

CHAPTER 1

INTRODUCTION

1.1 Background

Foreign aid is not a new concept. Its nature and objectives have been changing from time to time. Before the First World War, foreign capital was used as a profitable mode of investment. Foreign aid emerged in a planned way after the post war period.

The term 'foreign aid' can be defined as "the transfer of capital, technical resources from the developed countries through either directly from the government of donor country to recipient country or through international channels to the government of recipient country for the purpose of encouraging economic uplift of the developing country or under-developed countries." The foreign aid includes bilateral and multilateral grants, loans and technical assistances. The development assistance of the organization of economic cooperation and development (OECD) of UN records, the term 'foreign aid' is defined as "the flow of long term financial resources for less developed countries from multilateral agencies including official flow and export credit." This definition includes the economic flows whether they are official or private. So, foreign aid is broadly defined as the flow of financial resources from developed countries to developing countries to expressly intended for the economic and social development of nation (Acharya, 2002).

Foreign aid is one of the most original politico-economic phenomena at present scenery. In addition, foreign aid has politically emerged as a foundation to north south relation, which comes out as one of the most important tool for the globalization. The subject matter of foreign aid is concerned with economic and social progress of a country. The purpose of aid to every developing country is to facilitate their economic development up to a point where a required rate of economic growth can be achieved on a self sustaining base. The function of aid for a development program is not directly to raise standard of living in the recipient countries but to enable them to make the transition from economic stagnation to self- sustaining economic growth.

In the developing countries like Nepal, domestic resources are inadequate to meet the financial requirements of economic development. Income, saving and investment of

these countries are very low. Without increasing the rate of these crucial economic factors, no countries can achieve steady growth. Level of capital formation is too low and any substantial increase in saving is not possible due to extremely low level of income and widespread poverty. Public borrowing and taxation have got their own limitations. Deficit finance is also discarded because of its inflationary impact on the economy. At this juncture the only alternative factor to pull the economy out of vicious circle of poverty remains the foreign aid. From the economic history of various countries it may be seen that almost every advanced countries-of the modern world have to rely on foreign aid for rapid economic growth during the early stages of their development. The history of foreign aid in Nepal is not so long. It started from Rana regime when the aid had been used for Pharping and Sundarijal hydroelectricity project (British Support). However, aid officially started from January 23, 1951, after the second world war, with an agreement on 'Point four program' with USA- After the US aid, India also took interest in providing assistance. Although, there were only two donor countries during the 1950s and the early 1960s. After that, Nepal got many opportunities to receive aid from many countries, like USSR, China, UK.,

France, Germany, Canada etc. After late 1970s, Nepal has been receiving foreign aid mostly from Nepal Aid Group: Australia, Belgium, Canada, Finland, Denmark, Austria, France, Germany, Japan, Kuwait, Netherlands. Switzerland, Sweden, Saudi Arabia, UK, LISA and six multilateral donors IDA, IME, EEC, UNCTAD, ADB and UNDP. Besides these, Nepal has been receiving foreign aid from other bilateral donors as well as multilateral agencies like WHO, OECD, DAC, UNICEF, I.B.R.D. and DANIDA etc. There are many possibilities of economic development in Nepal but the main obstacle is capital investment. Huge amount of capital should be invested for the rapid economic growth. Nepalese people are in the vicious circle of poverty like other developing countries. So they can't save from their income to invest. There are some limited wealthy people who can invest but they spend their income to purchase luxurious goods rather than investment for productive activities. Consumption is always high therefore marginal propensity to save is about near to zero.

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 the Problem

The world is characterized by a minority of rich and majority of poor countries. The developing countries face huge resource gap. This gap is the difference between total expenditure and total revenue of the government. In order to fulfill this gap internal sources are inadequate due to low level of income and poverty or saving investment gap, for this external assistance is required. Therefore, in developing countries, desired economic growth is possible only if domestic savings are supplemented by foreign aid. Foreign aid has become an important source to meet saving investment gap because "Foreign aid has inspired the nations left behind by the technological revolution to mobilize the resource for economic growth. It has also produced a transfer of resources on an unprecedented scale from richer to poor countries" (Byres, 1972). In this way foreign aid has been taken as a means of reducing gap.

In Nepalese case, there are many country-specific constraints, such as shortcomings in institutional capacities, its geographical location and mountainous complexities, widespread poverty, its high rate of population growth and urgent environment concerns, among others, which pose daunting challenges to development and the effective absorption of aid. While examining the problems relating to foreign aid, it is

essential that these special challenges confronting Nepal to be borne in mind. Sometimes this is not the case, suggesting that there is probably need for enhanced mutual understanding among some of Nepalese development partners with regard to these problems. The growth impulses generated from past investments have remained weak, fundamentals of overall economic environment continue to remain shaky, absorptive capacity has not significantly increased and institutional capacity in many areas is inadequate to respond to development needs.

Nepal has been receiving grant and loan as foreign aid. After 1970's, the amount of outstanding loan has been increasing. All aid is received in US dollar. Every year, Nepalese currency is getting devaluated with US dollar. Because of this foreign exchange rate is changing the size of outstanding debt is increasing too- So the analysis of the impact of foreign exchange rate is also important. Foreign aid has been playing crucial role for economic growth of Nepal. But the problem is that foreign aid has not been able to bring economic growth and development as expected.

Various issues of economic survey published by MOF, government of Nepal show that on the one hand the disbursement of foreign aid has been increasing steadily, and resulting increase in expenditure, while on the other hands, Nepal has been facing a problem of under spending at time. From FY 2006/07 to 2007/08 aid disbursement has increased from 25854.30 to 29301.00 million. Similarly, in 2007/08 and commitment was 49186.00 million and disbursement was 29301.00, it is clearly seen that there is huge gap (19885.00 million) between commitment and disbursement. Donors are not providing then committed aid due to various reasons such as lack of clear commitment from the government, donor's own strategic interest rather than economic development, corruption, ineffective monitoring system of recipient country. It also creates uncertainties to start projects. It may happen, due to inefficiency to administration, non-availability of suitable contractors and resulting delays in implementation of projects and over calculation of donor countries. Although aid in Nepal, is used for the construction of various projects, sometimes the donors are using aid as an instrument to serve their own interest rather than representing the interest of Nepal and

Nepalese people another problem is that the large amount of foreign aid flows back to donors in the form of compensation to expatriate consultants and imports of equipment instead of that large portion of aid (about 40% -50%) siphoned up the

bureaucrats, project and political leaders before it reached to the targeted groups. Utilization of foreign aid is very low in Nepal due to country's low absorptive capacity and low productivity. 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.

Hence the main researchable questions in this study are:

-) What is the trend and patterns of foreign aid in Nepal?
-) What is the trend and patterns of Indian aid in Nepal?
-) What is the scope of Indian aid in Nepal?

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 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 limitations like the study is based on limited data and information available from secondary sources. It covers the foreign aid to Nepal dating from FY 1984/85 up to 2012/13. Foreign private investments are not included in the analysis. Military assistance is also excluded from the study, as it is not closely related to economic development.

1.6 Organization of Study

The entire thesis is divided into five different chapters. The first chapter is about the introduction, which includes background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and finally organization of the study. The second chapter deals with the literature related to the study starting from the foreign aid. The chapter tries to present to past studies related to foreign aid. The third chapter presents the methodology including research design, sources of data and data processing and analysis. The fourth chapter is related to data analysis, interpretation, and discussion of foreign aid in Nepal as well as Indian aid in Nepal and the last chapter is about the summary, findings, conclusion and recommendation in problem regarding the foreign aid.

CHAPTER II

REVIEW OF LITERATURE

This chapter includes theoretical framework of foreign aid, related studies of foreign aid in international context and Nepalese context. A number of books and articles written on the history of foreign aid and its impact on Nepalese economy.

2.1 Theoretical Framework

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.

Foreign aid means transfer of resources from the industrialized to the developing countries. But after the Second World War, the common meaning of foreign aid has changed and also been influenced by the political and economic interest of donor countries. The development assistance committee (DAC) of the OECD of UN records has defined it as "The flow of long-term financial resources for less developed countries from multilateral agencies including official flow and expert credit." In this definition, much emphasis has been given on the transfer of real resource to the developing countries but technical knowledge and its impact on the whole economy seems to be neglected in definition.

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

In the process of economic development, a country faces the situation where it's domestic saving are short of investment requirements and where its imports needs are longer than its export capacity for the purpose of attaining a targeted rate of economic development. By the help of foreign aid, it can fulfill its desire of development, filling the gap between saving and investment. So, foreign aid plays a supplementary role to solve the foreign exchange problem, the saving gap problem and technology gap

problem which are hindrances for such countries at the initial state of economic development.

In the global context, a country can not stand in isolation. It is interdependent with other countries. In case of the developing countries like Nepal, there is saving-investment gap problem, technology gap problem and recourse gap problem in the economy. In this situation, the gap seems to be impossible to fulfill the internal resources and there is need of external capital.

Nevertheless, foreign aid will not be as useful in encouraging economic growth when the donor shapes its program with another goal in mind. The recipient may know that it is considered strategically important and may therefore be unwilling to adopt policies that would promote long term development, particularly if the policies are painful in the short run. Rather than adopt needed reforms, recipient countries may use the aid to compensate for inefficient economic policies. Nepal is one of such least developed countries whose savings are low because of low economic growth and vice-versa. Because of the low level of income, level of consumption is also low. To increase the consumption, level of income should also be increased.

Over-time, foreign aid has proved to be an effective instrument contributing to significant improvements in the socio-economic development of the country, and much physical infrastructure such as roads, irrigation facilities, hydropower as well as education and health services, drinking water and sanitation facilities, have been constructed with foreign assistance. Foreign aid has also contributed to the development of policy dialogue, catalyzed economic reforms, enhanced the capability of public policymakers and provided financial assistance for public services.

Another early explication of foreign aid is provided by Holl's Chenery, who defines foreign aid as an instrument of bridging various gaps and relieving various bottlenecks existing in a underdeveloped economy. For a country to develop on its own, it would require "skills domestic saving, and export earnings as well as an allocation of these rising levels of income" (Chenery and Strout 1966: 680) which would be almost impossible for a developing country to achieve; the role of foreign aid would be provide capital and other resources to fill these short comings. Chenery, with co-authors Bruno (1962) and Strout (1966) has formalized this fill are the saving investment gap and the foreign exchange gap. Centralized planning and a fixed

exchange rate regime seem to be the implicit assumptions behind this concept, for this model as decision-maker, and assumes away any complications that fluctuations in exports and imports prices (which might affect saving, and thus investment, in a country) could bring about as a result of floating exchange rate for the domestic currency.

The “two gap” model is actually quite simplistic and very intuitive. The model starts with the familiar equation for national accounts.

$$Y = C + I + G + (X-M)$$

Here Y stands for national output (which is the total production within the boundaries of a given country i.e. GDP. The gross national product GNP, would include an additional variable – the net factor income from abroad) C stands for consumption and I stands for investment. G stands for government expenditure, which is exogenous to the consumption decisions made by citizens X stands for exports and M for imports.

Saving in this economy is the excess of production over consumption, both by private citizens and the government symbolically,

$$S = Y - (C + G)$$

Plugging this equation in the national accounts identity gives.

$$S = I + X - M$$

Rearranging this equation gives the required results.

$$I - S = M - X$$

This equation states that the excess of investment over savings should be balanced by the excess of imports over exports.

The left hand side of the equation is the saving-investment gap; it is gap exists between the investment that is thought to be required for the development of country and the saving that has been generated within the country when saving falls short of the amount needed for investment, the planned growth target can not be achieved, this short fall is the gap that foreign aid intends to fill.

2.2 Review of Empirical Studies

Literature review gives a clear idea and relevancy of current study in order to real findings. There has been several study made about the foreign assistance. Many national as well as international writers explain about the foreign aid in national and international context which are as follows:

2.2.1 International Context

Papanek (1913) finds that foreign aid has a greater effect on growth than the other variables after a cross country regression analysis of thirty four countries, treating foreign aid, foreign investment other flows and domestic saving as explanatory variable. He explains, "Aid is supposed to be specifically designed to foster growth and more importantly is biased toward countries with a balance of payment constraint". He also finds a strong negative correlation between foreign aid and domestic saving, which he believes co-contributed to the growth performance.

Higgins (1968) emphasizes the important of foreign aid due to low saving-investment ratio in developing countries. Since it is unlikely that measures to increase voluntarily domestic saving along or even measure for voluntary and compulsory saving together could provided all the financial sources needed for development of underdeveloped countries. Primarily, foreign aid was in the construction of the social overhead capital such as roads, dams, electric projects etc. In the meanwhile, the development work in LDCs is just equated with public utilities and more often with basic necessities contrary to developed and fast-growing economy. However, foreign aid has been a fundamental aspect without which development process get obstructed in a long run.

Hawkins (1970) has written that foreign aid is only a recent phenomenon originating in the international scene after Second World War. Foreign aid will remain as a permanent part of international economy and will continue to precede development and thinking which will influence the amount and character of foreign aid. The foreign aid and purposes in the modern worlds were new of course and for Americans aid was one of the novel aspects of their involvement in the world as a great power so long as that involvement continues, American aid was likely to continue. The reasons for which aid should be given and in what kind and magnitude aids are indeed the central question. He focused on aid in the form of transactions between rich and poor but independent governments were very restricted about its scope before 1960. The

Soviet Union has begun to lend on a small scale to non-communist developing countries with avowedly political objectives. Other countries were just beginning to be involved in aid for social infrastructure as well as economic development.

Meir (2002) describes that “On the positive side of the factor of experience and the knowledge that has come with it. To analyze who has followed aid activity over an extended period, it is evident that the equality of aid operations has slowly continued to improve. Donor agencies have learned a great deal about the development process. They are doing better policy analysis. There is more emphasis on incentives and finding simpler and more flexible aid procedures. A development advisory committee report concluded that findings of project evaluation show that about 33 percent of aids on capital project are highly successful, 33percent can be judged satisfactorily and 33 percent are disappointing. Of these, last 10 percent of the totals have to be regarded as a total loss”.

Arellano, Gulir, Lale, and Lipshitz (2005) examine the effect of aid and its validity on consumption, investment and structure of production in the content of an inter-temporal tow sector general equilibrium model. A permanent flow of aid finances mainly in consumption a result consistent with the historical failure of aid inflows to translate in to sustained growth. Shocks to aid are reflected mainly in investment fluctuation as a result of consumption smoothing. Aid shocks result in substantial welfare losses, suggesting that aid variability should be taken in to account in designing aid architecture. These results are consistent with the evidence from cross-country regressions of manufacture exports.

Finally, they suggested that aid variability has potentially large welfare effects, which should be taken in to account in designing aid architecture. These effects of aid variability attenuate but do not eliminate the welfare benefits of receiving aid. The benefits against productivity shocks could be very substantial.

Bourguignon and Sundberg (2007) have pointed out that there is a need to go beyond econometrics, and to break open 'black box' of development aid. He would go even further, and agrue that we need to realise that there is a multiplicity of black boxes. Or, to put it differently, that the black box is highly elastic and keeps changing through the time. Breaking these boxes open why aid works some times not other and why projects are successful while other are disasters, requires analyzing in great detail

specific country episodes. If we want to truly understand the convoluted ways in which official aid affects different economic outcomes, we need to plunge into archives analyze data in detail, carefully look for counterfactuals, understand the temperament of the major players, and take this account historical circumstances. This is a difficult subjects that requires detective like work.

Nancy Quin (2014) states that Foreign aid is one of the most important policy tools for transferring resources from rich countries to poor countries. Several trillions of dollars have been given in the past 64 years, but the empirical evidence on its benefits have been very mixed, resulting in a heated academic and policy debate. This review paper highlights several descriptive facts, summarizes the existing evidence and discusses some of the fundamental problems that have prevented researchers from reaching more conclusive and comprehensive findings. The literature shows that the primary purpose of aid is often not to alleviate poverty and that out of all of the foreign aid flows, only 1.69% to 5.25% are given to the poorest twenty percent of countries in any given year. While recent empirical evidence have shown that some types of aid (even those given with the intention of improving economic conditions of poor recipients) can cause adverse outcomes, rigorous analysis has been applied to too few types of aid and examined too few outcomes to form a comprehensive assessment of the net effect of aid. As such, the polarized arguments of the necessity of aid versus the detrimental effects of aid are premature, and the discussion of total foreign aid and the lack of economic improvement for the poorest countries in the world is somewhat misleading.

2.2.2 Nepalese Context

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 it's economic development. The joint achievements of the past should inspire both countries to further expand and diversity mutually beneficial economic co-operation there by giving new dimensions. He also writes that inspite of massive flow of foreign aid there has been no praise worthy 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.

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.

Singh in his work "Foreign Aid, economic growth and politics in Nepal" Analyzes the nature 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:

Pant (1984) in his book 'problem of development of smaller countries' 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.

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 foreign 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 (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 per capital 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) 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.

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.

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 (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 (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.

Bhattra (2009) said that "Nepal experiences for foreign economic aid heralded by the point four program agreements signed on 23 January 1951. The American 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.

Naradev (2013) has stated that there is positive impact of Indian aid the Nepalese economy. Such impacts are revealed in form of income generation, construction of social works, social overheads and awareness of people. India's aid in social sectors even during the continued political turmoil is laudable.

The philosophy behind foreign aid is that developing countries like Nepal suffering from vicious circle of poverty can not escape from it without foreign aid. Our economic scenarios has becomes failure due to vicious circle of poverty, administrative insufficiency, low rate of capital formation, low per capita income,

infavorable balance of payment, backward social and development infrastructure, political instability etc. to solve above problems, foreign aid is widely accepted.

Nirmala (2014) has stated foreign aid as transformation of financial, social, cultural, and technical assistance from the developed countries to least developed countries and developing countries. According to her Nepal is one of the least developed countries of the world with very poor economic and social infrastructure for development. During this period of time without the foreign aid country can not developed its economy in a reasonable period of time. In the early stage of aid there was the competition to provide aid to Nepal between capitalist and socialist countries. There is also huge gap between commitment and disbursement of foreign aid. Delay in projects implementations, administrative inefficiency, low absorptive capacity of the country are seems to be major drawback for low disbursement and commitment ratio. Foreign aid plays an important role in the economic development of the least developed countries like Nepal.

CHAPTER III

METHODOLOGY

This chapter includes research design, sources of data and data processing and analysis of the study.

3.1 Research Design

This study is based on desk studies; this is a descriptive, analytical and comparative study through the secondary source, published and unpublished research findings, books, donor's evaluation reports, national and international publication on foreign aid etc.

In this study, adopted methodology is purely a desk research. Desk Research is powered by a selection of tools and services that can be used in various contexts. Users can easily analyze individual books or collection of publications, create a co-author network and discovers trend in data. This means, this study is entirely descriptive nature. The main goal of this study is to analyze the historical background, nature, trend, and contribution of Indian aid in Nepalese economy. This study is simply descriptive analytical and explanatory nature, is not used cause and effect and hypothesis testing.

3.2 Sources of Data

This study is based on secondary source of published and unpublished data. The unpublished data such as the record, reports, of statistic gathered or compile by other prior also a source. The necessary data for the study has been collected from Publication of Ministry of Finance (MOF), Indian Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), World Bank (WB), Nepal Rastra Bank (NRB), Foreign aid division of MOF, Internet / E-mail, various economic survey along with various magazines, newspaper as well as published and unpublished documents of various research institutions.

3.3 Data Processing and Analysis

In the process of data analysis, the available required data from various sources are classified and tabulated to fulfill the requirements of the study. Most of the Data have been presented in percentage, tables, graphs are used according to situation and requirement of the study.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Trend and pattern of foreign aid in Nepal

Before the Second World War or pre-democracy period (i.e. before 1951 A.D.), Nepal was not familiar with integration of aid or not familiar with rest of the world. Whatever Nepal received aid before these periods was more concerned with the war or military assistance. It was not for any clear purpose of economic development.

Nepal started its development or modernization process as national mission in early 1950s when the closed political system of the Rana family rule (1846 – 1950) gone way to openness in internal policies and international relations. During the hundred years of Rana family rule Nepal remained a stagnant society in deep slumber in the context of economic development and foreign affairs. Whole Europe and some American countries went through a period of revolutionary advancement in the field of science and technology during the same time period. Even India to the south of Nepal, under the British colonial rule, was making advancement in educational and industrial sectors. After the overthrow of Rana Regime in 1951 Nepal entered into the international community and started to interest foreign nation to provide assistance to it.

The first foreign assistance in Nepal started in January 13, 1951 with the sign of an agreement with United State of American under the point four program since then the United States has been providing technical assistance as well as capital aid in order to help implementation of project often every sector of Nepalese economy. At that time, under the point four program agriculture, village development, health and education are the four concern areas had been focused by US assistance. Moreover, various institution building, road transport and manpower development activities had been taken similar priority by US assistance (Singh, 1996).

In October 1956, it was reported that Nepal would receive economic assistance worth 60 million rupees (\$ 12,600,000) from China; one third of the aid was direct money grant, and the rest consist of capital goods. It was alleged by Indian sources that Nepal's premier Tanka Prasad Acharya was playing India against China to gain advantage from both countries. It was remarkable that political friction did not halt the flow of aid and experts into Nepal. About 83 percent (1962) of Nepal's development funds get from abroad. The United States was, as usual, the largest

contributor; India was second, followed by China, the Soviet Union and Great Britain (Thapa, 2005).

The formation of “Nepal Aid Group” in 1976, the quantum of foreign aid increased more significantly in Nepal. This group was formed to provide a forum to coordinate the growing level of foreign aid in line with the country’s development priorities. Nepal development forum comprise countries like Australia, Canada, Denmark, Italy, France, UK, USA, Germany, Switzerland, Norway, Japan and International agencies namely IPA, WB, IME, EU, UNCTAD, ADB and UNDP. Though China and India were not the members of the Nepal Aid Group they are donors for. Nepal received multilateral aid since 1954 when, World Health Organization (WHO) provided aid in social sector. The major multilateral agencies who provided aid to Nepal are; UNICEF, ADB, UNDP, WB, UNFPA, IMF, OPEC Fund, EEC, SDF, IFAD, UNCTAD, IDA, IBRD, WFP, OECD, Kuwait fund etc. Nepal Aid Group accounts for about three-fourth of the total aid disbursement. The restoration of democracy in Nepal after 1990s further gave impetus for the expansion of more and more economic aid.

In recent years, most of the prime sectors of the economy are receiving foreign aid almost in every sector; several bilateral as well as multilateral donors are involved. Nepal has getting foreign aid from two types of donors-bilateral and multilateral in the forms of the grant and loan. In the beginning, large amount of foreign aid was received in the form of grant. But gradually the share of grant is decreasing and the share of loan is increasing since 2010/11.

4.1.1 Nepal Foreign Aid Policy

After much demand of civil society intellectuals (about 50 year's foreign Aid Practices) the government circulated a draft of foreign Aid policy in July 2000. The policy was finalized in 2002. Its salient features are:-

-) Foreign Aid will be utilized selectively after careful examination of the purpose, content and benefits of such projects and programs. Foreign loan will be channeled especially in projects having high rate of return and in infrastructure related development projects. Study and study terms will be banned from loan amounts, expenditure on consultants and foreign experts will be minimized form loan proceeds and HMG will not guarantee to provide loan to government owned enterprises or their institutions.

-) Grant Aid will be encouraged and utilized effectively co-financing arrangements through grants shall be emphasized for financing grants shall be emphasized for financing the expenses of overhead cost and technical expenses.
-) Building domestic institutional capacity, technical and expertise transfer and making appropriate selection of technical assistance shall gradually reduce reliance on technical assistance and expatriate consultants.
-) When Utilizing foreign aid consideration will be given for using foreign aid to finance projects that will bring about improvements in the domestic revenue mobilization capacity through higher GDP, employment growth and acceleration of economic growth.
-) Foreign aid will be accepted to improve the efficiency in the utilization of the country's capital stock, especially by financing critical inputs supplies and all over relevant capital expenditure items except general expenditure.
-) Partnership among government, private sector, civil society and donors will be fostered to strengthen aid management capacity.
-) The role of donor will be promoted as facilitators and supporters in the development endeavors of the country.
-) Foreign aid will be utilized as an important tool for private sector development in agreement with the spirit and framework of economic liberalization.

In sum, the government's foreign aid policy 2002, appears sound extensive and wide in scope, its long list of objectives and strategies, however make it complex and may occur problems during implementation. One of the problems in getting aid is accepting unnecessary conditions of the donor agencies. In receiving debt, there are no more economical survey from the side of government so nation may be fell on debt trap.

4.1.2 Sources of Foreign Aid

Nepal has been receiving foreign aid from various sources ever since the time of receiving of aid. Those sources include bilateral, multilateral and international non-governmental organizations (INGOs). The bilateral aid refers to foreign government or their aid administering bodies in Nepal such as Japan, JICA, United State's US AID, Germany's GHZ, Switzerland's SDC, Denmark's DANIDA, Finland's FINIDA, and the government of India, China, UK, USSR, France, Australia, Austria, New Zealand, Netherlands, Kuwait etc. Multilateral aid includes assistance from international agencies or official groups such as WB, IMF, ADB, UNDP, UNICEF, OECD, IDA, OPEC Fund, etc. and the third type includes private organizations such as Plan International, CARE International etc. The volume of aid flow from bilateral and multilateral sources during the review period is shown in the table 4.1.

Table No. 4.1**Bilateral and Multilateral aid in the % of total aid.****(Rs. in millions)**

Date	Bilateral aid	% of bilateral source in total aid	Multilateral aid	% of Multilateral source in total aid	Total aid
1984/85	1156.3	43.2	1520.1	56.8	2676.4
1985/86	1481.1	42.4	2110.4	57.6	3591.5
1986/87	1078.4	32.5	2236.1	67.5	3314.5
1987/88	2251.6	44.3	2826.9	55.7	5078.5
1988/89	1707.0	30.1	3959.2	69.9	5666.2
1989/90	2544.9	39.6	3882.2	60.4	6427.1
1990/91	2939.9	49.1	3050.1	50.9	5990
1991/92	3597.3	46.1	4203.1	53.9	7800.4
1992/93	3638.5	39.4	5597.1	60.6	9235.6
1993/94	2627.1	22.7	8930.1	77.3	11557.2
1994/95	3988.7	35.4	7260.7	64.5	11249.4
1995/96	3533.3	24.7	10755.7	75.3	14289
1996/97	6012.7	40.0	9019.2	60.0	15031.9
1997/98	6297.7	38.3	10159.4	61.7	16457.1
1998/99	4167.6	25.7	12021.4	74.3	16189
1999/00	4929.1	28.1	12594.8	71.9	17523.9
2000/01	2771.2	14.7	16026.2	85.3	18797.4
2001/02	4675.3	32.5	9709.5	67.5	14384.8
2002/03	10044.4	63.2	5841.4	36.8	15885.8
2003/04	9013.2	47.7	9899.2	52.3	18912.4
2004/05	9230.8	39.01	14426.5	60.99	23657.3
2005/06	7658.4	34.75	14383.4	65.25	22041.8
2006/07	16406.4	63.46	9447.9	36.54	25854.3
2007/08	10207.7	34.83	19092.9	65.17	29300.6
2008/09	9333.1	25.67	27018.6	74.33	36351.7
2009/10	22901.5	46.02	26867.9	53.98	49769.4
2010/11	25850.4	44.57	32147.3	55.43	57997.7
2011/12	32087.7	61.83	19805.7	38.17	51893.4
2012/13*	31620.0	49.69	32138.5	50.40	63758.5

* First Eight Months

Source: Economic Survey (various issues).

The table No. 3.1 shows that the bilateral and multilateral sources of aid in various fiscal year. The share of bilateral and multilateral aid in FY 1984/85 was 43.2 percent and 56.8 percent respectively. The share of multilateral assistance in the FY 1993/94 was the highest i.e 77.27 percent. The bilateral and multilateral sources of aid were decrease from 49.1 percent to 24.7 percent in FY 1991/92 to 1995/96 and again reached to 40 percent in 1996/97 then decrease continuously to 14.7 percent from FY 1997/98 to 2000/01. In 2002/03 the bilateral aid increased by 63.22 percent and then decreased till 2005/06 which again increased in FY 2006/07 by 63.83 percent in 2007/08 where as in multilateral aid increased continuously from FY 1990/91 by 50.9 percent and FY 1995/96 by 75.3 percent and then kinked in FY 2002/03, the multilateral source aid was ridiculously decreased and fixed in 2007/08 by 65.17 percent.

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In this way above table shows that share of bilateral and multilateral aid are in fluctuation being sometimes increased and sometimes decreased. In FY 2000/01 it was the lowest at 14.7 percent which may be due to the severe conflict of Maoist insurgency. But it was highest in FY 2006/07 at 63.46 percent it may be due to the Maoist ended their armed conflict and came to peace process. So, the bilateral donors provided assistance in order to rehabilitate the Maoist combatants and the destroyed infrastructure.

4.1.3. Trend of Foreign Aid in Nepal

Nepal has been receiving foreign aid from both the bilateral and multilateral sources in the form of grant or loan. The patterns of foreign aid vary from projects to projects and donor to donor. In other words, the structure of foreign aid corresponding to different sources is different and depends upon the policy of donor countries. Some aid is tied up to projects, while others in the form of commodity assistance and some of the assistance are simply in the form of the technical assistance. But broadly these various form can be grouped into the three headings: grant assistance, loan assistance and technical assistance. The share of grant is continuously decreasing and the share of loan is continuously increasing up to the restoration of democracy. After this the share of grant and loan changes in fluctuation rate. The overall inflow of foreign assistance in the form of grant and loan to Nepal is shown in the following table.

Table No. 4.2
The Inflow of Foreign Aid to Nepal (1984/85-2012/13)

(Rs. in millions)

Fiscal Year	Total Foreign aid (Rs)	Foreign Grant (Rs.)	Grant as a % of Total aid	Foreign Loan (Rs)	Loan as a % of Total aid
1984/85	2676.4	923.40	34.48	1753.00	65.50
1985/86	3491.5	1120.60	32.10	2370.90	67.90
1986/87	3314.4	1078.30	28.74	2236.10	67.50
1987/88	5078.5	1984.20	39.07	3094.30	60.90
1988/89	5666.9	1478.30	26.09	4188.60	73.90
1989/90	6427.1	1798.80	27.99	4628.30	72.80
1990/91	5990	1630.00	27.21	4360.00	72.80
1991/92	7800.4	1531.00	19.63	6269.40	80.40
1992/93	9235.6	3273.90	35.45	5964.70	64.50
1993/94	11557.2	2393.60	20.71	9163.60	79.30
1994/95	11249.4	3937.10	35.00	7312.30	65.00
1995/96	14289	4825.10	33.77	9463.90	66.20
1996/97	15031.9	5989.00	39.84	9043.90	60.20
1997/98	16457.1	5402.60	32.83	11054.50	67.20
1998/99	16189	4336.60	26.79	11852.40	73.20
1999/00	17523.9	5711.70	32.59	11812.20	67.40
2000/01	18797.4	6753.40	35.93	12044.00	64.08
2001/02	14384.8	6686.20	46.48	7698.60	53.52
2002/03	15885.5	11339.10	71.38	4546.40	28.62
2003/04	18912.4	11283.40	59.66	7629.00	40.30
2004/05	23657.3	14391.20	60.83	9266.10	39.20
2005/06	22041.8	13827.50	62.73	8214.30	37.27
2006/07	25854.3	15800.80	61.11	10053.5	38.90
2007/08	29360.37	20320.70	69.30	8979.90	30.70
2008/09	36351.70	26382.80	72.57	9968.90	27.42
2009/10	49769.40	38546.00	77.44	11223.40	22.55
2010/11	57997.80	45922.20	79.17	12075.60	20.82
2011/12	51893.40	40810.30	78.64	11083.10	21.36
2012/13*	63758.5	30696.5	48.14	33062.0	51.85

*First Eight Months

Source: Economic Survey (various issues).

Table No. 4.2 shows the increasing trend of foreign aid inflow in Nepal but the other hand it also shows the declining share of grants aid. From FY 1984/85 to 1998/99 the trend is fluctuating in nature. From FY 1999/2000 again it rises up to FY 2010/11, except in FY 2003/04 and 2006/07. In case of loan From FY 1984/85 to FY 2011/12 the trend is fluctuating in nature.

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Though Nepal has been receiving foreign assistance from different sources, it has been able to produce good performance in utilizing them. Monitoring and evaluation of foreign aid has not been systematic, so the trend of inflow of foreign aid is quite erratic due to the various reasons like misuse, corruption, political instability, and donor's unnecessary interference.

4.1.4 Commitment and Disbursement of Foreign Aid

Aid commitment refers to the expression of the donors to provide financial support of specified amount under agreed terms and conditions for the specific purpose to the recipient country whereas disbursement is the time lag because aid for many projects are committed in one year and the committed aid is disbursed in subsequent years. Besides, failure in receiving the committed amount is due to the political instability and lack of commitment on the part of the recipient government. Because of bureaucratic hurdles inefficiency, absence of institutionalization in development administration, corruption and poor management of development projects and absorptive capacity, the capacity to utilize committed amount of aid continues to remain as a crucial problem for the Nepalese government. The following table shows the status of foreign aid commitment and disbursement.

The following table shows the precise figure of foreign aid commitment & disbursement since 1984/85.

Table No. 4.3**Commitment and Disbursement**

(Rs in millions)

F.Y.	Total aid Commitment	Total aid disbursement	Disbursement as % of commitments
1984/85	5991.4	2676.4	44.67
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	5666.9	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	17523.9	85.70
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	20924.20	22041.80	105.30
2006/07	37022.90	25854.40	69.83
2007/08	49186.20	29300.60	59.6
2008/09	47975.20	36351.70	75.8
2009/10	96609.00	49769.40	51.51
2010/11	106096.70	57997.80	54.67
2011/12	98178.70	51893.40	52.86
2012/13*	63758.5	-	-

*First Eight Months

Source: Economic Survey (various issues).

The table 4.3 shows the pattern of commitment and disbursement of foreign aid to Nepal. The aid absorptive capacity of Nepal is found to be quite erratic. For example, the total disbursement of aid exceeded the level of commitment which was higher by 105.3 percent in 1990/91; while it was just 36.7 percent, the lowest in 1985. In FY

2010/11 and 2011/12, the disbursement of foreign aid is 54.67 percent and 52.86 percent respectively. The volatile nature of foreign aid to Nepal often delayed implementation of various foreign aided projects. The delay in implementation is caused by complicated procedures in finalizing agreements, difficulty in timely obtainment of equipments and components and finding suitable contractors, internal socio political unrest and widespread corruption in administration. Absorptive capacity of the recipient country not only depends on the internal structure, but also on donor country. Recipient country gives priority to invest one sector but donor's desire will be in another sector. Such inefficient economic practices are the main causes behind low disbursement percentage of foreign aid.

4.1.5 Resource Gap in Nepalese Economy

The resource gap is defined as the total budgetary expenditure less the resource mobilized internally. Resource gap creeps in when a country spends more on investment and expenditure than its internal resource. If this resource gap is not bridged timely then it invites serious problems like unfavorable balance of payment and foreign exchange gap. Nepal has been experiencing a serious and widening resource gap in her regular as well as development finance. The following table reflects the serious position and growing financial resources crisis in Nepal.

Table No. 4.4
Resource gap in Nepalese Economy (FY 1984/85- 2012/13)

FY	(RS. in million)						
	Total expenditure	Total Revenue	Resource gap 1*	Foreign Grants	Resource gap 2**	Foreign Loans	Resource gap 3***
1984/85	8394.9	3916	4478.9	923.40	3555.5	1753.00	1802.5
1985/86	10097.1	4644.5	5452.6	1120.60	4332	2370.90	1961.1
1986/87	11513.1	5975.1	5538	1078.30	4459.7	2236.10	2223.6
1987/88	14104.9	5350.9	8754	1984.20	6769.8	3094.30	3675.5
1988/89	18005.0	776.9	17228.1	1478.30	15749.8	4188.60	11561.2
1989/90	19669.3	9287.5	10381.8	1798.80	8583	4628.30	3954.7
1990/91	23549.8	10729.9	12820.30	1630.00	11190.3	4360.00	6830.30
1991/92	26418.2	13512.6	12905.50	1531.00	11374.5	6269.40	5105.1
1992/93	30897.7	15148.7	15749.30	3273.90	12475.4	5964.70	6510.7
1993/94	31335.0	19580.8	14016.50	2393.60	11622.9	9163.60	2459.40
1994/95	41494.6	24704.4	14484.80	3937.10	10547.7	7312.30	3235.40
1995/96	46542.4	27893.1	18679.30	4825.10	13854.2	9463.90	4390.30
1996/97	55723.7	30373.5	20350.30	5989.00	14361.3	9043.90	5318.30
1997/98	56118.3	32937.9	23180.40	5402.60	17777.8	11054.50	6723.30
1998/99	59579.0	37251.0	23321.60	4336.60	18985	11852.40	7132.6
1999/00	66272.5	42893.8	23378.70	5711.70	17667	11812.20	9846.38
2000/01	79835.1	48893.6	30941.40	6753.40	24188	12044.00	12144.0
2001/02	80072.2	50445.5	29626.70	6686.20	22940.5	7698.60	15242.5
2002/03	84006.1	56229.8	27776.30	11339.10	16437.2	4546.40	22090.6
2003/04	89442.6	62331.0	27111.60	11283.40	15828.2	7629.00	8199.20
2004/05	102560.4	70122.7	32437.80	14391.20	18046.6	9266.10	8780.5
2005/06	110889.2	72282.10	38607.10	13827.50	24779.6	8214.30	16565.30
2006/07	133604.5	87712.10	45892.40	15800.80	30091.6	10053.5	20038.00
2007/08	161350.0	107622.50	53727.4	20320.70	33406.7	8979.90	24826.79
2008/09	219662.0	143474.50	76187.50	26382.80	49804.7	9968.90	39835.80
2009/10	259689.1	179945.80	79743.30	38546.00	41197.3	11223.40	29974.00
2010/11	295363.4	198375.90	96987.5	45922.20	51065.3	12075.60	38989.7
2011/12	339168.0	244374.00	94794.00	40810.30	53983.7	11083.10	42900.6
2012/13*	404825.0	289604.9	115220.1	-	-	-	-

*Estimated

Source: Economic Survey (various issues).

Note:

*Resource Gap 1 = Expenditure- Revenue

** Resource Gap 2 = Resource Gap 1- Foreign grants

*** Resource Gap 3 = resource gap 2- Foreign loan

Table No. 4.4 shows that resource gap 1 which is difference between total expenditure and total revenue is in increasing trend. In the FY 1984/85 the resource gap was Rs. 4478.9 million reached up to 94794.0 million in FY 2011/12. Due to the increment in regular and development expenditure, the resource gap has widened from year to years.

Resource gap 2, which is the difference between expenditure and revenue plus foreign grants, also is in increasing trend. This type of resource gap started since the budget of FY 1956/57. This gap was 3555.5 million in FY 1984/85 and reached to 53983.7 million in FY 2011/12.

Resource gap 3, which is the difference between expenditure and total revenue plus foreign grants plus foreign loan, is still not promising. It was increase from 1802.5 million in FY 1984/85 to 42900.6 million in FY 2011/12. This increasing magnitude of resource gap clearly indicates that there is urgent need for effective mobilization of additional resources.

4.1.6 Sectoral Allocation of Foreign Aid

The sectoral allocation shows the amount of economic plans and programs in different sectors and identifies the sectors that have received priorities. The sectoral distribution of foreign aid is not smooth and has a fluctuating nature. The largest share of foreign aid had been allocated to develop transports, power and communication at the early three plans. From the beginning of the 4th plan the priority occurs on irrigation. Table 4.5 shows the general information on sectoral aid priority during FY 1984/85 to FY2010/11.

Table – 4.5
Sectoral allocation of foreign aid (1984/85 - 2010/11)
(Percent of total aid)

FY	Agriculture, irrigation & tourism	Transport, power & communication	Industry & commerce	Social service	Other sectors
1984/85	39.35	36.23	7.17	16.41	0.99
1985/86	37.20	37.84	7.90	16.80	0.84
1986/87	31.31	44.46	5.53	17.66	1.03
1987/88	24.15	55.03	8.78	10.28	1.96
1988/89	25.88	55.06	3.37	14.91	0.77
1989/90	23.18	41.68	10.22	24.21	0.71
1990/91	20.90	42.90	23.20	11.10	1.70
1991/92	24.90	31.80	27.80	15.20	0.10
1992/93	20.80	42.60	7.50	28.80	0.10
1993/94	47.50	36.00	3.40	12.70	0.10
1994/95	30.70	40.60	4.20	23.80	0.40
1995/96	23.70	56.30	0.10	18.40	1.20
1996/97	18.80	56.50	0.10	24.30	0.10
1997/98	17.30	54.60	1.20	26.80	0
1998/99	20.90	48.70	2.40	27.40	0.30
1999/2000	18.30	46.50	1.70	33.00	0.30
2000/01	20.00	49.10	0.10	30.60	0.10
2001/02	22.80	41.00	2.60	32.50	0.96
2002/03	13.70	48.90	2.50	33.50	1.34
2003/04	12.80	40.00	0.78	46.20	0.18
2004/05	10.80	41.70	0.52	45.40	1.40
2005/06	10.90	32.40	0.48	50.60	5.90
2006/07	14.40	25.70	0.45	58.70	0.67
2007/08	13.20	22.90	0.20	62.10	1.60
2008/09	6.30	17.22	0.44	67.94	7.99
2009/10	6.19	23.69	0.63	66.35	7.63
2010/11	5.12	25.57	0.0	62.76	6.55

Source: Economic Survey (various issues).

From the table 4.5 it is obvious that, foreign aid is distributed to agriculture, irrigation and forestry, transport, power and communication, industry and commerce, social service and others. Up to the FY 2004/05 transport, power and communication have continued to receive a large share of foreign aid. Since last 16 years a sectoral distribution of foreign aid in

increasing in gradually in social service except in FY 2000/01, 2009/10 and 210/11. In the FY 210/11 it can be seen that the social services sectors has absorbed the largest share i.e 62.76 percent of the total aid. This sector highest priority compared to others in FY 2010/11. It clearly shows that donors are more interested in helping to build infrastructure and social service than other sectors. Because, donors are interested on empowering and enriching the quality life of least developed countries like Nepal.

4.2 Trend and Pattern of Indian Aid in Nepal

The Economic relation between Nepal and India started from the Nepal's trade with India before the 19th 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 and India 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 period of Prime Minister Janga Bahadur Rana helped the British government in India providing armed forces for the First World War. This assistance satisfied the then British government and they handed over four districts (Banke, Bardia, Kailali and Kanchanpur) which were lost during the battle of integration 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).

In January 1952, the prime minister of Nepal Mr. M.P. Koirala visited India and received the same affection and admiration. So, the economic cooperation and friendship between the two countries started to boost up significantly after these two visits. But the aid programs started after two years of Mr. Nehru's declaration for help; i.e. in 1953 with the construction of Tribhuvan Rajpath (Kathmandu to Indian border Raxaul) and the Tribhuvan Airport. This was the beginning of economic relationship between Nepal and India with the development of road and air link (Guragain, 2006).

After the Sino-India conflict, India increased her assistance to Nepal considerably both in quantity and quality for expediting its economic development. Contemporary 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 has 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.

In addition to this, India initially supplied aid for transport development, airport in Kathmandu and the Tribhuvan highway linking the Indian border to the capital of Nepal. Later, its contribution to the East- West highway has importance that it is the main vein of national economy and development. Indian aid also covered irrigation, hydropower, rural development, industrial estates, hospital and school for engineering, veterinary, forestry etc. There was temporary setback in the aid from India after the advent of the Partyless Panchayat system in 1961/62. But later, aid was increased because Nepal would otherwise be forced to depend more and more on china, the USA and the others (Guru Gharana, 1991).

According to available statistics, the domestic revenue has not covered the development expenses of Nepal. To fulfill such kind of resource gap, foreign assistance has played a major role. During the period between the 1st plan (1956 – 1961) and 10th plan (2002 - 2007), the share of foreign aid in total development expenditure remained 62.9 percent which is from both bilateral and multilateral assistance. India's contribution in the period between FY 1951 and 1980 was 38 percent (Paudyal 1983). Afterwards, India's assistance has increased over the years. Since 1997, annual disbursement has been around Rs.700 million (Pyakuryal, 2005).

Prior to 1951, there were few all-weather roads, and the transportation of goods was difficult. Goods were able to reach Nepal by railroad, trucks, and ropeways, but for other parts of the country such facilities remained almost non-existent. This lack of infrastructure made it hard to expand markets for trade and pursue economic growth. Since 1951 Nepal has tried to expand its contacts with other countries and to improve its infrastructure, although the lack of significant progress was still evident in the early 1990s. The effects of being landlocked and of having to transit goods through

India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production. (Rawat, 1974)

4.2.1 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 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 31st. 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:

4.3.1 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.

4.3.1.1 Roads

a. Tribhuvan Rajpath

Trihuvan 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.

b. 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.

c. 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.

d. 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 4.6

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 goddess 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.

4.3.1.2 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 4.7
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.

4.3.1.3 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 renewed the narrow gauge railway track and also provided the diesel engines with eighteen coaches to Janakpur railway, which enhanced 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 Inland Container Depot (ICD) from which the country can take maximum advantage of the depot's trade potential.

Table 4.8

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.

4.3.2 Communication

Indian collaboration with Nepal in the postal field dates back to the 19th 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 then 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.

4.3.3 Water Resources

4.3.3.1 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 projected 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.

4.3.3.2 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.

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.

4.3.4 Education and Health

India's assistance in the field of education begun with the establishment of Tribhuvan 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 Tribhuvan 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.

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 MSc. 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 is 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.

4.3.5 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 30th 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.

4.3.6 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.

4.3.7 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 31stAugust 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.

4.3.8 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.

4.3.9 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.

4.3.10 Community and VDC Development

India agreed to provide NRs 2.4 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.

4.3.11 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 V

SUMMARY, FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 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.

5.2 Findings

The study finds that overall percentage of multilateral source in total aid is higher than percentage of bilateral source in total aid. Only in year 2002/03, 2006/07 and 2011/12, percentage of bilateral source in total aid is higher than percentage of multilateral source in total aid.

In fiscal year 2000/01 the percent of bilateral source of total aid was the lowest at 14.7 percent which may be due to the severe conflict of Maoist insurgency. But it was highest in FY 2006/07 at 63.46 percent it may be due to the Maoist ending their armed conflict and coming to a peace process. So, the bilateral donors provided assistance in order to rehabilitate the Maoist combatants and the destroyed infrastructure.

In case of foreign grants and foreign loans, up to 2001/02 percentage of loan in total aid is higher than the percentage of foreign grants in total aid. But since 2002/03 percentage of foreign grants is higher than percentage of foreign loans in total aid. The percentage of grants from 1984/85 to 2001/02 was not so high (lies below 50%). From 2002/03 it keeps on rising (i.e. above 50%) whereas the percentage of loan from 1984/85 to 2001/02 was high (i.e. above 50%) and from 2002/03 it keeps on declining (i.e. below 50%).

Monitoring and evaluation of foreign aid has not been systematic, so the trend of inflow of foreign aid is quite erratic due to various reasons like misuse, corruption, political instability, and donor's unnecessary interference.

The pattern of commitment and disbursement of foreign aid to Nepal is quite erratic. For example, the total disbursement of aid exceeded the level of commitment which was higher by 105.3 percent in 1990/91; while it was just 36.7 percent, the lowest in 1985. In FY 2010/11 and 2011/12, the disbursement of foreign aid is 54.67 percent and 52.86 percent respectively. The volatile nature of foreign aid to Nepal often delayed implementation of various foreign aided projects. The delay in implementation is caused by complicated procedures in finalizing agreements, difficulty in timely obtainment of equipments and components and finding suitable contractors, internal socio political unrest and widespread corruption in administration. Absorptive capacity of the recipient country not only depends on the

internal structure, but also on donor country. Recipient country gives priority to invest one sector but donor's desire will be in another sector. Such inefficient economic practices are the main causes behind low disbursement percentage of foreign aid.

Regarding the economic development of Nepal, many bilateral and multilateral agencies have been providing assistance in the form of grants and loans. In the history of foreign aid in Nepal, India occupies the first position among the bilateral sources up to 1980, 90 percent Indian aid is found as grants. The sectors of cooperation in Nepal for development of various sectors has been continuously extending. Mostly India has been providing aid infrastructure like education, communications, transportation, industry etc. The Indian aid disbursed in different areas that have been given priority are transportation, communication, power, irrigation, drinking water, education and health, industrial development, forestry, horticulture, veterinary services, health and community and VDC development etc.

India has been providing aid for the development of transportation. Most of the Indian aid during the two decades of 1950s and 1960s has been towards infrastructure development of Nepal. Some of the road constructed on Indian aid are Tribhuvan Rajpath, Mahendra Rajmargh, Siddhartha Rajmargh, Dakshinkali Road, Tripereswhwor-Thankot Road, Kakrawa-Lumbini Road, Kathmandu-Godawari Road, Balaju Road, Janakpur Town Road, Trishuli Road.

India has also provided aid for the construction of airports. Some of them constructed under Indian aid are Kathmandu, Pokhara, Biratnagar, Bhairahawa, Janakpur, Simara

India has also provided aid in the complication of few hydroelectricity projects which are Trishuli Hydroelectricity Project, Devighat Hydroelectricity Project Koshi Hydroelectricity Project, Phursekhola Project. Indian assistance in irrigation sector is also found in the construction of Koshi and Gandak barrage. Nepal and India has also signed in various treaties on the implementation of large rivers like Koshi, Mahakali and Gandaki for mutual benefit and friendship providing power and irrigation facilities.

India has also provided assistance in the fields of education with the establishment of Tribhuvan University in 1958. India has also provided various scholarship for

Nepalese students in undergraduate courses, post graduate courses, research/post doctoral scholarship, golden jubilee scholarship scheme, Matma Ghandhi scholarship and so on.

India has also aided in industrial development like it assisted in the industrial area of Patan, Pokhara, Rajbiraj, Dharan, Butwal and Nepalgunj. India has also provided a sum or soft loan amount of NRS 16 million in order to establish industrial enterprises. This loan has been utilized primarily to establish paper, jute, cement and textile industries and such other industries for which the requisite machinery was available in India. Also with the help of Indian Assistance GON national policy On forest, working plan various forest division of Nepal were prepared on a scientific line. In 1954 a forest research institute at Hetauda constructed under the Indian cooperation helped to prepare a report on the best way of utilizing and developing the forest sources.

Nepal and India are also collaborating in horticultural sector. India established 14 horticulture station at Kirtipur, Daman, Pokhara, Trishuli, Sarlia Thang, Janakpur, Dhunibesi, Dhankuta, Thak and Baitadi and other different places. India has also aided in the development of Paropakar Shree Panch Indra Rajya Laxmi Devi Maternity and child welfare center in Kathmandu. Alo in 1967 some of NRs 4 million allocated for the development of hospital and health posts in various parts of Nepal. In 1972/73 India provided Rs. 12.5 million for the control of Goiter. India has also aided in renovating Bir Hospital and establishing Trauma Centre.

From the above finding we can say that foreign aid and Indian aid has contributed very much in the development of nation and also solving the resource gap in Nepalese economy. India's focus is mainly seen in infrastructural development like transportation, communication, water resources, education, industrial development, forestry etc. The services we are getting standard of living we are living wouldn't have been realize without foreign aid and Indian aid.

5.3 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 povety, 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.

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.

5.4 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 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.

- i. 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.
- ii. Foreign aid should be used in transparent manner with proper accounting and scientific auditing system of recording the movement of foreign aid.
- iii. 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.
- iv. 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.
- v. 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.
- vi. The country has to concentrate itself on the projects which can generate backward and forward linkages.
- vii. Effective administrative department should be established in evaluating and monitoring each and every records of Indian aid.
- viii. 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.
- ix. Interactive meetings with politicians, journalists, civil society, organizations and intellectuals are imperative to exchange thought on various aspects of Indian aid.
- x. Nepalese technicians, contractors and labors should be employed as far as possible in designation and construction works under in Indian aided projects.
- xi. Data and information on flow of Indian aid at different times, sectors and projects should be properly recorded and publicly made available.
- xii. 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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