to east-west highway stands as the main vein of national economy and development. Indian aid has also been extended to health education, rural development, forestry etc. There was temporary set back in the aid from India after the advent of the Partyless Panchayat system in 1961/62.

Indian assistance in the socio-economic development of Nepal can be viewed from three aspect based on its execution:

\* **Projecte executed by GON:** The development projects that the government of Nepal is the only operating agency, are totally or partially supported by the Indian government for example cottage and small scale industries.

\* **Directly executed projects:** In this assistance system the projects are executed by setting Indian organization in Nepal. As far as possible Nepalese technicians are also employed in such projects. For instance, the Trishuli hydro power project, Upper Karnali hydropower project and Siddhartha highway etc.

\* **Jointly executed projects:** Under this system the projects are executed by Nepal and India. The department of government of India undertakes the execution of the program. The programs of development of horticulture, construction of hospital are the example of this type of projects.

Hence, being the first and the biggest financial contributor, India took an important position among the donors in the economic development of Nepal. Though in real term, annual bilateral assistance level has reduced, India continues to be an important contributor for economic programs.

#### **4.2 Objective of Indian Aid**

Donors have been providing foreign assistance for the various objectives since they started to assist the developing countries. Generally aid comes with political strategic, humanitarian and economic objective. It is not easy to draw a specific division between the politics, the ethics and the economic of aid. The immediate objectives of aid do vary from donors and from time to time. More often, the motives of aid are cocktailed or mixed. They are normally strategic, broadly political, basically humanitarian and certainly economic. From the Indian view, aid to Nepal is just for humanitarian, friendship and economic motives, which is being very much blamed for political motive by commentators.

Indian assistance to Nepal can be divided under two broad headings i.e., supporting assistance which have both strategic relevance and economic value. Another type of assistance is development assistance which has economic value and in no way related to the strategic and political consideration. Basically, it belongs to the development of social infrastructure (Dharamdasani, 1988)

The major objectives of Indian aid to Nepal can be discussed under the topic of Indian aid policy. Indian's aid policy and interest in Nepal are governed by following objectives;

(i) Security or strategic, (ii) Sphere of influence or restriction of superpower influence and (iii) identity and political image building (Khadka, 2004). Although India has no separate aid policy for Nepal, evidences show that it is sector specific and which is normally governed by Nepal's priority preferences (Pyakuryal, 2005).

The major objectives of Indian aid towards Nepal are

### **1. Politico Ideological Objectives**

India increased her aid to encourage political stability in the kingdom of Nepal. India's interest in Nepal has been to build up a strong political system so that political system may be maintained. As successful political system is essential to build up a sound economic base, which could fulfill the rising aspiration of the people and thus bring political stability in the economy.

### **2. Strategic Objectives**

Strategic objective is another important aspect of Indian aid to Nepal. Nepal has strategic value for India's security system. Moreover India aimed at minimizing the influence of other powers so that it could permit her pre-dominant position in Nepal.

### **3. Economic Objectives**

Economic objective is also an important aspect of Indian aid to Nepal. The main objective of Indian aid is to expand and consolidate economic, scientific and technological assistance with its neighboring

countries. The long-term objectives appears to be that India wants to establish a stable and mutually advantageous basis for furthering the cause of Nepal's economic development, independence and the growth of its scientific and technical capabilities. On the other hand, the vested objectives of economic cooperation are based on the utilization of water resources i.e., a large part of India's eastern river system originates in Nepal and without Nepalese cooperation the large river system would remain underdeveloped and unharnessed. This interest has prompted India to seek the cooperation of Nepal in the economic field. Another reason could be the promotion of trade as Nepal provides an easy market for Indian goods. Most of Nepal's trade is with India where the share of Indian aid in Nepal's total trade has 61.3 percent in F/Y 2004/05 while other country's has only 38.7 percent in the same year. This data shows that trade is becoming more concentrated towards India either in the form of exports or in the form of imports. It is in India's interest to further promote this trade. For this, it required increase economic activities in the kingdom.

#### **4.3 Total Magnitude of Indian Aid (1951-2011)**

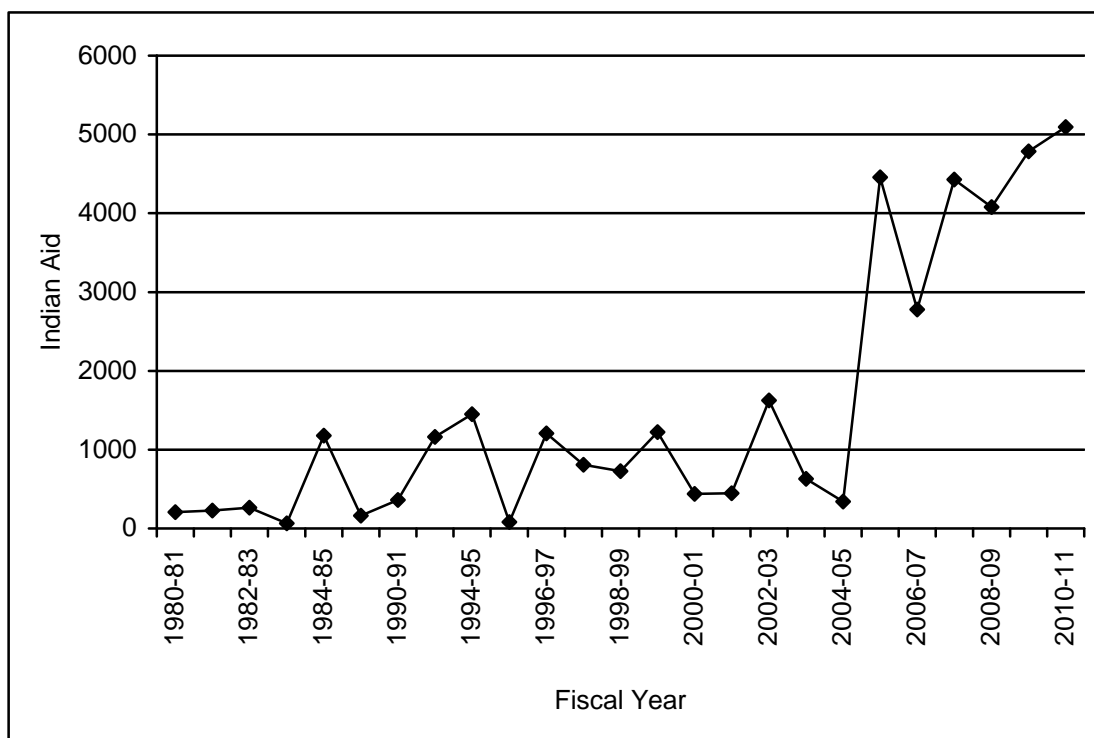
India has been assisting Nepal after the India's independence in 1947. India seems to play the foremost role in the development of Nepal from the beginning. India has mainly helped Nepal continuously in almost every field of Nepalese economy such as agriculture, transportation, industry, health, education, technological development, to make constitution etc and Nepal also opened the door to her neighbour for investment in mutually benefiting projects on her natural resources like Koshi, Gandaki Karnli and Mahakali project which have benefited to both countries. Indian aid plays vital role in the economic development as

well as humanitarian basis. Following table shows the Indian assistance to Nepal from 1951 to 2010/11.

According to the available data and information, the share of Indian aid in total aid reception was 38 percent from Fiscal Year 1951 to 1980 (Poudel; 1882). The above appendix 5 shows that over the period of 32 years from 1951 to 1983, India has provided Rs. 3544.32 million. During the 21 years period from 1983 to 2003, it has committed to provide Rs. 11166.89 million and during the 5 years period from 2003 to 2007, it has committed to provide Rs. 8208.92 million .As well as From 2007-2010,it has committed to provide Rs.18384.76. Out of which, considerable amount in the field of education, health and transportation is being provided annually from the date of agreement in different times. It shows that Indian aid has been increasing over the years with minor ups and downs.

**Figure 4.1**

**Trend and Pattern of Indian Aid in Nepal**



Source: Appendix 5.



After 1980s, the appendix 5 and graph 4.1 shows that the trend of flow of Indian aid amount has not been consistent flow through out the year. In fiscal year 1980/81, the amount of Indian aid was Rs. 206.2 million. But in fiscal year 1984/85 it reached up to the amount Rs. 1177.6 million and the next fiscal year 1985/86 the amount highly went down and was only Rs. 162.8 million. Likewise in the fiscal year 1999/2000 is reached up to the amount Rs. 1224.1 million and the next fiscal year 2000/01 it drop down to the amount Rs. 437.8 million. The highest amount of Indian aid was Rs. 4457.7 million in fiscal year 2005/06 and the lowest amount was Rs. 64.9 million in fiscal year 1983/84. In fiscal year 2010/11 the amount of Indian aid to Nepal is Rs. 5093.13 million.

#### **4.4 Sector Wise Allocation of Indian Aid**

Over the period of five decades, the Indian aid covers all the major sectors of Nepalese economy. Among these sectors, the infrastructure like transportation, irrigation and power, postal and telecom and education have been given top priority.

The following table shows the Indian assistance in various economic sector of Nepal.

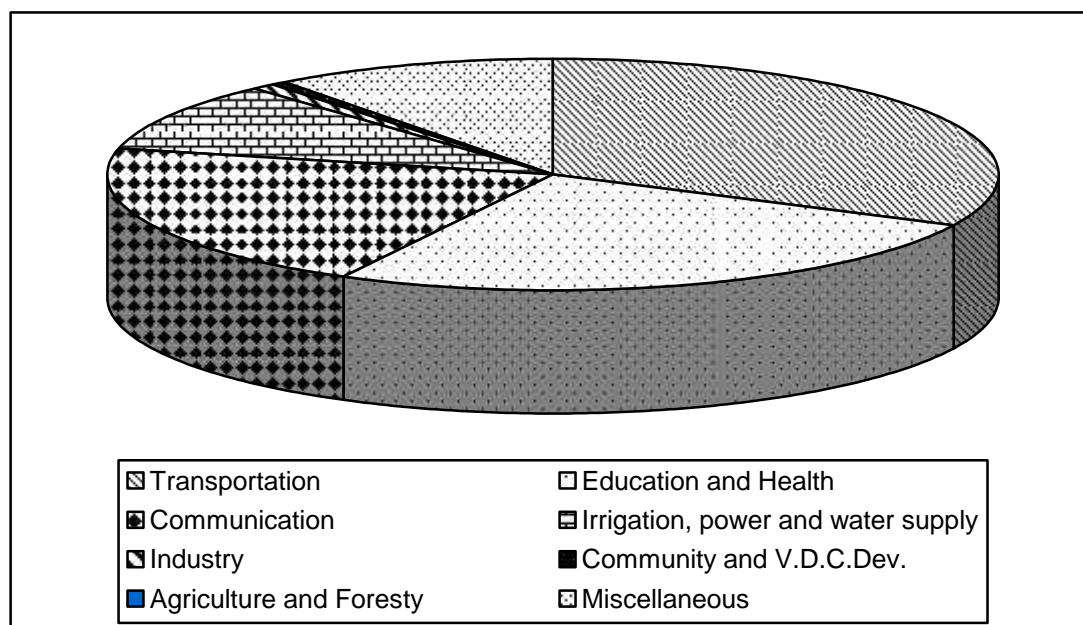
**Table 4.1 'a'**  
**Sector Wise Allocation of Indian Aid to Nepal**  
**(F/Y 1985/86 to 2010/11)**

Rs In Million IC

Sectors	Indian Aid	% of Total Aid	Rank
Transportation	4500.0	32.3	1 <sup>st</sup>
Education and Health	3538.72	25.4	2 <sup>nd</sup>
Communication	2911.79	20.9	3 <sup>rd</sup>
Irrigation, power and water supply	1337.47	9.6	5 <sup>th</sup>
Industry	125.38	0.9	6 <sup>th</sup>
Community and V.D.C.Dev.	69.66	0.5	7 <sup>th</sup>
Agriculture and Forestry	27.86	0.2	8 <sup>th</sup>
Miscellaneous	1421.06	10.2	4 <sup>th</sup>

Source: Partnership Economic Development 2011.

**Figure 4.2**  
**Sector Wise Distribution of Indian Aid**



The above table 4.2'a' and pie-chart 4.2 shows that Indian aid scheme has given top priority to the transportation sector. India had given almost 33 percent to the transportation and ranked it in first. Education and health are another one that heavily supported by Indian aid. Total aid disbursed in health and education sector is in the second position. Irrigation, power and water supply remained in the 5<sup>th</sup> position with 9.6 percent of total aid receipt Rs 6859.2 million IC. The aids given insectors such as technical development, equipments, supply of paddy, sugar, cement etc are included in miscellaneous. The contribution of Indian aid on it is ranked on 4<sup>th</sup> position with 10.2 percent share. Communication sector has been given 3<sup>rd</sup> priority providing almost 21 percent of total aid. Industry, community and VDC development, and agriculture and forestry are also benefited by the Indian aid.

#### **4.5 Areas of Indian Assistance to Nepal**

Globally, in comparison to other countries, Nepal is the least developed landlocked country with geographical diversity. It has ecological, cultural and ethnic diversity too. There are numerous potentials of development. In spite of its rich biodiversity and hydropower resources it isn't developed due to the lack of substantial foundation and large amount of financial and capital investment to uplift the country from the existing backwardness. In annual budget, development expenditure is found to be less than twenty percent each year. Because of this acute problem, the country is forced to rely on foreign assistance in order to gain the aim of high level sustainable and broad economic development and overall upliftment of the economic condition.

Regarding the economic development of Nepal, many bilateral and multilateral agencies have been providing assistance in the form of grants and loans. It has great importance but in comparison to the previous years, their share has been declined. If we analyze the history of foreign aid in Nepal, India occupies the first position among the bilateral sources upto 1980s. In spite of India's developing economies, it has been cooperating Nepal in almost all the economic sectors. 90 percent Indian aid is found as in grants. The sectors of cooperation in Nepal for the development of various sectors has been continuously extending. Some of the major sectors are industry, education, communication, transportation, basic infrastructural development etc. So, it is important to observe India's assistance in the development of various sectors of Nepalese economy.

India is the largest development partner of Nepal with 177 on going projects involving and outlay of NRs.22291.2 million upto 2010 March 31<sup>st</sup>. 92 projects (3 large project and 89 small development projects) have been completed with the outlay of NRs 3624 million up to now. The Indian aid covers different areas in Nepal. The Indian aid disbursed in different areas and identified the areas that have been given priority are as follows:

#### **4.5.1 Transportation**

Transportation is necessary for the economic development of Nepal. Most of the Indian aid during the two decades of 1950s and 1960s has been towards infrastructure development of Nepal. India's cooperation in the field of transportation in Nepal has covered building of roads, railways and airfields. To establish peace, security, law and order and to transport goods and services from one part to another, roads and

air transportation play the vital role. But due to lack of essential development of transportation facilities, Nepal is not able to exploit her natural resources and can not achieve desired level of benefit from industry and commerce. The total road length at the end of F.Y 2010/11 was only 23209 Km; out of which black topped road is only 9902km, graveled road is 5670 km and fair weather road is 7637 km. According to the data of Indian Embassy, as on March 31, 2010. There are so many projected road in Terai region which are as shown in appendix 6.

#### **4.5.1.1 Roads**

##### **Tribhuvan Rajpath**

Trivhuvan Rajpath connects Bhainse, Makwanpur with Thankot the main pass to Kathmandu valley and run through the hilly terrain, rising to a height of 8200 ft near Daman. The construction of 116 km Tribhuvan Rajpath was started in 1953 and completed in 1956 with the cost of Nrs 90 million. There is another 81 km long road connecting from Bhaise to Raxaul on Nepal India border. This highway is of great importance for promoting the social and regional contract between the mid mountain region and the terai region and has saved both energy and time and brought in closer contact between middle terai region and the kathmandu valley. It has made significant contribution to Nepal's economic development in Nepal providing economic and administrative links between the capital and many others parts of the country for the first time.

##### **Mahendra Rajmarg (East-west Highway)**

The 1400 km long road, Mahendra Rajmarg joins Mechi in the east and Mahakali in the west and is the nations one, true lifeline. Late King Mahendra laid the foundations of this highway with the view to commence the process of economic development in Nepal and to reduce

the country's dependence on India in transportation sector. An agreement was signed between the GOI and GON for the construction of this highway in March 1975. Out of 1000 km length of this road, India assisted to construct three major sections of this highway. As per the agreement signed in 1966, GOI agreed to provide financial assistance to the extent of NRs 352 million for the construction of this highway from Jhapa to Janakpur. Similarly, for the construction of Butwal-Nepalgunj sector India has provided NRs. 401.2 million based on the agreement signed in 1972. In September 28, 1985, GOI offered NRs 800 million for the construction of remaining part of this highway i.e. from Kohalpur to Mahakali. Thus India constructed more than 70 percent of this highway. In 1996, GOI agreed to provide assistance of NRs 928 million for the construction of 22 bridges in Kohalpur- Mahakali section.

### **Siddhartha Rajmarg**

The 210 km long Sunauli-Pokhara Highway (Siddhartha Rajmarg) was started to construct in 1964 and completed in June 1970, under the agreement signed on August 25, 1964 with the cost of NRs 146 million. This highway begins from Indian town Sunauli and runs across Bhairahawa, Butwal, Tansen, Syngja and then ends at Pokhara. For the commercial point of view, it is the most important road which created opportunities for the development of trade, agriculture, industry and tourism. This road has great importance for promoting the socio and regional contact between the mid mountain region and terrain region.

### **Road Constructed by the Regional Transport Organization**

In January 1958, contemporary GON, India and US agreed to develop infrastructure facilities in Nepal with a view to facilitate interchange of technical knowledge and skills and programs of self-help and mutual cooperation. The rationale behind the agreement was to

promote economic and social well being and secure basic rights and liberties of the people and to protect their security and independence. As per the agreement, an agency was formed consisting of equal number of representatives from the three governments, i.e. Regional Transport Organization (RTO), to carry out the program. The following 8 roads were constructed under this program.

**Table 4.2**  
**Road Constructed by RTO**

Roads	length in Miles
Kathmandu - Trishuli	43
Raxaul - Bhainse	46
Nepalgunj - Surkhet	71
Krishnagar - Pyuthan	80
Dharan - Dhankuta	93
Kathmandu - Janakpur	130
Sunauli - Pokhara	131
Dhangadhi - Dadeldhura	150

Source: Partnership in Economic Development, 2010.

This program was finally terminated in February 1960 with the construction of 206 km jeepable roads and 320 km of motorable roads in different areas in which India assisted the amount of NRs 158.4 lakhs.

### **Dakshinkali Road**

The Dakshinkali road was constructed by India at a cost of NRs 2152 lakh which links the capital with Dakshinkali, a temple dedicated to goodess Chamunda. People of this area are getting benefit from the point of commercial activities as it is now becoming one of the targets of tourist as well as local people.

### **Tripureshwor-Thankot Road**

Tripureshwor- Thankot road was constructed with a cost of Nrs 1.6 million, which connects kathmandu valley with Tribhuvan Rajmarg. The people of Kathmandu Valley in particular are benefited from this highway. Now, it is the busiest road due to traffics and traders of the kingdom.

### **Kakrawa-Lumbini Road**

The 8 km long Kakrawa- Lumbini road was constructed during 1957-58 in a cost of NRs 6.72 lakh. This road connects Kakrawa, the Indo-Nepal border with Lumbini and develop and expand the tourist movement to Nepal. It would bring substantial amount of foreign exchange through tourism industries.

### **Kathmandu-Godawari Road**

Kathmandu Godawari road was constructed by Indian assistance, which runs from Patan and reaches at the site of beautiful Botanical Garden in the South-western part of Kathmandu valley. It links Patan Industrial Estate with Kathmandu and provides easy access to marble quarry at Godawari.

### **Balaju Road**

Balaju road was constructed by Indian assistance at a cost of NRs 2.72 lakhs. This road links kathmandu and industrial estate of Balaju near Mahendra Park and facilitates the growth of industrial activities in this estate.

### **Janakpur Town Road**

This road was constructed by Indian assistnce in janakpur town at a cost of NRs 4.92 lakhs. Janakpur is an important commercial and tourist



town in the mid eastern terai of Nepal and one of the important religion place.

### **Trishuli Road**

India has constructed Kathmandu-Trishuli road at a cost of NRs 112 lakh. This road works as a medium of transport to supply fruits and vegetables from Nuwakot to Kathmandu and industrial projects and food grains for the people of Nuwakot from Kathmandu as well.

#### **4.5.1.2 Airports**

Because of hilly topographical structure, the air transportation are essential mechanism in the rapid development of civil aviation in Nepal and are useful in simultaneous economic development in the absence transportation facility in different part of the country. India was the first country to provide aid for the construction of airports. In 1951, India provided Rs 56.11 lakh to establish the airport at Gauchar in Kathmandu valley under the request of contemporary GON which was renamed Tribhuvan Airport in 1952. After this, in 1964 India also provided assistance through comprehensive program to construct airport in different places of Nepal. India agreed to construct various modern runways at these airports at a cost of Rs 10 million. Pokhara airport has also been provided with additional facilities like terminal building, nine staff quarters etc. Government of India agreed to provide further assistance equal to NRs 208 lakhs for the development of airports including Biratnagar in 1968. The total assistance in airports services provided by India is Rs. 123.83 lakhs.

India has solely constructed the following airports in Nepal.

**Table 4.3**  
**Construction of Airports Under Indian Aid**

Projects	Details	Year of Completion	Cost (lakh)IC
Kathmandu	Construction	1951	56.11
Pokhara	Construction	1964	0.76
Biratnagar	Construction	1964	28.36
Bhairawaha	Construction	1964	15.52
Janakpur	Construction	1964	19.45
Simara	Construction	1964-71	3.63
Total			123.83

Source: Partnership in Economic Development, 2010.

#### **4.5.1.3 Railways**

Due to hilly topographical structure it is difficult to construct railways in Nepal. However India has assisted in developing railways especially in Terai region. India in the first agreed to construct broad gauge railway line in Nepal from raxaul to the foot of the hills in the north up to Hetauda at a cost of Rs 8.59 lakhs. Although it had great economic significance, this project did not materialize. in May 1993, the DPR prepared by m/s rites and GOI renovated and upgraded the narrow gauge rail track of Janakpur to Jaynagar in the total package of NRs. 144 million. India renew the narrow gauge railway track and also provide the diesel engines with eighteen coaches to Janakpur railway, which enhance the commercial and industrial activities in this region. Similarly, India also fulfilled the commitment to link Birgunj with Raxaul with broad-gauge line. This railway link came into operation from 16 July, 2004. This railway service connects Nepal with the Island container Deposit (ICD) from which the country can take maximum advantage of the deposit's trade potential.

**Table 4.4**  
**Projected Rail Links Under Indian Aid**

(NRs in million)

Projected Rail Link	Length (in km)	Estimated cost
Nepalgunj Road-Nepalgunj Rail link	12.11	2384
Nautanwa-Bhairahawa Rail link	15.3	2816
Jayanagar-Bardibas Rail link	68	7148
Jogbani-Biratnagar Rail link	17.65	3200
New Jalpaiguri-Kakarbhitta Rail link	70	5727
Total	183.06	21275.00

Source: Economic cooperation wing, Embassy of India, 2010.

#### **4.5.2 Communication**

Indian collaboration with Nepal in the postal field dates back to the 19<sup>th</sup> century when an Indian post office was opened in 1816 in the British Residency (Poudel 1980). Since then in addition to conducting a survey for postal arrangement and rendering advice for improving postal services, the general post office buildings were constructed under the Indian cooperation program at the cost of NRs 19.2 lakhs and the foreign post office building at the cost of NRs 12.24 lakhs. After than Nepal became a member of universal postal union. Indian advisors, subsequently helped to organize the Nepalese postal system both internal and external. India and Nepal agreed to establish effective postal services between them in 8th September, 1964. Both the governments also committed to exchange postal parcels between the postal administrations of India and Nepal.

In the field of Tele communication, a radio telephone link was established between Kathmandu and New Delhi in 1950. The GOI and contemporary GON agreed to establish continuously open wireless telegraph and radio telephone services between Nepal and India on June

25,1964. In cooperation with USA a radio telegraph facility was provided between Kathmandu and New Delhi and a radio telegraph between Kathmandu and Calcutta at a cost of NRs 153.28 lakhs on June 25, 1968 at the approximately NRs 4.8 million. The GOI agreed to provide funds to the extent of NRs 1.92 million for the establishment of a 5k.w radio telephone link between Kathmandu and Delhi on June 24, 1968 in which, the materials for standby power supply transmission line, antenna and local leads at Kathmandu for extending the radio telephone circuit from the wireless station on the central telephone exchange are the significant achievements from the Indian assistance. The GOI arranged execution of the projects in the turnkey basis through the concerned department of India and handed over to contemporary GON after its completion.

In March 13, 1972 GOI provided assistance of NRs 83.2 lakhs for the establishment of telephone exchange at Janakpur, Biratnagar and Jhapa. Another project is the overhead line between Biratnagar and Jhapa. Another project is the overheads line between Biratnagar and Jogbani provides a direct circuits between Nepal and India. A direct composite radio link was established between Kathmandu and Bombay at a cost of NRs 16 lakhs to provide direct circuit between Kathmandu and Bombay for transmitting international traffic in Nepal.

Currently, the GOI is involved in a project for setting up an optical fiber cable based on information super highway along the east highway of the country. The estimated cost of this project is NRs 1344 million being provided by India to Nepal as a grant with the assistance of GOI, the connection of highway (Mahendra Rajmarg) 904 km OFC from Bhadrapur to Nepalgunj has been completed on November 22, 2004 at the cost of NRs 1184 million.

### **4.5.3 Water Resources**

#### **4.5.3.1 Power**

Hydro electric power occupies an important place in the development of national economy. Hydro electricity is one of the most economic sources of power in Nepal because of its abundance. Its technical potentiality is estimated to be 42 thousands M.W out of 83,000 MW of full potential. Despite a high potentiality of power generation, one percent of the total potentiality is generated. Although Nepal has potentiality to export hydro electricity due to high costing to produce, it cannot fulfill the domestic demand. However, the aid giving countries have very well realized the prominent role of electricity in the economic development of Nepal and accordingly India have assigned a substantial position of its aid to this sector. India ha contributed for the completion and the following hydro-electricity projects.

##### **a. Trishuli Hydroelectricity Project**

In 1958, India undertook the construction of Nepal's biggest power project at Trishuli at a cost of NRs. 21.66 crores. This project was completed in 1971. The project has been constructed to its optimum capacity of 21.00 KW. The power is transmitted to Kathmandu valley through 18 mile long high tension transmission lines. Now it is linked to the national greed. This project has helped established small scale industries in Kathmandu and Hetauda. Besides, the power has been used for domestic consumption and street lighting in Kathmandu. From establishment up to now, this project continuously under operation.

##### **b. Devighat Hydro-electricity Project**

This project was implemented to reuse the water of Trishuli hydroelectricity project. In 1978, Government of India undertook the execution of this project. This project was completed in 1983 with the cost of NRs 464 million. Using three generators, 14100 KW electricity is

generated under this project. Beside this, India has provided assistance for Surajpur power project, Katya power project, rural electrification project in Nuwakot.

**c. Koshi Hydroelectricity Project**

Koshi hydro- electricity project has been started after joint agreement in 1954 of the government of Nepal and India. To provide irrigation facilities, to generate hydro-electricity and to control flood were the main objectives of this projects. The power house on the eastern koshi canal has been designed to produce 20,000 KW of which Nepal's share would be 10,000 KW. The hydropower obtained from this project is distributed mainly among the industries of Biratnagar, which helped to promote the growth as well as agriculture in the Koshi region. Under this project India assisted in constructing infrastructure in Nepal for the irrigation of 93,000 hectares in Sunsari and adjoining districts. The flood control and irrigation project constructed in Nepalese land has been providing a lot of benefit with little dissatisfaction. The Koshi barrage was completed in 1962 at the cost of NRs 377.9 million and flood embankments of 146 km and 123km respectively were completed at a cost of NRs 720 million.

**d. Phursekhola Project**

This hydropower project has important for the socio-economic development of the Pokhara valley. In this project India assisted to install four generators of 250 KW to generate 1000 KW electricity at Phursekhola. This project has provided substantial portion of electricity for feeding small industries in the Pokhara valley.

**4.5.4 Irrigation and Drinking Water**

Nepal is an agricultural country and the second rich country in water resources in the world. As in the past years, development projects related to irrigation have been carried out at the government level and

also by the Asian Development Bank Limited (ADBL ). In F/Y 2009/10, the irrigation facility managed by the government reached 1227000 hacter land .

Although Nepal is an agricultural country but it could not provide irrigation facilities more than 27 percent of total arable land which is only 17 percent of total agricultural land up to F/Y 2009/10. Agriculture is the principle component of Nepalese economy which contributes about 35% in total GDP in interim plan.

Indian assistance in irrigation sector is started with the construction of Koshi and Gandak barrage. Besides these there are several major and minor irrigation and drinking water supply projects in which India has provided assistance. Nepal and India signed in various treaties on the implementation of large river like Koshi, Mahakali and Gandaki for mutual benefit and friendship providing power and irrigation facilities. Irrigation projects under Indian Assistance are shown in appendix 7.

In the field of public health, there is a need for adequate provision of drinking water and management for the protection of health. For this purpose India has assisted in various drinking water projects. Indian aid has been channalized through the canal and drinking water supply Development Board of government. Notably, 35 schemes DWP have been completed at a cost of NRs 78.8 lakh and 450 hand pumps all over the country have been already constructed. But according to the book India Nepal Economic cooperation of 2010, till date, nearly 1000 DWPs have been executed in Nepal's villages at a cost of NRs 120 million. Under the Indian assistance the biggest Sundarijal damp has been completed in 1966 at a cost of NRs 10.99 lakhs. Some development activities in drinking water projects are being operated in different places of Nepal. Among them Triyuga Municipality, DWP of Udayapur and

Manakamana water supply projects are under progress at the total cost of NRs 152.7 lakh. Thus we can conclude that Indian aid has substantial contribution in the field of irrigation and drinking water supply.

#### **4.5.5 Education and Health**

Indias assistance in the field of education begun with the establishment of Tribhuwan University in 1958. Since 1960 onward India provided NRs 12 million for construction of various building within Tribhuvan university complex, Kirtipur, Kathmandu. Under the Colombo plan, Government of India agreed to provide additional assistance for the Development of Tribhuvan University for science equipments and furniture and fixture for library equivalent of NRs 1.76 million. And GOI also provided services of Indian scholars for a long time to teach subject at post graduate both in science and humanities at Tribhuwan University under this same plan. On August 31, 1960, GOI and contemporary GON signed agreement for establishment of an engineering school in Kathmandu and provided out of overall aid funds, financial assistance to the extent of NRs 1.40 million. The programme was implemented by engineering school development board constituted under the contemporary Vikas Samiti Ain, 1957. By this programme, Nepal could produce a skilled manpower who were very useful especially in the context of executing various development scheme in the country. Currently, there are 72 schools/multiple campuses in 36 districts covering plain to hilly region, under construction or constructed benefiting 100,000 students. The educational projects are shown in appendix 8.

##### **i. Scholarship Program**

India has began providing Nepalese students with different kinds of scholarship to Nepalese Students pursuing higher studies in India, which



started with the emergence of Colombo plan. The plan had been providing immense opportunity to Nepalese students to study medicine, engineering, economics and business management including different spectrum of knowledge under various scholarship program. Even after the termination of Colombo Plan India has been providing different scholarship and training to Nepalese students and professional, currently government of India offer of 2000 scholarship to Nepalese students for students in Nepal and higher studies in India. Some programs are listed below.

## **ii. Under Graduate Courses**

The GOI, through the Embassy in Kathmandu provides a total of 50 scholarships every year to Nepalese students to study B.E/B.Tec in various engineering colleges of India. India also provides some seats to undertake MBBS course under self-financing schemes for ten students in India. Similarly, India has been providing nearly 15 seats for sample student to undertake courses. Such as BBA, BCA, LLB, Journalism etc. under general scholarship in each year of the total five seats have been allocated for students offering music and fine arts.

## **iii. Post Graduate Courses**

Each year GOI provides scholarship quotas for Nepalese students in various facilities such as MA, M Sc. MCA and MBA under Silver Jubilee of the coronation of Late His Majesty King Birendra. In addition 5 scholarships under Nepal Aid Fund Scheme are also provided for M Sc.agriculture course each year.

**iv. Research/Post Doctoral Scholarship**

To promote interaction among students and academic of the two countries, one fellowship and two scholarship are provided to Nepalese candidates for undertake in doctoral/post-doctoral studies in various fields. In addition to this, one SAARC chair is offered to an eminent Nepalese Scholar every 6 year to pursue studies in the field for which adequate facilities are not available in Nepal.

**v. Golden Jubilee Scholarship Scheme**

To mark 50 years of economic cooperation between Nepal and India assistance in human resource development had been expanded to include studies in Nepal also. This scheme has been announced from academic year 2002/03. Under this scheme 50 scholarships were awarded to selected Nepalese students for undergraduate course in Nepal.

**vi. Mahatma Gandhi Scholarship Scheme for Pursuing +2 Courses**

From 2003/04, Indian embassy starts his scholarship scheme to Nepalese student for pursuing +2 course within Nepal. Approximately 500 students are benefited from this scheme receiving NRs 500 each per month by India. Selection method for scholarship program are the score obtained by the students and the interview undertaken by the Indian Embassy.

Besides this India has permitted interested Nepalese institutions to set up an open university affiliated with IGNOV of India for those who are not able to attend classroom study. It has also provided training for government officials of Nepal in different in accordance with the Colombo plan. The government has been providing training for Nepalese

journalists in mass communication in India. After 1996, four quotas have been allocated each year for this purpose.

#### **4.5.6 Industrial Development**

Like all other developing countries, Nepal considered rapid industrialization is essential in order to increase economic development of the country. None of the country has uplifted their economy without industrial development. Japan is well-known in the world economic as a steel producer country. Similarly China is an emerging example for the industrial development in recent years. Even India is a growing economic power in the world economy by modern industrialization.

Nepal is suffered by traditional production system until now, by which its production is low qualified with high cost. Because of these reasons, our products cannot able to compete other developed countries production. In this context, it is necessary to establish modern industries with high efficiency and technology. In order to build an industrialized economy a country must have the necessary prerequisites: well developed transportation and communication, raw materials, technical knowledge, capital and human resource and an expanding market. In Nepal, the major problems in the way to industrialization are lack of infrastructure and power, shortage of capital and technological knowledge was absence of entrepreneurship.

In different places there are altogether 11 industrial estates located at Dharan, Butwal, Birendranagar, Rajbiraj, Balaju, Patan, Hetauda, Nepalgunj, Pokhara, and Bhatkapur with existing 507 industries. Among these industries Government of India were assisted the industrial area of Patan, Pokhara, Rajbiraj, Dharn, Butwal and Nepalgunj in different times. Initially, three industrial estates were set up with Indian assistance in

Dharan, Patan and Nepalgunj. His Majesty Late King Mahendra inaugurated the Patan Industrial estate in November 1963. Facilities such as sheds, workshop and building have been added with the objective of providing beneficial to the small investors. In addition to common facilities, these industrial estates were provided workshop fully equipped with modern machines and tools room facilities. In May, 1972 India agreed to provide funds to the extent of NRs 6.56 million for setting up of industrial estate at Nepalgunj and Dharan. The project except the building construction works was executed by department of industries contemporary GON. It was also agreed to provide additional assistance amounting NRs 4.25 million for Patan, NRs 2.5 million for Nepalgunj and NRs 3.5 million for Dharan industrial estates. In 1985, India provided NRs 18.96 lakhs for the expansion of Patan industrial estates.

Similarly, on the basis of the agreement signed on 30<sup>th</sup> July 1978, India provided assistance of NRs 9.6 million to Pokhara and Butwal industrial estates. Later in 1987, Government of India also agreed to establish industrial estates at Rajbiraj with the total cost of Rs. 40 million as estimated in 1994. A handicrafts training cum production center was set up in Patan and production cum extension centres at 10 other places. A training center was also established to provide training facilities to the workers employees in small and cottage industries.

On September 29, 1964, considering the existing deficiency of capital in Nepal, India provided a sum of soft loan amount of NRs 16 million in order to establish industrial enterprises. This loan has been utilize primarily to establish paper, jute, cement and textile industries and such other industries for which the requisite machinery was available in India. The loan was payable in fifteen equal installments in Indian currency at the 3 percent rate of interest.

Joint ventures in the implementation of large industrial projects were considered with a view to reducing the trade deficit between two countries. Among the large projects considered the more important ones related to a cement plant at Udayapur and development of the paper and pulp industry for export to India and third countries. Other large projects to be taken up on a joint venture basis related to magnesited, lead, zink, iron and steel. A diesel pumping sets was also established in Nepal for manufacture of 4H.P diesel pump sets.

The service of an industrial advisor and technical assistance have been provided to supervise and provide technical guidance to various industrial units. The industrial established by Indian assistance has been covering many fields like cotton and nylon hosiry dry cell battery, pastic products, hard were, industrial camphor, power looms for cotton fabrics, electric goods, wollen carpets. Most of these goods have been introduced in a competitive way. Indian aid in the field of establishment of agro-based industries like jute, sugar etc also played the significant role in agricultural and basic needs requirement.

#### **4.5.7 Forestry**

Nepal is said to be rich in forest resources. At present,39.9 percent of the total land is covered by forest which is less by 7 percent for the ecological balance as suggested by environment scientist. As apart of contemporary GON national policy on forest, working plan for various forest division of Nepal were prepared on scientific line with the help of Indian assistance. A forest research institute at Hetauda was constructed assistance. A forest research institute at Hetaunda was constructed under the Indian cooperation to enable more operation on forest research. In 1954 it helped to prepare a report on the best way of utilizing and

developing the forest sources. In 1958, the Indian cooperation mission prepared a report on the re-organization of the Nepal Forest Department. In 1960, contemporary GON and Government of India signed an agreement for the development of forest in Nepal at the cost of NRs 24 lakhs which was increased to NRs 51.2 lakhs in 1961. Indian assistance in the field 'forestry' is smaller than other field but it should not be the undermined because Nepalese livelihood directly and deeply rooted with these fields.

#### **4.5.8 Horticulture**

Because of the presence of diverse climate condition and geographical condition in Nepal there is high potentiality to cultivate different kinds of fruits and vegetables. Indian cooperation in the field of horticulture began in 1960 with a view to improve the economic condition of the farmers in the hilly region as it yields much greater income per unit area than ordinary agriculture.

Realizing the importance of horticulture in economic development of Nepal, India has been collaborating with Nepal in this field. In 31<sup>st</sup> August 1960, India agreed to provide financial assistance of NRs 40 lakhs for establishment of Horticulture development center in different parts of the country. India assisted to Nepal in this fields to provide technical experts of concerned field. 14 Horticulture station were established at Kirtipur, Daman, Pokhara, Trishuli, Sarlia Thang, Janakpur, Dhunivesi, Dhankuta, Thak and Baitadi and other different places. India extended assistance of NRs 69.76 lakhs for implementing new schemes of horticulture, under this scheme new three stations were set up at Palpa, Jumla and Dhunche. A potato development stations was set up at Ilam and horticulture station at Daman and Kirtipur. Beside this,

a subsidy of NRs 80, per acre was given for planning of overhead and for the purpose of fertilizer, tools, plants equipments and insecticides.

According to the agreement of March 1973, GOI provided NRs 25.48 lakh for purchase and distribution of agricultures seeds, fruit seed and plant live stock.

It can except that all these activities in the fields would certainly raise the living standard of Nepalese in general and farming community in particular. It also fulfills the objectives of to supply nutritious fruits for the Nepalese People. In addition to this, all stations would handle there their commanding area effectively by providing necessary financial and technical assistance to the farmer.

#### **4.5.9 Veterinary Services**

The effective veterinary service plays a great role in an agricultural country like Nepal. By realizing the importance of this sector, contemporary GON decided to organize the veterinary services on scientific system. With the request of contemporary GON, India assist a sum of NRs 40 lakh for establishing veterinary facilities in Nepal. The facilities consisted of a veterinary research laboratory in Kathmandu and dispensaries in other part of the country. It also includes the training of veterinary assistance to ensure rapid expansion of veterinary services in the country. In collaboration with FAO, vaccination of a vast number of heads of cattle against rinderpest, with the help of these program four millions cattle in terai were immunize against rinderpest was carried out in Nepal with the help of Indian aid.

Encouraged by the fruitful result India extended assistance of NRs 16 lakh for veterinary laboratory and control veterinary hospital at Kathmandu and 33 veterinary hospital com cattle breeding centres have

been set up. So all these activities in the field shows that India has contributed substantially for the promotion of economic condition of rural people.

#### **4.5.10 Health**

Health is also one of the major sector of Indian assistance. Indian assistance in the field of health has been mainly in the development of the Paropakar Shree Panch Indra Rajya Laxmi Devi Maternity and child welfare center in Kathmandu. India has been associated since 1959 (Poudyal 1980). In the initial stage the services of doctors and nurses were provided. The total assistance provided for this center was NRs 1.76 million. This was beginning of Indian assistance in the field of health of Nepal. In 1967, sum of NRs 4 million allocated for the development of hospitals and health posts in various parts of Nepal. The major activity in the field of health of Indian assistance came to the scene from 1972/73 for the control of Goiter where India agreed to provide Rs. 12.5 million. The funds provided by GOI were utilized to meet the cost of the iodination of salt including distribution allowance in remote areas.

India has contributed for renovating Bir Hospital with the construction of OPD complex and Nuclear Imaging medicine center and now is providing assistance to a very large project i.e. Emergency and Trauma center in Bir Hospital. The Indian government has promised to give assistance worth NRs 760 million for the establishment of a separate Emergency and Trauma Center which will be constructed within 54,000 square feet area will have 8 storey with 200 bed facilities. Presently, the hospital has 426 beds in general services. The Trauma center is more service-oriented than an emergency service. Its services range from a minor dressing up to major operations, not merely relieving the pain and discarding to general medicine ward. A patient gets directly admitted to



medical ward in Trauma center. It is well equipped to undertake neuro, orthopedic, cardiac ENT and all other major operations. In context of rising number of patients because of exploding population especially in Kathmandu valley, the specially designed Trauma and Emergency section will be provided quick and reliable health service to the patients.

With a view to improve the health status of people of Nepal and the neighbouring regions, BPKIHS was established with Indian assistance under the bilateral agreement in 1944, which is one of the biggest projects in the history of Indian medical cooperation to Nepal. Under the agreement Government of India provided a sum of NRs. 1024 million for the establishment of hospital and medical college complex. An additional sum of Rs 160 million was also provided for faculty development which would cover the cost of training of Nepalese candidate in India and deputation of selected Indian teachers to BPKIHS. It has highly modern teaching hospital with 646 beds providing different services.

In addition to this, India has provided ambulances as a gift to different health institution of Nepal on 26 January 2005. Indian assistance to health sector are shown in appendix 9.

#### **4.5.11 Community and VDC Development**

India agreed to provide NRs2.4 lakh at the request of Nepal, for the preliminary ground survey and preparation of the comprehensive master plan for Pokhara to develop the city in an orderly manner. Similarly the government of India provided Rs. 74 million in 1994 for enhancing the capacity of the Kathmandu municipality in garbage collection, garbage removal and traffic management system in kingdom.

To uplift the economic and social condition of rural people, India enters into the development effort of the Nepal with fruitful collaboration

providing aid of NRs 44.8 million. This amount was extended for two purposes: i.e. village development program and other local development works. The scheme covered all the social land economic activities or rural Nepal by increasing food and agricultural production, provision of education and health and introduction of new skill and recreation facilities. Under the village development program, 13 village development blocks and three intensive valley development scheme at Pokhara, Palung, Lalitpur were taken up by the board, for which India committed an aid of NRs. 64 million. Area not covered by village development blocks were brought under the local development work scheme on self help basis.

A total of 1516 works of local benefit were completed with financial assistance from the local development work such as school and libraries, village roads, Culvert bridge and bunds, drinking water schemes and other works.

In addition to this, in 1967 assistance was given to various Panchayat for their development program. Under this program, districts panchayat officers and supervisors recruited by local administration and about 150 officials were trained. A few officers of panchayat ministry of contemporary GON were trained in India. India has provided NRs 8.32 million to various VDC for the development works.

#### **4.5.12 Miscellaneous**

Under the ex-serviceman welfare scheme, a central coordination board is functioning in the military branch of the Indian embassy in Kathmandu to cater to the welfare of Gorkha Ex-army. The welfare activities can broadly be divided into field of education, rehabilitation, financial assistance medical training vocational training and

miscellaneous welfare activities. In the field of education, complete tuition and boarding fees of children of deceased and disabled ex-army is borne from the welfare funds. Total expenses for higher education like medical, commerce, engineering etc. of children of the Indian ex-army from Nepal also borne by the army headquarters.

In the field of health some medical doctors team are visited annually for the remote areas ex-servicemen with accordance to need. Full time doctors in Kathmandu and Pokhara provide free treatment to all pensioners and their dependents. Several villages have already been covered under this scheme. In addition to this, a special fund exists to cater to additional welfare requirements of disable soldiers, war widows and their children. There are many other benefits such as purchase of salvages vehicles, army group insurance, army housing scheme etc. which are extended to ex-serviceman. Although these assistance are related to military serviceman but not military assistance to Nepal.

Similarly, Indian assistance also contributed to research and develops of archaeology in Nepal. In 1959 contemporary GON decided to organize archeology in a scientific way with the cooperation of India. In 1960, the Director General of the Archaeological Survey of India visited Nepal and submitted a report and it formed the basis for the reorganization of the department archaeology as well as its program in excavation and exploration. India has also cooperating with Nepal in excavation at Lumbini and Kathmandu besides conducting some pre historical and iconographic surveys at various places in Nepal under the care of Indian expert Shri Krishna Dave. A number of people have been trained in India in pottery drawing, epigraphy, Iconography surveying etc.

Similarly, National archives were set up with the help of Indian assistance. In 1967, building for national archives has been constructed for unkeep and preservation of government records and manuscripts of cultural and historical interests. Additionally, the service of a Sanskrit Scholar was made available to National Archives in 1963 to facilitate the work of cataloging and indexing of the old manuscripts.

In 1982, the GOI agreed to contribute to the development of Lumbini. For this a museum building was completed in 1990 at the cost of Rs. 40 million, valuable books worth Rs 1.2million were also presented to the Lumbini library (Jha, 1998). The Government of India has provided training facility for the museum personal. By the establishment of Lumbini museum Nepal can develop and expand tourism sector and earned foreign exchange. In this context Indian assistance to develop Lumbini area is fruitful in the prospect of tourism.

In March 1998, GOI provided financial assistance to the tune of Rs. 3.75 lakhs to cover the costs of technical inputs and materials in connection with the Krishna Mandir conservation project at Patan Durbar Square, Lalitpur. This temple is one of the monuments of the World Heritage list of UNESCO. Besides this, Dharmashala at Pashupati temple complex is being constructed at a cost of NRs 6.35 crore. Under this assistance, India has also agreed to establish a research and education center at Dev Udhyan, Pashupati complex, Kathmandu.

Indian assistance to Nepal, in the field of modern economic development began as early as 1951. Since its initiation the role of Indian aid has become very important to modernize every field of Nepalese economy. To locate the country's mineral resources and exploit them India provided substantial amount of assistance in this field too. The total

expenditure on geography survey and topographical surveys and detailed map of Nepal has been completed through the India cooperation with Nepal.

Presently India is the largest development partner of Nepal with ongoing 177 projects in various fields of Nepalese economy worth about NRS 22291.2 million. In this way, Indian assistance has covered every aspect of Nepalese economy.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 7.1 Summary

The study summarized with the objectives of identifying to analyze the trends and pattern as well as area of Indian aid to Nepal. It is found that there is positive impact of Indian aid to Nepalese economy. Such impacts are revealed in form of income generation, construction of social works, social overheads and awareness of people. Regarding the Indian aid is social infrastructure as well as in human resource development, it has positive impact. India's assistance in social sectors even during the continued political turmoil's is laudable. India has remained a dominant force in the sphere of aid to Nepal. Indian assistance for the economic development has witnessed significant growth over the years. At present, the assistance to Nepal's economy has been extended to various sectors such as infrastructure, water resources, health, education, sanitation, communication etc. Nepal cannot promote the economy in absence of foreign aid solely. Neither it is able to avoid the risk of becoming the victim of aid intoxication and debt trap. At this critical situation, India's cooperation to Nepal is necessary not only to sustain developed activities but also for reducing horizontal inequality and deprivation. Although some scholars and commentators argue that Indian aid to Nepal is strategically, politically and economically motivated and through sometimes it seems to be partially true, the assistance is less politically and some economically inspired. Indian aid to Nepal indeed is to supplement the efforts of the Nepalese government, for the mutual benefit to encourage increased interaction at all levels between India and Nepal and to strengthen India - Nepal bonds of friendship. The study has been also designed to review the policy statements and subsequent actions by the foreigner for sustainable forest

development. Finally, it has been planned to analyze the aforesaid issues based on finding and suggest appropriate recommendations for future action.

## **5.1 Conclusion**

Nepali is a land-locked country which is surrounded by China and India. About 80 percent of its population resides in rural area and the literacy rate is estimated to be 65.9 percent.

Foreign aid occupies a very important place in concluding Nepalese economy. The philosophy behind foreign aid is that developing countries like Nepal suffering from vicious circle of poverty cannot escape from it without foreign aid. Our economic scenarios has become failure due to vicious circle of poetry, administrative insufficiency, low rate of capital formation, low per capita income, unfavorable balance of payment, backward social and development infrastructure, political instability etc. To solve above problems, foreign aid is widely accepted.

Nepal has been heavily enjoyed in foreign aid since 1951. Both socialistic and capitalistic countries help in economic sector of Nepal. But the system of assistance was not systematic before 1976. After 1976 there seem some improvements in most of the economic sectors of Nepal. Foreign aid is utilized in very sectors. Nepal's periodic plans also absorbed the large volume of foreign aid. The development expenditure in each plan period was heavily supported by foreign aid.

The data shows that there is significant gap between revenue and expenditure in Nepal. The portion of gap is shared by foreign aid. Due to the deficiency of capital and modern technology and adequate

mobilization of internal resources, Nepal hasn't accelerated the rate of economic development and growth. The study shows that there is positive relation between flow of foreign aid and economic growth of Nepal.

In the socio-economic sector Nepal has received large amount of foreign aid. The transportation, communication, agriculture, irrigation and forestry sectors attracted considerable amount of foreign aid in the past followed by industry, commerce and social service sector. Among the total assistance, around 35.53 percent aid is disbursed in transportation development of Nepal. It proves that India gives more emphasis on infrastructural development which helps to modernize the every sectors of economy such as health, education, industry, etc.

Nepal's human development and poverty reduction have been interrupted because of insufficient access to basic social service. Investment are inadequate to improve the quality of life. Huge resources are misspent and public spending has not been able to provide reasonable level of basic public services. India's continuous assistances in social sector even during the policies conflict is appreciable.

Water resources are another non-dismissible subject of study. It is necessary to invest on new technology, seeds, fertilizers and irrigation facilities. In different parts of Nepal, 14 horticulture development center (HDC) has been established by India. It has been providing improved and advanced seeds and services to the rural people. Similarly construction, irrigation, canals have been built by Indian aid that has contributed to the growth of GDP. Nepalese rivers are tremendous potentiality of hydro power electricity generation. Scholarship programs are also provided to study in different institutions of India year by year.



Receiving foreign aid is not difficult for Nepal either because of its political relation or geo-political situation or higher economic potentiality in selected sectors like hydro-power. But efficiency of management and proper utilization of foreign aid are much more important problems for Nepal. The deep rooted concept of 'Free lunch foreign Aid' has to be abandoned. Performance review of aid supported program is necessary to improve the effectiveness of aid in the future.

Overall, much has been achieved in the past and much remains to be done. India has been a pioneer donor and continues to be foremost in the field of assistance to Nepal in initiating and accelerating the process of economic development. Finally, it can be hoped that the active and better contribution of aid in the economic development of Nepal.

## **5.2 Recommendations**

Nepal is an underdeveloped country with limited resources. Therefore, foreign aid can play vital role and can be boon for the economic upliftment of the nation. The importance of foreign aid cannot be denied but the proper use of these aids in Nepal has been a major challenge to the government of Nepal. However if the country learns from its past mistakes and weakness, the effective utilization of foreign assistance can be made possible.

From the study it is found that we can pinpoint the major problems concerned with foreign aid in respect of Nepal are as follows: low internal absorptive capacity, unnecessary and unsuitable conditions stitched up with the aid by the donors. The other reasons are: investment in low-productive and non-productive sectors, treating it as easy cheap

and regular objects, etc. We can conclude that if the assistance is properly absorbed and obtained in favorable condition of recipient country, it will certainly transform the receiver country's economy into better state. So, Nepalese government should accept aid in a reasonable extent which appears favorable for that our domestic economy and its utilization must be in productive sectors as well.

On the basis of this study some major recommendations are presented below for the betterment of the existing scenario.

1. Foreign aid should be considered as an addition to domestic resources to accelerate growth and poverty reduction in accordance with the development priorities of the country. Priorities should be given to grants rather than loans and used only in productive sector.
2. Foreign aid should be used in transparent manner with proper accounting and scientific auditing system of recording the movement of foreign aid.
3. Government of Nepal does not seem to be able to maintain foreign aided projects after these are handed over. So it is important to pay attention to this problem.
4. Though projects type of aid has its own advantages, it would be beneficial if Nepal also receives program type of aid from India. So it is suggested that figure Indian aid flow to Nepal should be program type of aid.
5. Industrialization is the key point to develop the economy. However the volume of Indian aid seems to be lower in this particular sector as compared to other sectors. So, Nepal should strive for larger amount of aid to develop industrial sector and India should comply with accordingly.

6. The country has to concentrate itself on the projects which can generate backward and forward linkages.
7. Effective administrative department should be established in evaluating and monitoring each and every records of Indian aid.
8. Frequently arising disputes and dissatisfactions in respect of Indian aided mutually beneficial mega - projects should be settled permanently and conducive environment should be developed to launch such additional projects.
9. Interactive meetings with politicians, journalists, civil society, organizations and intellectuals are imperative to exchange thought on various aspects of Indian aid.
10. Nepalese technicians, contractors and labors should be employed as far as possible in designation and construction works under in Indian aided projects.
11. Data and information on flow of Indian aid at different times, sectors and projects should be properly recorded and publicly made available.
12. In view of increasing external debt, foreign aid should be accepted in accordance with the development needs and priorities of the country instead of accepting anything that is available from the external sources.

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## Appendix 1

### Total aid inflow in Nepal

Rs. in Million

F.Y	Grant	Percentage of Grant	Loan	Percentage of Loan	Total aid
1985/86	1120.6	32.1	2370.9	67.9	3491.5
1986/87	1078.3	32.5	2236.1	67.5	3314.4
1987/1988	1984.2	39.1	3094.3	60.9	5078.5
1988/1989	1478.2	26.1	4188.7	73.9	5666.9
1989/1990	1798.8	28.0	4628.3	72.0	6427.1
1990/1991	1630.0	27.2	4360.0	72.8	5990.0
1991/1992	1531.0	19.6	6267.4	80.4	7798.4
1992/1993	3273.9	35.4	5961.7	64.6	9235.6
1993/1994	2393.6	20.7	9163.6	79.3	11557.2
1994/1995	3937.1	35.0	7312.3	65.0	11249.4
1995/1996	4825.1	33.8	9463.9	66.2	14289.0
1996/1997	5988.3	39.8	9043.6	60.2	15031.9
1997/1998	5402.6	32.8	11054.6	67.2	16457.2
1998/1999	4336.6	26.80	11852.4	73.20	16189.0
1999/2000	5711.7	32.60	11812.2	67.40	17532.90
2000/01	6753.4	35.9	12044.0	64.1	18797.4
2001/02	6686.1	46.5	7698.6	53.5	14384.8
2002/03	11339.1	71.4	4546.4	28.6	15885.5
2003/04	11283.4	59.7	7629.0	40.3	18912.4
2004/05	14391.2	60.80	9266.1	39.20	23657.3
2005/06	13827.5	62.7	8214.3	37.3	22041.8
2006/07	15800.8	61.10	10053.5	38.90	25854.3
2007/08	41082.65	83.5	8118.96	16.5	49201.61
2008/09	43095.7	89.8	4879.5	10.2	47995.2
2009/10	70290.77	72.8	26345.79	27.2	96609
2010/11	64737.8	61	41362.9	39	106107
Total	345778.4	39.07	242969.1	60.92	588747.5

Source: Various issues of Economic Survey, MOF, Nepal.

## Appendix 2

### Contribution of Bilateral and Multilateral Aid to Nepal

(Rs. in million)

FY	Total Aid	Bilateral Aid	Bilateral Aid as % of Total Aid	Multilateral Aid	Multilateral Aid as % of Total Aid
1985/86	3491.5	1481.1	42.42	2010.4	57.57
1986/87	3314.4	1078.4	32.53	2236.1	67.46
1987/88	5088.5	2261.6	44.44	2826.9	55.55
1988/89	5666.9	1707.7	30.13	3959.2	69.86
1989/90	6427.1	2534.9	39.44	3892.2	60.55
1990/91	5990.0	1043.3	17.41	4946.7	82.58
1991/92	7800.4	3597.3	46.11	4203.1	53.88
1992/93	9235.6	3638.5	39.39	5597.1	60.60
1993/94	11557.2	2627.1	22.73	8930.1	77.26
1994/95	11249.4	3988.7	35.45	7260.7	64.54
1995/96	14289.0	3533.3	24.72	10755.7	75.27
1996/97	15031.9	6012.7	39.99	9019.2	60.00
1997/98	16457.1	6297.7	38.269	10159.4	61.73
1998/99	16189.0	4167.6	25.74	12021.4	74.25
1999/2000	17523.9	4929.1	28.12	12594.8	71.87
2000/01	18797.4	2771.2	14.74	16026.2	85.25
2001/02	14384.8	4675.3	32.50	9709.6	67.49
2002/03	15885.5	10044.4	63.23	5841.4	36.77
2003/04	18912.4	9013.2	47.66	9899.2	52.34
2004/05	23657.3	9230.8	39.02	14426.5	60.98
2005/06	22041.8	7658.4	34.74	14383.4	65.26
2006/07	25854.3	16406.4	63.45	9447.9	36.54
2007/08	49201.61	29619.4	60.20	19582.2	39.8
2008/09	47995.2	27196.4	56.66	20778.8	43.33
2009/10	96609	41348.7	42.8	55260.3	57.30
2010/11	106107	31824	29.99	74283	70.01

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



### Appendix 3

#### Sector Wise Allocation of Foreign aid in Nepal

FY	Total Aid	Agriculture, Irrigation and Forestry		Transport, Power and Communication		Industry and Commerce		Social Service		Others	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1985/86	3491.5	1298.8	37.20	1321.20	37.84	275.70	7.90	586.40	16.80	9.50	0.27
1986/87	3314.4	1037.6	31.31	1473.70	44.46	183.40	5.53	585.40	17.66	34.30	1.03
1987/88	5078.3	1236.3	24.34	2794.60	55.03	445.70	8.78	522.30	10.28	89.60	1.76
1988/89	5666.9	1466.8	25.88	3120.10	55.06	191.10	3.37	845.00	14.91	43.90	0.77
1989/90	6427.1	1489.7	23.18	2679.10	41.68	656.60	10.22	1555.80	24.21	45.90	0.71
1990/91	5990.0	1253.2	20.92	2575.60	43.00	1390.90	23.22	667.90	11.15	102.40	1.71
1991/92	7800.40	1945.40	24.94	2485.10	31.86	2174.30	27.87	1191.60	15.28	4.00	0.05
1992/93	9235.60	1927.40	20.87	3939.60	42.66	696.90	7.55	2667.60	28.88	4.10	0.04
1993/94	11557.20	5519.10	47.75	4169.40	36.08	389.90	3.37	1458.60	12.71	10.10	0.09
1994/95	11249.40	3462.40	30.78	4574.90	40.67	480.30	4.27	2680.10	23.82	51.70	0.46
1995/96	14289.40	3399.60	23.79	852.70	5.97	15.90	0.11	2636.20	18.45	184.60	1.29
1996/97	15031.90	2827.50	18.81	8504.50	56.58	23.40	0.16	3662.00	24.36	11.50	0.08
1997/98	16457.10	2852.10	17.33	8989.60	54.62	198.10	1.20	4417.30	26.84	53.0	0.42
1998/99	16189.00	3383.90	20.90	7892.20	48.75	404.70	2.50	446.40	27.47	61.80	0.38
1999/2000	17523.90	3209.80	18.32	8159.34	46.56	298.50	1.70	5794.00	33.06	62.10	0.36
2000/01	18291.60	3774.80	20.64	9235.10	50.49	19.90	0.11	5253.70	28.72	8.30	0.04
2001/02	14384.80	3285.80	22.84	5905.70	41.06	368.70	2.56	4685.80	32.57	138.80	0.96
2002/03	15885.50	2177.90	13.71	7774.10	48.94	401.20	2.53	5321.00	33.50	211.30	1.33
2003/04	18912.40	2429.60	12.85	7570.80	40.03	146.80	0.78	8730.10	46.16	35.1	0.18
2004/05	23657.30	2595.70	10.97	2860.00	12.09	123.90	0.52	10746.80	45.43	330.90	1.39
2005/06	22101.90	2396.30	10.84	7142.50	32.31	105.30	0.47	11162.20	50.50	1295.6	5.86
2006/07	25854.3	3721.5	14.39	6661.9	25.76	116.8	0.45	15181.00	58.71	173.1	0.66
2007/08	49201.61	11906.78	24.2	17712.57	36	3001.29	6.1	15646.11	31.8	934.83	1.9
2008/09	47995.2	11326.87	23.6	16030.39	33.4	2687.73	5.6	16078.39	33.5	1871.81	3.9
2009/10	96609	25408.16	26.3	33813.15	35	4637.23	4.8	30721.66	31.8	2705.05	2.8
2010/11	106107	27057.28	25.5	30983.24	29.2	5517.56	5.2	38729.05	36.5	2939.16	2.77
Total	588747.5	143654.39	24.48	209221.05	35.53	24969.81	4.54	195982.41	33.28	11412.45	1.93

Source: Various Issues of Economic Survey, MoF/GON

## Appendix 4

### Commitment and Disbursement

FY	Aid Commitment	Aid Disbursement	Aid Disbursement %
1985/86	9504.2	3491.5	36.73
1986/87	8727.5	3314.4	37.97
1987/88	6449.6	5078.3	78.73
1988/89	10403.0	566.9	54.47
1989/90	15830.0	6427.1	40.60
1990/91	5665.4	5990.0	105.73
1991/92	21084.1	7800.4	36.99
1992/93	20526.7	9235.8	44.99
1993/94	13172.2	11557.2	87.73
1994/95	12876.8	11249.4	87.36
1995/96	16537.3	14289.0	86.40
1996/97	39643.0	15031.9	37.91
1997/98	32022.1	16456.1	51.39
1998/99	18352.5	16189.0	88.21
1999/2000	20448.0	17523.2	85.69
2000/01	31286.9	18797.4	60.08
2001/02	33227.8	14384.8	43.29
2002/03	43202.7	15885.5	36.77
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.00
2005/06	20924.2	22101.9	105.62
2006/07	37022.9	25854.3	69.83
2007/08	49186.2	29300.6	59.57
2008/09	47975.3	36351.7	75.77
2009/10	49769.4	38317.2	76.98
2010/11	57995.8	44216.5	76.24
Total	683723.9	437080.5	63.92

Sources: Various issues of Economic Survey, MOF/Gon.

**Appendix 5**  
**Indian Aid to Nepal**

(Rs. In Million)

F/Y	Indian Aid	F/Y	Indian Aid
1951-56	70.7	1982-83	265.35
1956-61	83.5	1983-84	64.9
1961-62	43.6	1984-85	1177.65
1962-63	31.4	1985-86	162.81
1963-64	47.6	1990-91	361.81
1964-65	81.6	1993-94	1163.68
1965-66	132.7	1994-95	1450.0
1966-67	82.3	1995-96	80.17
1967-68	118.9	1996-97	1207.37
1968-69	148.2	1997-98	807.68
1969-70	162.0	1998-99	725.5
1970-71	126.3	1999-2000	1224.17
1971-72	124.7	2000-01	437.87
1972-73	125.1	2001-02	447.11
1973-74	125.1	2002-03	1623.02
1974-75	124.82	2003-04	629.09
1975-76	133.4	2004-05	342.22
1976-77	145.1	2005-06	4457.77
1977-78	133.85	2006-07	2779.84
1978-79	135.5	2007-08	4428.14
1979-1980	212.4	2008-09	4079.59
1980-81	206.2	2009-10	4783.9
1981-82	228.4	2010-11	5093.13
			40675.8

Sources: ICM Report and Partnership in Economic Development  
Financial Comptroller General Office.

**Appendix 6**  
**Terai Roads Projects**  
**Number of Roads 20**  
**Total Length 678km**  
**Estimated Cost Nrs. 11,22 million**

Projectd Road Numbers (PRN)	Feeder Roads	Actual Length(in km)	Districts in Nepal
1.	Mechi Highway (Charali-chandragadhi-Kechana) Road	39.62	Jhapa
2.	EWB (Kanepokhari)-Rangeli Road)	28.00	Morang
3.	EWB (Kalyanpur)-Barsain Shuharanpatti Road	18.00	Saptari
4.	EWB (Birendrabazzar)-Uadukaha Maninathur Road	32.55	Dhanusha
5.	Janakpur-Yadukaha Road	17.04	Dhanusha
6.	Janakpur - Jatahi Road	12.60	Dhanusha
7	Janakpur-Maliwada (Bhittamod) Road	18.70	Dhanusha
8.	EWB (Maithan)-Gaushalabazaar-Samsi Road	26.92	Mahottari
9.	Barhathwa( (Naya road)-Madhubani Road	40.51	Sarlahi
10.	EWB (Nawalpur)-Malangawa Road	27.00	Sarlahi
11.	EWB (Manmat)- Kalaiya-Matiharwa Road	26.66	Bara
12.	EWB (Jitpur)-Taulihawa-Khanuwa Road	33.22	Kapilvastu
13.	EWB (Lamhi)-Koilabas Road	35.00	Dang
14.	EWB (Bhurigaon)-buleria-Murtia Road	35.51	Bardiya
15.	EWB (Lamki)-Tikapur-Khokrula Road	27.52	Kailali
16.	EWB (Tamagarhi)-Simraungarh Road)	39.63	Bara
Projected Road Number (PRN)	Postal Roads	Actual length (in km)	Districts in Nepal
17.	Jaleswor-Hardi River Road	27.22	Mahottari
18.	TRP (Birgunj)-Thori Road	68.00	Parsa
19.	Nepalgunj-Baghauda Road	44.51	Nepalgunj
20.	Sati-Bhajaniya-Dhangadhi Road	61.15	Kailali

.Source: Economic cooperation wing, Embassy of India, kathmandu, 2010.

## Appendix 7

### Irrigation Projects Under Indian Assistance

S.N	Irrigation scheme	Location	Completion year	Irrigated land (in ha)
1.	Chatara canal project	Morang	-	30,000
2.	Koshi	Morang, Sunsari	-	20,0000
3.	Gandaki	Bara, Parsa, Rautahat, Nawalparasi	-	23000+28000
4.	Chandra Canal	Saptari	-	34690
5.	Mahadev Khola	Kathmandu	1960	3500
6.	Askekhola Kulo	Sindhupalchok	1960	120
7.	Lower Vijayapur Project	Pokhara	1960	7200
8.	Baglung Irrigation Project	Baglung	1960	400
9.	Tika Bhairab Canal	Kathmandu	1961	6700
10.	Budhanilkantha Canal	Kathmandu	1961	2000
11.	Jhaj Canal	Bra, Parsa, Rautahat	1961	15000
12.	Fewatal Bund	Pokhara	1964	3000
13.	Dunduwa	Banke	1964	7000
14.	Khotku Khola	Kathmandu	1965	1,800
15.	Godawari Khola	Kathmandu	1965	2200
16.	Bosna Khola	Kathmandu	1965	500
17.	Hardinath	Mahotari	1966	9,000
18.	Mansumara	Sarlahi/Rautahat	1966	1821.1
19.	Khutti	Saptari	-	-
20.	Tinau Project	Rupandehi	1966	20234.7

Source: Partnership in Economic Development 2010.

## Appendix 8

### Indian Educational Projects in Different Districts

S.N	Educational Projects	Place
1.	Tribhuvan University	Kathmandu
2.	Trichandra College	Kathmandu
3.	Manmohan Memorial Polytechnic	Morang
4.	Nepal Bharat Maitri Vidyalaya	Kaski
5.	Institute of Enginnering	Kathmandu
6.	Gauriganj Campus	Jhapa
7.	Tansen Multiple Campus	Palpa
8.	Nuwakot Adarsha Multiple Campus	Nuwakot
9.	Shree Mahendra Higher Secondary School	Dadeldhura
10.	Neelkantha Campus	Dhading
11.	Rajeshwar Nidhi High School	Dhanusha
12.	Madan Bhandari Memorial College	Kathmandu
13.	Shree Adarsha madhyamic Vidyalaya	Mahottri
14.	Panchhthar Multiple Campus	Sarlahi
15.	Shree Durga Janata Madhyamic Vidyalaya	Panchthar
16.	Panchthar Multiple Campus	Rautahat
17.	Shree Saraswati Higher Secondary School	Makwanpur
18.	Makwanpur Multiple Campus	Chitwan
19.	C.V Raman Auditorium at Kathmandu	Kavre
20.	Shreee Maha Laxmi Secondary School	Gorkha
21.	Tribhuvan Campus, Belatari	Nawalparasi
22.	Trijuga Janata Campus	Udayapur
23.	Bhairahawa Multiple Campus	Rupandehi
24.	Shree Chandanath Higher Secondary School	Jumla
25.	Shree Bal Janata Higher Secondary School	Dang
26.	Mahakaruna Shakya Pa Vidyalaya	Upper Mustang
27.	Shree Kalinchowk Seondary School	Dolakha
28.	Shree Sharda Secondary School	Parsa
29.	Pashupati Shiksha Sadan	Banke
30.	Surkhet Campus	Surkhet
31.	Shree Saraswati Higher Secondary School	Kailali
32.	Shree Ghatal Secondary School	Kanchanpur
33.	Shree Aadarsha higher Secondary Scool	Dang
34.	Shree GautaumBudhha higher Secondary School	Kapilbastu

Source: Nepal-India Economic Cooperation, Embassy of India, 2010.

**Appendix 9**  
**Indian Assistance to Health Sector**

(in Lakhs NRs.)

Projects	Details	Date	Cost
Bir Hospital	Exapansion	1983	13.92
Paropakar Maternity and Welfare Center (ktm)	Exapansion	1959	176
Rajbiraj	Bed 25	-	-
Dhangadi	Bed 25	-	-
Ilam	Bed 15	-	-
Gulmi	Bed 15	-	-
Taulihawa	Bed 15	-	-
Drinking water	Supply to 24 town	1968	285.36
Hospital and dispensaries	Different town	1967-73	40
Paropakar Hospital	Expansion and Equipment	1984,1990	105.6+48.19
Goiter control	115987 quintal	1973-83	283.08
Police Hospital	Expansion	1984	45.23
Bir Hosptial	OPD	1985	1537.6
Paropakar	Intensive	1999	160
Goiter Control	Iodized salt	1993-98	1593.6
BPKIHS	Dharan	1994-98	12,800
Emergency=Trauma Center in Bir Hospital	Bed 200	-	1216.0 (million)
Ambulances	Gift	2009	-

Source: Partnership in Economic Development 2010