

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The term 'foreign aid' can be defined as "economic, technical, or military aid given by one nation to another for purpose of relief and rehabilitation, for economic stabilization, or for mutual defense." Foreign aid can involve a transfer of financial resources or commodities (e.g., food or military equipment) or technical advice and training. The resources can take the form of grants or concessional credits (e.g., export credits). The most common type of foreign aid is official development assistance (ODA), which is given to promote development and to combat poverty. The primary source of ODA—which for some countries represents only a small portion of their assistance—is bilateral grants from one country to another, though some of the aid is in the form of loans, and sometimes the aid is channeled through international institutions and non-governmental organizations (NGOs).

The development assistance of the Organization of Economic Co-operation and Development (OECD) of UN records, the term foreign aid is defined as "the multilateral agencies including official resources to developed countries and export credit as constituting foreign aid." This definition includes the economic flows whether they are official or private.

The foreign aid is not new in the literature of economics as it started in 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 the US. The remarkable increase in foreign aid had been noticed from the time when Nepal entered Colombo Plan in 1952 and with India 1953. The agreement of foreign aid for the construction of Tribhuvan Highway from Raxaul to Kathmandu. Then the flow of it started to come from the other countries like China, UK, Japan, Finland, Denmark, Norway, Australia, etc. The year 1969 was termed as a good year for Nepal since it started to get loan from the World Bank and ADB at the subsidized rate, because of which it was also known as the golden year in the context of foreign aid.

The foreign aid which is obtained in terms of not returning back is known as grant whereas the aid is obtained on the condition of returning back with interest is known as loan. In the global context, a country cannot stand on its own being separated from other countries. Every country is independent to each other. In case of developing countries like Nepal, there appears mass poverty, lack of infrastructure, agro- based economy, subsistence level of wage rates, policy failure, political instability and other weaknesses. They negatively affect the rate of capital formation. As a result, there is a wide gap in between supply of and demand for resources because of which, it is clear that the gap seems to be impossible to fulfil from different countries in different ways. In this regard, Nepal has been getting foreign aid in two forms: Bilateral and Multilateral.

Countries like the USA, the UK, Japan, India, People's Republic of China, France, Germany, the Netherlands, Canada, Russia, etc. of Germany, SDC of Switzerland, DFID of the UK, JICA of Japan, FINIDA of Finland so on Like under-bilateral donor agencies whereas WB, IMF, ADB, the UNDP, WHO, OPEC, UNICEF, FAO, UNESCO lie under multilateral donor agencies.

After the establishment of democracy in 1951, the democratic practice along with development also started in Nepal. It has got speed up after the popular mass of 2006 to achieve the aim of foreign aid to accelerate the development activities and make country self-depending.

In this condition, the expenditure was increased. As a result, internal resources remained insufficient. There were many donor countries, among which one of the prominent donors of Nepal is our neighbouring country, India, whose one economic power is rising rapidly in the world. Since it has surrounded Nepal from east, west and south, it has many similar socio- cultural, religious, geographic and demographic features. So, it has direct impact on Nepalese economy. However, the Nepalese economy in comparison with that of India is underdeveloped. This is because of unavailability of more natural resources like oceans, petroleum products, mining as well as unfavourable international relationship.

The economic assistance of India to Nepal began to flow from October 1951 when two Nepalese officials took six month training in statistics in India. The main goal behind the Indian aid is to act as supplement of the efforts of the government of Nepal

to increase the standard of living as well as to develop the national economy. Indian aid is mainly based on the humanitarian grounds and sometimes on political and educational motives as well. India has offered help to Nepal in almost all economic sectors like agriculture, industry, infrastructure development, education health, etc. One of the main grounds of Indian assistance is that poverty anywhere is a threat to prosperity everywhere. It provides aid in the form of technical manpower, financial and commodity terms. India aid has been taken for the completion of many projects for development purpose. The aid also helps to enhance mutual relationship and 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

Foreign aid is considered a key factor in enhancing competitiveness of development projects and expediting economic activities especially in least-developed countries (LDCs) like Nepal. Over-dependency on foreign aid has made the people parasites. But when it comes to utilising aid (both loans and grants) productively for self-reliance, Nepal is lagging behind. As foreign aid is composed of loans and grants, of the total commitments, Nepal has been able to use less than 50 per cent as of now. Do our institutions have capacity to use it properly and in a timely manner? This is the million dollar question.

The main economic problem of underdeveloped countries is the deficiency in capital formation due to low level of saving, which is the result of low productivity and lack of appropriate technological development to exploit available resources in the country. Nepal has to rely on foreign assistance as it lacks capital and advanced technology. With its own resources, Nepal cannot accumulate sufficient capital mobilizing their limited resources with limited amount of investment. To break the 'vicious circle of poverty' and to provide fuel for self-motivated growth – pace inflow of outer investment is the most. Foreign aid in this respect is a good remedy. But aid in

the form of debt may sometimes entangle LDCs to debt- trap which worsens the situation. This is one reason why Nepal is not achieving expected level of growth despite increasing foreign aids. Though these aids are not sufficient to maintain the increasing ‘resource gap’ in the budget, they are saving the country from being a ‘failure state’. Nepal is achieving assistance in almost all the fields like industry, commerce, agriculture, transportation, communication, physical infrastructure, electricity and even administrative fields. The economic issues are not properly handled nor has any clear-cut solution been explored by anyone yet. It requires serious effort to acquire accurate solution for such intricate problems. The main concern is to study why foreign aid 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.

The main research questions are as follows:

- i. What is the trend and pattern of foreign aid in economic development of Nepal?
- ii. What are the areas of foreign aid in Nepal provided by India?
- iii. What are the sector-wise allocation of foreign aid in Nepal due to Indian aid?

1.3 Objectives of the Study

The prominent objective of the study is to analyse the contribution of Indian aid in the Nepalese economy. The specific objectives are as follows:

- i. To analyse the trend and patterns of foreign aid to Nepal,
- ii. To examine the areas of Indian aid to Nepal,
- iii. To access some sector-wise allocation of foreign aid in Nepal due to Indian aid.

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, skill manpower, financial resources and inadequate infrastructure development the resources are not fully exploited. Nepal’s economy is moving with the very low pace of development there is desperate need of

efficient use of internal resources. For the use of internal resources there is need of technology foreign capital and skilled manpower which the country doesnot 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 fulfil other development needs and increase investment Nepal has been a continuously receiving relying on 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 following limitations:

- i. The study is based on limited data and information available from secondary sources.
- ii. It covers the foreign aid to Nepal dating from FY 2011/12 upto 2017/2018.
- iii. Foreign private investments are not included in the analysis.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

Foreign Aid has global significance especially in the developing countries and is associated normally with the national government and international organization although there are certain private institutions or organization which extends support to the aid seeking countries. The scope of foreign aid became more prominent and played pivotal role in aftermath of Second World War with the growing independence of many developing countries along with Marshall Plan to uplift the economy in totality. Nepal has been a recipient of foreign assistance since 1952 when it joined the Colombo Plan for Cooperative, Economic, and Social Development in Asia and the Pacific. The plan was established, under a slightly different name, by the Commonwealth of Nations in 1951 (<https://www.gov.np>).

Foreign aid involves a transfer of financial resources or commodities (e.g., food or military equipment) or technical advice and training. Foreign aid is a concept that refers to the flow of capital and technical resources from the government of a donor country or through international channels in the form of loan or grant to the aid seeking countries. The flow of capital and technology resources is basically from the advanced industrialized countries to the less developed countries.

It is found many publications published in the form of books, booklets, journals and useful articles in the context of foreign aid with special reference to India. Likewise, there are several books, booklets, journals and articles written by Nepalese as well as foreign writers in the context of foreign aid in Nepal. There are also some dissertations referring to foreign aid submitted by the students of economics for the fulfilment of the master's degree. Similarly, there are several articles in local newspaper, websites referring to this field.

2.2 International Review

Higgins (1968) viewed that aid is given for normal obligation to help the poor, the threat to national security entailed in the widening gap allies and the possibilities of expanding world traders have all been cited as reasons for helping the underdevelopment countries with their development program. The author further

wrote about the role of capital assistance in economic development , “In the complex process of interacting economic, social and political forces which brings economic development, what contribution can capital assistance make? It is quite clear that capital assistance cannot being to do job alone, At the same time, the availability or absence of foreign aid of the right kinds of right amounts might make the different between success or failure of country’s own efforts to launch a process of sustained economic growth.

Milhaly (1965) suggested descriptive facts about foreign affairs and political condition of Nepal. ‘Nepal has attracted unusual attention from aid donors. Nepal received aid from so many sources from initial until today these are the USA, India , USSR, Israel, Japan, the UK, and it’s agencies and the ford foundations .’ He also includes that in Nepal there are tribes and groups of people, diversity of religious and language that are barrier to national unity and national affects to advance economic growth. Hence the aid giving country has face various difficulties. The author further argues that Indian and Chinese aid conflict in purpose. India gave a greater urgency to implement the economic aid program after the political change of Nepal. The author showed the impact of the minor aid program provided by the different donor countries. According to him, in minor aid program, few of them are successful to fulfill their indicated aim but aggregate they created serious problem of Nepal. In addition, he has shown the impact of two type of foreign aid in Nepal. Short term and long term impact, aid project did not improve political consciousness as hoped by donors. In long –term impact aid did not only failed to give a significant boost of Nepal’s economy but also it may even have made growth more difficult to achieve.

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

Dharamdasani (1984) played an important and decisive role in economic development of Nepal, which constitutes over fifty percent of outlay, envisaged under the development plans. Foreign aid has gone in three major direction i.e. infrastructural development, health and education. He defines three major engines of growth of

Nepal – foreign aid, tourism and smuggling, out of which first is definitely major sources of financial inflow without which it would be difficult for a nation like Nepal to sustain its economic growth and development efforts. Due to low saving and lack of a viable taxation system and inability to generate internal sources, it is not possible for Nepal to discard foreign assistance.

Gong and Zou (2001) suggested that an increase in the amount of foreign aid a country receives reduces capital accumulation and labour supply and increases consumption in the long-run. Using an optimal growth model with foreign aid, foreign borrowing, and endogenous-leisure-and-consumption choices, they find that an increase in aid raises income. An income increase causes consumption to increase and investment to decrease. This is a channel through which aid negatively affects the growth process through dissipation of increase income in consumption.

Aryal (2003) focused on the financing gap because foreign aid is believed to increase investment which in turn increases economic growth. When testing 88 aid recipient countries for the years 1965 to 1995, he finds that only six countries had increases in investment and four countries had a positive relationship between growth and investment. In sum, the relationship between aid and growth is unclear.

Raghuram and Subramanian (2005) examined that aid has detrimental long-term effects on economic growth of developing countries through a decrease in employment. In a study of 40 countries for the period 1980-1989 and 28 countries for 1990-1999, they examine whether labour-intensive industries have a relatively slower growth rate in countries with high aid inflows by controlling for within-country effects. Controlling for differentials in industries within countries, they assume that aid giving is driven by trade and exchange rate policies. They find that aid inflows undermine the competitiveness of a country's exporting sectors because aid causes an overvalued exchange rate that has adverse consequences on the growth of the traded goods sector in the recipient country.

Reduced competitiveness in the traded good sector decreases employment growth. Decrease in employment growth can trigger the country's future dependency on aid. As a result, there will be an increase in the level of aid that the country receives.

Ekanayake and Chatrta (2007) tested the hypothesis that foreign aid can promote growth in developing countries using panel data series for foreign aid, while

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

Kabete (2008) examined the impact of foreign aid on economic growth in Tanzania. It was interested in the analysis of this relationship because the country receives a considerable amount of foreign aid but still experiences very low economic growth and high poverty levels. The period under study is from 1990 to 2004 and used data from the The World Bank, World Development Indicators 2006 and the former Ministry of Planning, Economy and Empowerment (Tanzania). The analysis of the contribution of foreign aid to economic growth has combined other variables which are net national savings, export growth (annual percentage growth), and total debt service. Except the export growth, other variables were measured as percent of Tanzania's Gross National Income (GNI) for the period under study.

Hossain (2014) estimated 33 years data on foreign aid for 1980-2012 periods and analyses the effects of foreign aid on the economic growth of Bangladesh. To examine the effects of aid more precisely, this study estimates eight separate models including three for the last three decades (1980-1990, 1991-2001, 2002-2012), four for the four different government period namely, Military government (1982-1990), BNP (Bangladesh Awami League) government (1996-2001, 2009-2012) and the whole democratic government period (1991-2012) and one for the entire period (1980-2012). This research finds that, foreign aid has positive effect on the economic growth of Bangladesh and it is statistically significant in two models out of eight models. This paper also reveals that the aid generates decreasing returns in Bangladesh because of capacity constraint of Bangladeshi institutions to utilize the foreign aid effectively.

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

2.3 Nepalese Review

Poudyal(1980) concluded that India has been a pioneer and countries to be the foremost in the field of assistance to Nepal in initiating and accelerating the process of its economic development. The joint achievements of the past should inspire both countries to further expand and diversity mutually beneficial economicco-operation there by giving new dimensions. The author 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 reason 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.
-) Donors misconception about the exact Nepalese condition also one of the serious problems.
-) Large number of foreign labours 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)made the study on the foreign aid to Nepal. His main objectives are to analyse 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.

Banskota (1981) suggested that foreign aid assistance has been a crucial factor in Nepal's overall development. He also suggested that in light of the recent declining rate of growth in domestic revenue, it is but natural that donors should be concerned with the country's absorptive capacity, which is greatly limited by shortage of skilled people, construction materials, medical supplies and an increasing responsibility of government of Nepal to maintain projects determined by donor countries. These factors may combine to have an adverse effect on new development programs. Therefore donor countries may be called upon to explore possibilities to extend assistance to include not only the economic development but also some components of the regular budget, foreign aid in Nepal past and present with reference to U.S. Assistance, 'The Economic Journal of Nepal.'

Lama (1985) said that the impact of India aid to Nepal has not been effective as expected mainly because of the lack of foresight in both the countries. He argues that political factor is the root cause of smooth and proper implementation of Indian aided projects. Had the absorptive capacity of Nepal been higher and advanced the impact of Indian aid could have been more. Finally, he says due to the lack in proper planning and presence of leakages of aid in Nepal, have made the Indo-Nepalese co-operation more complex.

Sharma (2000) explained the need of Foreign aid management in Nepal. 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) showed 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 has become the biggest supporting country to Nepal.

Acharya (2000) showed the importance of foreign aid in his research study "A review of foreign aid in Nepal". Foreign aid holds critical importance in the Nepalese economy. Economic importance of aid resides not only in the fact it provides resources for the national budget. Foreign aid helps bridge the gap between the shortfalls of the national saving 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 making 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 effects that from the resource allocation perspectives.

Rizal (2000) suggested that Nepal's economy is characterized by various structural constraints leading to low per capita income. The growth of Nepalese revenue is diminutive and the rate of public and private saving 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 praiseworthy.

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

Acharya (1998) published on sustainability, gives emphasis on economic development, reveal in the foreign policy of small developing countries such as Nepal which must have, besides others, the following two objectives: national security and promotion of its social and economic development. They may also constitute the two main elements of foreign policy of the developed more powerful and greeter nationals as well. But in case of poorer and less developed countries vulnerable to internal and external pressure, need to meet those two objectives is the most urgent.

Bista (1991) explained Nepal's lack of development with reference to cultural factors. In spite of the heavy flow of aid, Nepal remains backward due to the dominances of a particular value system which he associates with Hinduism particularly Brahmin, and calls it the culture of fatalism.

Pyakurel, Dhakal and Adhikari (2005) explained the availability of economics resources which are fundamental for overall development indicative of a nation. For this, it requires to increase the productive capacity of the economy, which again depends on the increasing share of investment in total GDP. To increase investment, it requires really total consumptions and increasing domestic saving. However the trend of consumption shows that it is growing continuously. For the period of 1994-2004, the total consumption rate grew up from 85 percent to 87 percent of total GDP. This leads to be dependent on foreign assistance for investment.

The available data FY 1984/85 demonstrates the increasing trend of foreign aid for the increase in national expenditure. The share of foreign aid in the total expenditure which was minimal in the initial periods started increasing as a mix of loan and grant since FY 1963/64.

In the successive periodic plan of the country, foreign aid as percent of the development expenditure ranged on an average from around 50 percent to the highest of 100 percent in the first plan period, foreign assistance financed 60-80 percent of Nepal's annual development budgets in 1990s and accounted for over 10 percent of GDP. In the first three of tenth plan, the component of foreign aid has increased from 18.9 percent to 23 percent. This indicates the dependency of the nation on foreign aid again. In every FY or in periodic plan, foreign aid has increased in order. So, Foreign Aid is a major component of the budget.

Since 1954-1975, only after 1975, grant assistance was in increasing order in a regular basis and sharply increased from 1980 becoming a largest supporting country to Nepal.

Most of the literatures concluded that foreign aid is important for infrastructure development as well as to meet a large portion of our development expenditure. Foreign aid plays a critical role in infrastructure development such as highways, power plants and airport, the realisation is yet to be appreciated by the public. 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 cannot develop its economy in a reasonable period of time. Also, the author has to consider whether the author has utilised these grants productively for the economic development of Nepal. It is also being monitored by donors and development partners.

Poudyal (1988) performed regression analysis by using data from 1964 to 1982, between foreign aid and economic growth and aid and domestic saving. He found that foreign aid had a significant positive effect on the level of GDP. The result showed a reasonably well overall fit the model. He has concluded that foreign aid in Nepal positively contributed to the country's GDP growth but substituted domestic saving. He also estimated the model using five years lag of aid. For that one and two years lag, the coefficients were found smaller and negative. But for the four and five year lag, the coefficients were positive and larger. Thus, he claimed that the long running aid funded projects did not contribute to the economy in short run. The negative short run relationship between aid and growth was attributed to the use of domestic resources to support these long run running foreign financed projects.

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

Khadka (1991) stated that Nepal relied heavily on foreign aid and donors coordinate development policy through the Nepal development forum; whose members include donor countries, international financial institutions and international governmental organizations. Its reliance on aid increased 45 percent development expenditure in 1975 to about 56 percent in 1986 and aid GDP ratio increased from 206 percent to 6.9 percent during the same period.

Acharya (1998) concluded that although foreign aid did not substantially contribute to the economic development of Nepal, the importance of foreign aid cannot be denied, because the domestic resources mobilization of Nepal is still very low to fulfil her basic requirement. In this respect new visions and new ways of aid utilization have to be launched from both donors and recipients to use these aids in the related or concerned sectors optimally not considering aid as free gifts.

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

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

Sigdel (2010) by adopting non-linear regression model found that there is a significant relationship between resource gap and foreign aid. He found that one billion increments in resource gap is met by more than one billion increment in foreign aid during the period of FY 1981/82 to 2001/02. The flow of foreign aid is found to be faster than the increment in resource gap (1.023477, lag coefficient).

Koirala (2011) stated that foreign aid has been unable to achieve its major objectives in Nepal by principle. Foreign aid helps to bridge the resource gap in short term so that in long-term, the developing countries would be able to mobilize its own resources for sustainable development. But in reality, Nepal could never mobilize its internal resources to meet the financial requirements of its developing activities. Similarly, foreign aid was started in the country in 1950s with the first and foremost objectives of economic and political stability. But, despite a regular inflow of dollars for more than half a century, the Maoist insurgency began and Nepal has now become that most unstable it has ever been politically as well as economically. The impact of foreign aid in Nepal is having paradoxical results.

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

Dhungel (2015) discussed the role of foreign aid in case of Nepalese economy. The newspaper article explained that in 1970s the amount of foreign aid was 1.7 US billion and it reached to 17.9 US billion in 1980. Further, foreign aid climbed to 68.5 US billion and 1812.2 US billion in 1990s and 2000s respectively. The article claimed that foreign aid has influential impacts both on economic growth and development in Nepal.

Karkee and Comfort (2016) discussed the role of foreign aid in the development of Nepalese economy. The paper explained that inflow of foreign aid was continuously increasing in Nepal and it was channelled to development activities. Even though it was utilized in development activities, the economy was underdeveloped. The reason behind of being under developed was explained due to lack of aid rather than aid efficiency. The paper concluded that there is need of more aid for growth and development.

MoF (2017) reported that Nepal has been receiving external resources for the last six decades and aid continues to play an important role in our socio-economic

development. International finance among the public finance plays a key role in socioeconomic development. Foreign direct investment, remittance and official development assistance (ODA) fall under international finance. International economic cooperation is mobilized in the form of development finance. In the past, major source of development expenditure use to be foreign aid, which currently occupies nearly 20 percent of the national budget. The share of foreign grants and debts is likely to grow in upcoming years due to necessity for post-earthquake reconstruction and rehabilitation works. In this respect, foreign aid has been instrumental in meeting the resource gap between government collections and expenditures. Currently, Foreign aid commitment totals NRs. 212.04 billion including foreign loan and foreign grants in the first eight months of the FY 2016/17. Such shares were 39.6 percent and 60.4 percent respectively during the corresponding period of the previous fiscal year. Although aid to Nepal has steadily increased over the past decade, aid dependency (i.e., proportion of aid to the total budget) has slowly decreased.

Tamang (2018) set the objectives of exploring trend and structure of foreign aid. Tamang analysed trend and structure foreign aid as well as foreign aid of Nepal since FY 1974/75 to 2013/14. He has used descriptive and inferential statistical tool with secondary data in the study. The author made these findings or conclusions: (a) Foreign aid seems to have occupied a large chunk of Nepal's government expenditure, especially of development expenditure (b). The study showed that PCRFA and PCR GDP are co-integrated, indicating, indicating the long-run relationship between them, and that these seems to be unidirectional causality from PCRFA to PCR GDP.

2.4 Research Gap

Foreign aid plays an important role for the development of developing economic like Nepal. Because of slow pace of GDP growth, regional disparity and poverty there is huge saving investment gap in Nepal. To fulfil this gap foreign aid plays prominent role. It is help full in accelerating the rate of economic growth. Foreign aid does not provide resource for annul budget but it helps to bridge the gap between saving and investment. Like other countries Nepal is also a vicious circle of poverty. In Nepal the present level of capital formation is very low and increase in saving is not possible Because of high consumption, on the other hand scope of public borrowing is also very low because of low per capita income. Because of its inflationary effects, deficit

financing is desirable. So, the problem of resource gap can be filled up with the help of foreign aid with special reference to Indian aid which the county will fulfil the goal of development sectors of Nepal.

The given review of literature shows a vital importance of the Indian aid on economic growth of least-developing countries like Nepal. But, there is a very few studies were taken in the case of Nepal with the composition and contribution of Indian aid on economic growth of Nepal. Hence, the study tries to fulfil the vacuum of literature on the given issues of the study.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This study is based on descriptive research design. The study is designed to analyse the contribution of foreign aid with special reference to India. The study used both descriptive and analytical methods of data analysis. It also examines the role of foreign aid on gross domestic product (GDP) of Nepal through Indian aid of different sectors.

3.2 Nature and Sources of Data

The nature of the study is descriptive as well as analytical. The study is primarily based on the secondary sources of data. The study uses various journals, working papers, study reports, peer reviewed articles, books, published by various national and international institutions and scholars along with unpublished theses and dissertations. Data have been collected from Ministry of Finance (MoF), Central Bureau of Statistics (CBS), Indian Embassy to Nepal, National Planning Commission (NPC), Nepal Rastra Bank (NRB), various articles, and newspapers.

3.3 Tools of Data Collection

Tools of data collection are tables, percent, ratio, and other simple statistical tools like charts, graphs, average.

3.4 Data Processing

In the context of data processing, the secondary data were collected from various sources, classified, edited, organized, coded, and calculated in accordance with the nature of study and nature of available data and information. Tabulated and interpreted data have been analysed to meet the stated objectives of the research study.

3.5 Tools and Techniques of Data Analysis

Collected data are presented according to the need of the study. The available data from various sources were collected and classified and then tabulated to meet the need of the study. The data are analysed both quantitatively and qualitatively.

CHAPTER IV

FOREIGN AID IN NEPAL

4.1 Introduction

Foreign aid is considered a key factor in enhancing economic and social development of Nepal. After the overthrow of Rana Regime in 1951, Nepal entered into the international community and started to get foreign assistance. Foreign aid officially started from January 23, 1951, after the Second World War, with an agreement on ‘Point Four Program’ with the US. The remarkable increase in foreign aid had been noticed from the time when Nepal entered Colombo plan in 1952 and with India 1953. Then the flow of it started to come from the other countries like China, UK, Japan, Finland, Denmark, Norway, Australia, etc. The year 1969 was termed as a good year for Nepal since it started to get loan from the World Bank and ADB at the subsidized rate, because of which it was also known as the golden year in the context of foreign aids. India started his assistance in 1951 AD (<https://www.nrb.org.np>).

From its modest appearance in the early 1950s, foreign aid has grown to form an integral part of the development process in Nepal, and it is amazing to note how remarkable this transformation has been. For the first five years, from 1951-1956, Nepal received NRs. 95 million in aid, all in the form of grants. The United States became the first country to provide foreign assistance to Nepal on January 23, 1951 valued at NRs. 22,000 through point four agreement, India was only the country to follow suit almost immediately in 1951 by providing assistance on training in statistics to prepare the development planning for Nepal (<https://www.cbs.gov.np>).

In 1952 Nepal took part in Colombo plan which gave her sound progress in the field of receiving technical assistance. Later, Colombo plan aid gradually involved in to support for capital projects. United Nation assistance to Nepal was first authorized on 19 February 1953 in an agreement under the consisting of funds for small demonstration projects, scholarship, experts and aid for administration of pilot projects. Nepal had also received economic assistance from both of its neighbours. In 1956 China began adding to Nepal. With that aid Nepal became the first recipient country of Chinese aid out of other South Asian countries. China has started his first aid in Nepal through road project. Nepalese Prime minister Tanka Parsad Acharya visited China in 1956 and it provided aid 21.6 million dollar for the First Five Year

Plan (1956/57-1961/62) of Nepal. Another socialist donor Soviet Union joins the group in April 1959. Japan had been assisting to Nepal in different fields since 1954 but only after 1975 assistance in the form of grants and loan assistance after 1982/83 has been receiving in regular manner. The strategic location of Nepal between India and China and its non-aligned relation with all countries including two super powers, helped increase in volume of aid after 1956. The role of strategic location evidenced from the fact that upto FY 1979/80, the US, India and China together provided more than three-fourth of the total bilateral grants (<https://www.indianembassy.org.np>).

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

Nepal is a land locked country, situated in the South Asia. Geographically its shape is rectangular and an area of 147,181 sq.km. Nepal lies sandwiched between the two domineering land masses and national powers that are India and China. Administratively, Nepal is divided into 77 districts, 7 States, and 753 local governments.

Nepal is one of the less developed countries ranked as one of the poorest country in the world with a per capita income of US dollar 654. In Nepal poverty is estimated to be about 25.2 percent. In 2014 Nepal was ranked 145 in the human development index according to reports lunched by United Nations. There is greater poverty in rural areas than urban areas.

4.2 Need of Foreign Aid in Nepal

Nepal's development efforts have been largely driven by foreign aid. Because of slow pace of GDP growth, regional disparity and poverty there is huge saving investment gap in Nepal. To fulfil this gap foreign aid plays prominent role. It is helpful in accelerating the rate of economic growth. Foreign aid doesn't provide resource for annual budget but it helps to bridge the gap between saving and investment like other countries, Nepal is also in a vicious circle of poverty. In Nepal the present level of capital formation is very low and increase in saving is not possible because of high

consumption, on the other hand scope of public borrowing is also very low because of low percapita income. Because of its inflationary effects deficit financing is desirable. So the problem of resource gap can be filled up with the help of foreign aid and the country can get the desired goal.

4.3 Trend of Foreign Aid in Nepal

Nepal is becoming an aid dependent country. It is because of its limited resources to invest in socio-economic development. Infrastructure projects require huge investments that the government is incapable of. All development activities in Nepal, small or big, have largely been influenced by foreign aid. Studying about the historical background of foreign aid in Nepal, the point four –program agreement signed between Nepal and US on January 23, 1951 heralded Nepal's first experience of foreign assistance. At that time US government provided NRs. 22000 under President Harry Truman. Then, India began its assistance on October at the same year. It was followed by China in 1956 and USSR in 1958. However, the trend of foreign assistance inflow began to increase continuously after 1956. Until FY 1963/64, most of foreign assistance had been provided in the form of grants. Afterwards, the trend of foreign aid changed with the inclusion of inflow of loan amount. Until FY 1982/83 the grant amount has exceeded the loan amount, then loan amount has been present gradually up to FY 2001/02 and then grant amount exceeds loan amount upto now. we can sum up the foreign assistance like equipment, financial, technical, machinery and experts in two board titles grant and loan (<https://www.npc.org.np>).

4.4 Sources of Foreign Aid

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

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

international agencies like World Bank(WB).Asian Development Bank (ADB),International monetary Fund(IMF),and the UN agencies like UNDP,FAO,EU,WHO,UNESCO,UNFPA,UNHCR,UNV, etc. There exists one more source of foreign aid namely international non-government organization as CARE, UMN,OXFAM,HELVETAS, and international Nepal Fellowship (<https://www.wikipedia.org/wiki/foreign-aid-to--nepal>).

The top five multilateral agencies to provide aid to Nepal are mainly the World Bank, Asian Development Bank, European Union, UN Agencies and Global Fund (GFATM). These agencies always feel privileged to give aid to Nepal but they also put strict conditions for effective utilisation to enhance economic activities and support economic growth.

4.5 Contribution of Foreign Aid in Nepalese Plan Period

All development activities in Nepal, small or big, have largely been influenced by foreign aid. Aid in the form of grants played an important role in the construction of infrastructure projects and in the establishment of some of the key basic industries in the beginning. But foreign assistance in the form of grants has been changing over time. Grant at large is being replaced by loans as bilateral donors are gradually changing into multilateral. In this context this article aims to investigate the causal relationship between GDP and foreign aid in the short and long-run.

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

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

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

Table 4.1
Foreign Aid and Nepalese Plan Period

(NRs. in millions)

Plan	Plan Period	Total Capital Expenditure	Total Amount of Foreign Aid	Percentage of Foreign Aid
1 st Plan	1956-61	382.9	382.9	100
2 nd Plan	1962-65	614.7	478.5	77.8
3 rd Plan	1965-70	1639.1	919.81	56.1
4 th Plan	1970-75	3356.9	1509.1	45.0
5 th Plan	1975-80	8870.6	4264.1	48.1
6 th Plan	1980-85	21750.0	13260.0	61.0
7 th Plan	1985-90	48345.4	23978.5	49.6
8 th Plan	1990-97	111919.8	74335.0	65.5
9 th Plan	1997-02	215154.4	11154.0	51.8
10 th Plan	2002-07	234030.0	134620.0	57.5
11 th Plan	2007-10	140660.0	3865.6	27.51
12 th Plan	2010/13	364,340.0	249,280.0	68.42
13 th Plan	2013/16	335,170.0	341,590.0	98.12

Sources: Various Plan Documents, NPC, GoN.

4.6 Bilateral and Multilateral Aid to Nepal

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

Nepal receives foreign aid Capital and technical aid from bilateral and multilateral basis. There are so many sources of foreign aid. Seven multilateral agencies (such as

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

The table 4.2 shows the assistance in the form of bilateral and multilateral aid basis to Nepal. Table 4.2 in FY 1985/86, the share of bilateral aid was NRs. 1481.1 million while the share of multilateral aid of the same year was NRs. 2010.4 million which is slightly higher, then bilateral in FY 2000/01, the share of multilateral aid is about 5 times greater than the share of bilateral aid. The trend of aid shows that multilateral aid has been dominant over bilateral aid. However, in the percentage of share of aid, the ratio has been varying, except, in FY 2002/03 and FY 2006/07 the percentage of bilateral aid lesser than multilateral aid instead of the increasing number of individually supporting national plans.

Table 4.2
Components of Foreign Aid (Grant/Loan)

(NRs. in millions)

Fiscal Year	Grant	Loan	Total Foreign Aid
1995/96	4,825.1	9,463.9	14,289.0
1996/97	5,988.3	9,043.6	15,031.9
1997/98	5,408.0	11,054.5	16,457.1
1998/99	4,336.6	11,852.4	16,189.0
1999/00	5,711.7	11,852.4	16,189.0
2000/01	6,753.4	12,044.0	18,797.4
2001/02	6,686.2	7,698.6	14,384.8
2002/03	11,339.1	4,546.4	15,885.5
2003/04	11,283.4	7,629.0	18,912.4
2004/05	14,391.2	9,266.1	23,657.3
2005/06	13,827.5	8,214.3	22,041.8
2006/07	15,800.8	10,053.5	25,854.4
2007/08	20,320.7	8,979.90	29,300.6
2008/09	26,382.80	9,968.90	36,351.7
2009/10	38,546.00	11,223.4	49,769.0
2010/11	45,922.2	12,075.6	57,997.80
2011/12	40,810.3	11,083.1	51,893.40
2012/13	35,229.8	11,969.4	47,199.2
2013/14	42,205.8	17,998.8	60,204.6
2014/15	38,291.4	25,615.6	63,907.0
2015/16	395,440.0	33,228.3	72,772.3
2016/17	32,032.3	59,033.2	91,065.5
2017/18	18,692.9	33,614.6	52,307.5

Source: Various Issues of Economic Survey from 1995/1996 to 2017/18, MoF, GoN.

The government of Nepal has taken the total foreign aid (Loan and Grant) NRs. 52,307.5 in FY 2017/18 as bilateral and multilateral aid.

4.7 Disbursement by Type of Assistance for Nepal

Table 4.3

Disbursement by Type of Assistance for Nepal FY 2014/15

(Amount in US D)

Donor Group	Disbursements			
	Grant	Loan	Total Foreign Aid	Total
Asian Development Bank	52,025,129	89,952,355	5,916,921	147,894,405
Australia	13,800,232	NA	14,312,323	28,112,555
China	28,755,527	9,193,224	NA	37,948,751
Denmark	21,252,585	NA	701,236	21,953,820
European Union	30,388,697	NA	989,667	31,378,363
Finland	15,283,037	NA	999,440	16,282,477
GAVI	9,242,811	NA	NA	9,242,811
Germany	3,863,063	NA	5,834,820	9,697,882
GFATM	22,059,056	NA	NA	22,059,056
IFAD	552,326	1,360,696	NA	1,913,022
Japan	19,824,863	10,935,754	9,107,306	39,867,923
KFAED	NA	NA	95,246	95,246
Korea	NA	NA	16,683,337	16,683,337
Netherlands	167,216	NA	971,089	1,138,305
Nordic Development Fund	808,726	393,774	NA	1,202,500
Norway	25,813,736	NA	4,984,022	30,797,758
OFID	NA	15,124,926	NA	15,124,926
SAARC Development Fund	963503	NA	NA	963,503
Saudi Fund	NA	900,429	NA	900,429
Switzerland	30,906,634	NA	1,560,771	32,467,406
United Kingdom	140,882,823	NA	27,191,021	168,073,845
UN Country Team	9,002,645	NA	35,233,701	44,236,346
USAID	72,127,725	NA	60,242,492	132,370,217
World Bank Group	70,739,664	117,383,303	NA	188,122,967
Total	568,459,999	245,244,461	184,823,392	998,527,851

Note: NA denotes not available.

Source: Development Cooperation Report, (2017/18), MoF/GoN, December 2018,

Table 4.4**Disbursement by Type of Assistance for Nepal FY 2015/16****(Amount in US D)**

Donor Group	Disbursements			
	Grant	Loan	Total Foreign Aid	Total
Asian Development Bank	53,174,477	158,491,618	6,019,610	217685705
Australia	8,246,614	NA	12,987,131	21,233,745
China	27,129,691	8,135,023	100,000	35,364,713
Denmark	1,044,303	NA	1,656,656	2,700,959
European Union	28,040,493	NA	1,448,016	29,488,509
Finland	6,276,793	NA	327,869	6,604,662
GAVI	21,87,991	NA	NA	2,187,991
Germany	6,646,850	NA	NA	6,646,850
GFATM	9,106,038	NA	NA	9,106,038
IFAD	3,14,486	5,512,393	NA	9,226,879
Japan	21,284,383	4,928,883	19,699,997	45,913,262
KFAED	NA	541,771	NA	541,771
Korea	3,902,183	NA	7,549,696	11,451,879
Netherlands	139,449	NA	543,661	683,109
Norway	35,237,761	NA	297,341	35,535,102
SAARC Development Fund	223,685	NA	NA	223,685
Saudi Arabia	NA	1,035,317	NA	1,035,317
Switzerland	33,547,198	NA	3,434,738	36,981,936
United Kingdom	51,665,716	NA	37,812,388	89,478,104
UN Country Team	73,760,038	NA	39,816,888	113,576,926
USAID	84,513,551	NA	34,419,781	118,933,332
World Bank Group	58,602,504	185,090,000	NA	243,692,504
Total	508444204	363735005	166113771	1038292979

Note: NA denotes not available.

Source: Development Cooperation Report, (2017/18), MoF/GoN, December 2018,

Table 4.5
Disbursement by Type of Assistance for Nepal FY 2016/17

(Amount in US D)

Donor Group	Disbursements			
	Grant	Loan	Total Foreign Aid	Total
Asian Development Bank	55561955	191721883	6614253	253898091
Australia	8004341	NA	10555510	18559851
China	41244254	NA	NA	41244254
Denmark	3843574	NA	716925	4560499
European Union	80233487	NA	3651732	83885219
Finland	5385317	NA	4312815	9698132
GAVI	244614	NA	NA	244614
Germany	2200132	NA	22858188	25258320
GFATM	1720536	NA	NA	1720536
IFAD	5400768	6149766	9454	11559988
Japan	15234052	43885627	18533153	77652833
KFAED	NA	649148	NA	649148
Korea	1509828	NA	6128700	7638528
Nordic Development Fund	739865	NA	NA	739865
Norway	17757231	NA	2561684	20318915
OFID	NA	11377029	NA	11377029
SAARC Development Fund	143500	NA	NA	143500
Saudi Fund	NA	2382612	NA	2382612
Switzerland	29234478	NA	5706952	34941429
United Kingdom	78880418	NA	49432746	128313164
UN Country Team	47178464	NA	73551493	120729957
USAID	77162568	NA	56894030	134056598
World Bank Group	59590942	284545825	1831590	345968357
Total	8472326	276405011	1831590	286708928

Note: NA denotes not available.

Source: Development Cooperation Report, (2017/18), MoF/GoN, December 2018,

Table 4.6**Disbursement by Type of Assistance for Nepal FY 2017/18****(Amount in US D)**

Donor Group	Disbursements			
	Grant	Loan	Total Foreign Aid	Total
Asian Development Bank	29,683,518	258,178,939	3,831,278	291,693,735
Australia	13,884,873	NA	6,999,803	20,884,676
China	36,388,043	18,528,896	3,810,139	58,727,078
European Union	113,239,736	NA	2,938,797	11,6178,534
Finland	9,800,470	NA	2,978,650	12,779,120
GAVI	1,173,541	NA	NA	1,173,541
Germany	9,700,109	NA	19,202,286	28,902,395
GFATM	11,867,980	NA	NA	11,867,980
IFAD	6,819,495	8,999,052	NA	15,818,547
Japan	21,365,825	76,196,494	8,644,720	106,207,039
KFAED	NA	3,274,490	NA	3,274,490
Korea	3,412,412	NA	3,462,000	6,874,412
Norway	20,978,708	NA	3,005,305	23,984,012
SDF	68,843	NA	NA	68,843
Saudi Fund	NA	331,559	NA	331,559
Switzerland	21,968,916	NA	4,443,819	26,412,734
United Kingdom	59,159,773	NA	64,710,507	123,870,280
UN Country Team	32,102,884	NA	33,519,818	65,622,702
USAID	44,448,439	NA	73,383,291	117,831,730
World Bank Group	94,708,131	438,637,942	169,155	533,515,228
Total	530,771,696	804,147,372	231,099,567	1,566,018,636

Note: NA denotes not available.

Source: Development Cooperation Report, (2017/18), MoF/GoN, December 2018.

4.8 Sectoral Allocation of Foreign Aid

The government of Nepal considers agriculture as a major sector of the national economy. The donor countries sometimes play the dominant role for sectoral composition of foreign aid. The major sectors of foreign aid are agriculture, infrastructure development and education sectors. The sectoral priority attached by the Nepalese government in each successive development plan shows that more than 30 percent of the resources estimated were invested in transport, communication and power generation projects. In addition, virtually most of these projects were implemented through the financial and technical assistance from donor agencies. The

largest share of foreign aid has been allocated to develop transport, power and communication in early plans period.

Different sector of Nepalese economy benefited from foreign aid either in the form of technical assistance or in financial term. Figure 4.1 shows that power and communication sectors are major receipts of foreign aid. There has been continuous allocation of aid to these sectors. On an average basis, about 40 percent of foreign aid has been directed towards power and communication sector from FY 1985/86 to 2006/07. Social service sector, agricultural is next in priority. Social service got much priority in 1990s where allocation of aid in agriculture sector decreased in the same period. Industry and commerce have received very low amount (5.23%) of foreign aid.

Figure 4.1

Sector-wise Distribution of Foreign Aid (2017/18)

Primary Sector	Actual disbursement in US\$ (in million)	% of disbursement
Economic Reform	210.7	13
Education	202.2	12.5
Urban Development	148.7	9.2
Health	145.2	9.0
Local Development	135.8	8.4

Source: Ministry of Finance, FY 2017/2018, Government of Nepal.

Figure 4.1 shows the concentration of foreign aid in Nepalese economy. Economic Reform sectors are key sector of Nepalese economy to push development efforts and attracted about 13 percent of aid from total aid that Nepal received. The education sector succeeded in attracting large amount of aid in as 12.5 percent.

4.9 Commitment and Disbursement of Foreign Aid

Historically most of the developing countries receiving foreign aid have been unable to utilize the total amount of aid they receive. Most of the developing countries have

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

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

The total committed aid in the FY 1985/86 was NRs. 9,504.2 million and the disbursed aid was NRs. 3,491.5 million. Which was greater than disbursed aid .in FY 1990/91 the total committed aid was NRs. 5,665.4 million and the disbursed aid was NRs. 5,990.0 million, which was greater than committed aid. The percentage of disbursed aid was NRs 105.7 percent of the committed aid in the FY 1990/91. In FY 2005/06 the total disbursement aid was NRs. 22,201.5 million and the committed aid was NRs. 20,924.2 million, which was greater than the committed aid. Except in the FY 1990/91 and FY 2005/06 and in order every fiscal year the committed aid is higher than the disburse aid.

The disbursed aid was NRs. 3,491.5 million in the FY 1985/86 whereas it was NRs. 25,854.3 million in the FY 2006/07. The total disbursed aid from 1985/86 upto 2006/07 was NRs. 288,894.50 million, which is 64.46 percent of the total committed aid. The total difference in between committed and disbursed aid was NRs. 189,902.70 million.

4.10 Interest of Donors in Nepal

Nepal, like other developing countries, heavily depends on foreign assistance. For example, it is reported in the fiscal year 2013-2014 that Nepal received \$ 1,036,648,340 billion in foreign aid (DCR, 2015, p.1) Foreign aid to Nepal is not a

recent fact: “The flow of foreign aid in Nepal began in the 1950s” (Devkota, 2011, p. 41) Foreign assistance, though, it is urged, is not something that is given for free. Donors have a variety of expected interests, when they give aid out. In the 1950s, the world was in the early aftermath of the World War II. Powerful western countries were trying to restore and conserve their international political and economic interests across the world. Moreover, during the same period, the world was divided into two blocks following the Cold War between the two major superpowers of the United States (US), and the former Soviet Union (SU). At the regional level, there was an increasing rivalry between China and India wanting to extend their influence in the region. All these circumstances can explain that foreign aid to Nepal was in the interests of donors. In the case of neighbouring countries such as India and China, certain road projects having strategic importance were proposed by them and accepted by Nepal. India has always considered Nepal as a key country for its security, economic and strategic interests. The government of India, nevertheless, does not admit its aid program to Nepal as an instrument of influence to maintain her interests in Nepal! It is rather an assistance program, which is primarily based on friendship between the two countries

CHAPTER V

INDIAN AID TO NEPAL

5.1 Introduction

India has been one of the major suppliers of aid to Nepal. The first category of aid supplied by India was in the field of transport development. The Tribhuvan Highway, the first high way of the county, was built in 1954 with the Indian assistance. The India assistance covered almost every sector of the economy such as transport, civil aviation, irrigation, hydropower, and drinking water, and health, development of industrial estates, communication, education, agriculture and livestock.

Economic relation between Nepal and India dates back to Nepal's trade with India before the 19th century. 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).The programme of India-Nepal economic cooperation was launched in 1951. The objective of this programme was and remains to supplement the efforts of the Government of Nepal in the national development of the country. India's assistance programme in Nepal is guided by the vision that alongside progress in political process in Nepal, it is equally important to ensure that economic deliverables, particularly in the areas of education, health and infrastructure, must reach the people without any pre-conditions in a smooth, quick and unencumbered manner. Towards this end, Government of India is providing technical and financial assistance for multi-sectoral development of Nepal.

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

The first indication that India was willing to assist Nepal in the field of economic sphere was given by Indian Prime Minister Nehru during his visit to Kathmandu in July 1951. He had said, 'if you seek our help in say, technical or other spheres, we do our utmost to be useful to you. But we never want to interfere' (Dharamdasani, 1985).

India and Nepal experience a unique economic interdependence 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 (Pyakural, 2005).

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

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

In the early years of Indian aid, construction of transportation link and telecommunication were given key priority for infrastructure development of Nepal by which economic development would be facilitated. During the 1960s India 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 begun with the establishment of TU in 1953.

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

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

Indian Assistance in the socio economic development of Nepal can be viewed from the three aspect based on its execution.

) Projected Executed by GoN

The development projects that the government of Nepal is the only operating agency are totally or partially supported by the India government by the Indian government for example cottage and small scale industries.

) Directly Executed Projects

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

) Jointly Executed Projects

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

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

) About India-Nepal Relations

Overview

1. As close neighbours, India and Nepal share a unique relationship of friendship and cooperation characterized by open borders and deep-rooted people-to-people contacts of kinship and culture. There has been a long tradition of free movement of people across the borders. Nepal has an area of 147,181 sq.

kms.and a population of 29 million. It shares a border of over 1850 kms in the east, south and west with five Indian States – Sikkim, West Bengal, Bihar, Uttar Pradesh and Uttarakhand – and in the north with the Tibet Autonomous Region of the People's Republic of China. The India-Nepal Treaty of Peace and Friendship of 1950 forms the bedrock of the special relations that exist between India and Nepal. Under the provisions of this Treaty, the Nepalese citizens have enjoyed unparalleled advantages in India, availing facilities and opportunities at par with Indian citizens. Nearly 6 million Nepali citizens live and work in India.

2. There are regular exchanges of high level visits and interactions between India and Nepal. Nepalese Prime Minister Shri Sushil Koirala visited India to attend the swearing-in ceremony of Prime Minister Shri Narendra Modi on 26 May 2014. In 2014, Prime Minister Shri Narendra Modi visited Nepal twice – in August for a bilateral visit and in November for the SAARC Summit – during which several bilateral agreements were signed. India and Nepal have several bilateral institutional dialogue mechanisms, including the India-Nepal Joint Commission co-chaired by External Affairs Minister of India and Foreign Minister of Nepal.
3. When a devastating 7.8 magnitude earthquake struck Nepal on 25 April 2015 (followed by a powerful aftershock of 7.4 magnitude on 12 May 2015), the Government of India swiftly dispatched National Disaster Response Force (NDRF) teams and special aircrafts with rescue and relief materials to Nepal. India's assistance, which reached Nepal within six hours of the earthquake, included 16 NDRF teams, 39 IAF aircraft sorties with 571 tons of relief material including rescue equipment, medical supplies, food, water, tents, blankets and tarpaulin. Medical teams from India were deployed in various parts of Nepal. India helped in restoring 3 power sub-stations in Kathmandu valley. The total Indian relief assistance to Nepal amounted to approx. US\$ 67 million. At an International Donors' Conference organized by the Government of Nepal in Kathmandu on 25 June 2015 towards post-earthquake reconstruction, External Affairs Minister Smt. Sushma Swaraj announced Indian assistance of US\$ 1 billion to Nepal, one-fourth of which would be as grant.

5.2 Objectives 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 objectives. Indian aid are normally strategic, broadly political, basically 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 government by following objectives(Khadka, 2004):

- i. Security or strategic,
- ii. Sphere of influence or restriction of superpower influence and
- ii. Identify and political image building.

Although India has no separate aid policy for Nepal, evidences shows that it is sector specific and which is normally governed by Nepal's priority (Pyakuryal, 2005).

The major objectives of Indian aid towards Nepal are as follows:

1. Politico Ideological Objective

India geared her aid to encourage political stability in the kingdom. 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 fulfil the rising aspiration of the people and thus bring political stability in the economy.

2. Strategic Objective

Strategic objective is another important aspect of Indian aid to 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 –dominant position in Nepal.

3. Economic Objective

Economic objective is another important aspect of Indian aid to Nepal. The main objective of Indian aid is to expand and economic, scientific and technological assistance with its neighbouring 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 river system originates in Nepal and Nepal and without Nepalese co-operation 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 ad 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 FY 2004/05 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 country (Upreti, 1998).

5.3 Total Magnitude of Indian Aid

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

Table 5.1**Number of Projects under Indian Aid**

No. of Projects	Small	Large &Intermediate	Total
31.3.2004	16	10	26
31.3.2005	56	22	78
31.3.2006	100	24	124
31.3.2007	174	26	200
31.3.2008	247	28	275
31.3.2009	294	30	324
31.3.2010	340	30	370
31.3.2011	366	35	401
31.3.2012	396	35	431
31.3.2013	425	35	460
31.3.2014	450	35	485
31.10.2014	462	35	497
30.11.2014	466	36	502
31.05.2015	474	36	510

Source: Galiani, 2016/17.

Number of projects under Indian aid has been conducted small, large and intermediate 474, 36 respectively up to FY 2016/17.

5.4 Disbursement by Type of Assistance**Table 5.2****Indian Assistance to Nepal****(Amount in US D)**

Fiscal Year	Grant	Loan	Indian Assistance
2011/12	442,330	1,143,450	1,585,780
2012/13	496,251	1,394,671	1,890,922
2013/14	512,240	1,350,912	1,863,152
2014/15	552,326	1,360,696	1,913,022
2015/16	24,750,261	11,017,394	35,767,655
2016/17	51,118,616	8,140,814	59,259,429
2017/18	54,562,275	9,199,825	63,762,100

Source: Development Cooperation Report, FY 2017/18, MoF, GoN.

5.5 Sector-wise Allocation of Indian Aid

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

Table 5.3

Sector-wise Allocation of Indian Aid to Nepal (FY 2011/12 to 2017/18)

Sectors	Indian Aid	% of Total Aid
Transportation	2,217.6	32.3
Education and Health	174.43	25.4
Communication	1,427.0	20.9
Irrigation, Power and Water supply	661.7	9.6
Industry	56.4	0.9
Community	35.7	0.5
Agriculture and Forestry	12.6	0.2
Miscellaneous	703.9	10.2
Total	5,289.33	100

Source: Development Cooperation Report, FY 2017/18, MoF, GoN.

Sector wise allocation of Indian aid to Nepal has conducted transportation, 2217.6, education and health 174.43, communication (1427.0) and miscellaneous 703.9 respectively.

5.6 Areas of Indian Assistance to Nepal

Globally, in comparison to other countries, Nepal is the least developed 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 substantial foundation and large amount of financial and capital 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 analyse the history of foreign aid in Nepal, India occupies the first position among the bilateral sources upto 1980s. In spite of India's developing countries. 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.

The Indian aid disbursed in different areas and identified the areas that have been given priority are as follows:

5.6.1 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 cannot achieve desired level of benefit from industry and commerce. The total road length at the end of FY 2004/05 was only 17279 km; out of which black topped road is only 4911 km, gravelled road is 4707 km and fair weather road is 7661 km. According to the data of Indian Embassy, as on March 31, 2008.

5.6.1.1 Roads

) Tribhuvan Rajpath

Tribhuvan Rajpath connects Bhainse, Makwanpur with Thankot the main pass to Kathmandu valley and runs through the hilly terrain, rising to a height of 8200ft 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 Raxual on Nepal India border. This highway is of great importance for promoting the social and regional contact 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 administration link between the capital and many others parts of the country for the first time.

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

The 1400 km long road, Mahendra Rajmarg joins Mechi in the east and Mahakali in the west and is the highway with the view to commence the process of economic development in Nepal and 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 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 bridge in Kohalpur – Mahakali section.

) **Siddhartha Rajmarg**

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

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

In January 1985, contemporary HMG/N, India and US agreed to develop infrastructure facilities in Nepal with a view to facilities 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 wellbeing 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 5.4

Road Constructed by RTO

Roads	Length in Miles
Kathmandu-Trishuli	43
Raxaul-Bhainse	46
Nepalgunj-Surkhet	71
Krishnanagar-Piuthan	80
Dharan-Dhankutta	93
Kathmandu-Janakpur	130
Sunauli-Pokhara	131
Dhangadhi-Dadeldhura	150

Source: Partnership in Economic Developments, 1960.

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 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 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 (1951 AD).

) **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 facilities the growth of industrial activates in this estate. It is a eight-lane ring-road circling around the cities of Kathmandu and Lalitpur. The length of ring-road is 27 km (thehimalayantimes.com).

) **Janakpur Town Road**

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

) Roads and Bridges

Government of India has constructed 807 kilometres out of the total road length of 1,024 Kilometres of the East–West Highway from Mahendranagar to Mechi (Mahendra Raj Marg) which istoday alife line of Nepal. Twenty two bridges were constructed by Government of India on Kohalpur-Mahakali section of the East West Highway. These were handed over to the Government of Nepal in 2001. Besides this, in recent times, 8 village andurbanroads and 1 bridge have been constructed with GOI assistance of NRs. 12.83crores under Small Development Projects Programme toprovide easy access to the people of remote villages. Presently work is ongoing for construction of 8 roads and 3 bridges at a cost of NRs. 20.43 crores. GoI is also funding the upgradation of road from Dakshantikali (Kathmandu) to Kulekhani (Makwanpur) at a cost approximately NRs. 9.37crores and an additional fund of NRs.3.11 crores has been sanctioned for additional work relating to drainage, land sliding, slop stabilization etc.

) Terai Roads Projects

During the visit of the External Affairs Minister of India to Nepal in January 2010, both the Governments signed a Memorandum of Understanding for the development and construction of roads in the Terai area of Nepal. Phase-I of the project covers development of 19 link/postal roads in Terai districts. These 19 roads with a total length of 605 km being constructed under phase-I with Indian assistance of approximately NRs.700 crores will not only provide easy access to about 88 lakh people but will also help in promotion of trade and industry which will eventually contribute to overall economic development of Nepal. Phase-I will be followed by Phase-II and will cover about 845 kilometres of roads. Physical work has already commenced on all the Packages of Phase I of the roads.

5.6.1.2 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 NRs. 56.11 lakh to establish the airport at Gauchar in Kathmandu valley under the request of contemporary HMG/N 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 airport at a cost of NRs. 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 NRs 123.83 lakhs.

India has solely constructed the following airports in Nepal.

Table 5.5

Construction of Airports under Indian Aid

Projects	Details	Year of Completion	Cost (ICR in Crore)
Kathmandu	Construction	1951	56.11
Pokhara	Construction	1964	25.76
Biratnagar	Construction	1964	28.36
Bhairawa	Construction	1964	15.52
Janakpur	Construction	1964	19.45
Simara	Construction	1971	3.63

Source: Partnership in Economic Development, 2005

5.6.1.3 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 agree to construct broad gauge railway line in Nepal from Raxsul to the foot of the hills in the North upto Hetauda at a cost of NRs. 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 up graded the narrow gauge rail track of Jankpur to Jaynagar in the total package of NRs. 144 million. India renew the narrow gauge railway track and also provide the diesel engines with eighteen coaches to Janakpur railways, which enhance the commercial and industrial activities in this

region. Similarly, India also fulfil the commitment to link birgunj with raxal with board gauge line. This railway link came in to operation from 16 July 2004. This railway service connects Nepal with the Iceland container deposit (ICD) from which the country can take maximum advantage of the deposits trade potential.

) Strengthening of Cross-border Linkages

Government of India has committed to provide assistance to Government of Nepal for the establishment of Integrated Check-Posts (ICPs) at four major points along the India-Nepal border. These are: Jalpaigudi-Kakarvita-100km, Raxaul(India)-Birgunj(Nepal), Jaynagar-Bijalpura-Bardibas-69km. Saunali (India)-Bhairahawa(Nepal) 16km., Jogbani(India)-Biratnagar(Nepal) 18km. and Nepalgunj Road(India)-Nepalgunj(Nepal) 14km. Both the Governments have decided with mutual consent to start work on the Raxaul-Birgunj and Jogbani-Biratnagar ICPs in the first phase with Indian assistance of NRs. 270 crores for the segment falling in Nepal. The ICPs will have state-of-the-art infrastructure, facilitating integrated customs and immigration for smooth cross-border movement of people and goods. Home Minister of India laid the foundation stone of ICP at Raxaul on April 24, 2010 while the Minister of State for Home Affairs laid the foundation stone of ICP at Jogbani on 24 June 2010. Minister for External Affairs, Govt. of India laid the foundation stone of ICP Birgunj on 22 April 2011.

) Cross-Border Railway Links

Government of India has accepted the request of Government of Nepal for establishment of cross-border railway links at five locations on the Indo-Nepal border. These are (i) Jaynagar in India to Bardibas in Nepal, (ii) Jogbani in India to Biratnagar in Nepal, (iii) Nautanwa in India to Bhairahawa in Nepal, (iv)Rupaidiha in India to Nepalgunj in Nepal, and (v) New Jalpaiguri in India to Kakarbhitta in Nepal. Work on the railway connectivity at Jaynagar-Bardibas involving conversion of 51 km railway line from Jaynagar to Bijalpura into broad-gauge and its 17 km extension upto Bardibas and on the 17.65 km Jogbani – Biratnagar rail link is ongoing in the first phase of the project. Estimated cost of the two rail links proposed to be taken up in the first phase is more than NRs. 802 crores.

5.6.2 Communication

India 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 Nepal became a member of the universal postal union, Indian advisors, subsequently helped to organize the Nepalese postal system both internal and external. Indian and Nepal agreed to establish effective postal services between them in 8th September, 1964. Both governments also committed to exchange postal parcels through the postal administrations of India and Nepal.

In the field of telecommunication, a radio telephone link was established between Kathmandu and New Delhi in 1950. The GOI and contemporary HMG 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 approximate cost of NRs. 4.8 million. The GoI agreed to provide funds to the extent of NRs. 1.92 million for the establishment of a 5 k.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 exchange are the significant achievements from the Indian assistance. The GoI arranged execution of the projects on a turnkey basis through the concerned department of India and handed over to contemporary HMG/N after its completion.

In March 13, 1972 GoI provided assistance of NRs. 83.2 lakhs for the establishment of telephone exchanges at Jankpur, Biratnagar and Jhapa. Another project is the overhead line between Biratnagar and Jogbani providing 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 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.

J **Telecommunications**

Government of India provided an assistance of NRs.74 crores to Nepal for the laying of 904 Kilometres Optical Fibre cable along the East-West Highway and setting up of 80 stations of SDH equipment. The fibre optic cable has formed the backbone of telecommunication network in Nepal and has transformed the lifestyle of Nepali citizens and made connectivity faster and reliable.

5.6.3 Water Resources

5.6.3.1 Power

Hydroelectric 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 hydroelectricity due to high costing to produce, it cannot fulfil 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 has contributed for the completion and the following hydro-electricity projects (Sigdel, 1991).

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 21.00KW. The power is transmitted to Kathmandu valley through 18 mile long high tension transmission lines. Now it is linked to the national grid. 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, 14100KW electricity is generated under this project. Beside this, India has provided assistance for Surajpur power project, Katya power project, rural electrification project in Nuwakot.

c. Koshi Hydroelectricity Project

Koshi hydro electricity project has been started after joint agreement in 1954 of the government of Nepal and India. To provide irrigation facilities, to generate hydro-electricity and to control flood were the main objectives of this projects. The power house on the eastern koshi canal has been designed to produce 20,000 KW of which Nepal's share would be 10,000 KW. The hydropower obtained from this project is distributed mainly among the industries of Biratnagar, which helped to promote the growth as well as agriculture in the Koshi region. Under this project India assisted in constricting infrastructure in Nepal for the irrigation of 93,000 hectars in Sunsari and adjoining distances. The flood control and irrigation project constructed in Nepal's 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 123 km 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 1000KW electricity at Phursekhola. This project has provided substantial portion of electricity for feeding small industries in the Pokhara valley.

5.6.4 Irrigation and Drinking Water

Nepal is an agricultural country and the second rich country in water resources in the world. As in the past years, development projects related to irrigation have been carried out at the government level and also by the Asian Development Bank Limited (ADBL). In FY 2006/07, the irrigation facility managed by the government reached

26484 hectare land and that extended through the ADBL reached 483.5 hectare. In the first eight months of FY 2007/08, 3770 hectare of land has been irrigated under ADBL project, totalizing the irrigated land at 3862 hectare.

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 FY 2003/04. Agricultural is the principle component of Nepalese economy which contributes about 33 percent 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 channelized through the canal and drinking water supply Development Board of government. Notably, 25 schemes DWP have been completed at a cost of NRs. 68.8 lakh and 405 hand pumps all over the country have been already constructed. But according to the book India Nepal Economic cooperation of 2008, till date, nearly 1000 DWPs have been executed in Nepal's village at a cost of NRs. 100 million. Under the Indian assistance the biggest Sundarijal dam 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.

) **Electrification Projects**

GOI is trying to bring smile on the face of those villagers who do not have access to electricity and spend their nights either in darkness or have to burn kerosene lamps for lighting. GOI is providing assistance of NRs.13.77 crores for the electrification of 28 Villages through Nepal Electricity Authority. The project is ongoing. Upgradation of

ThameKhola Small Hydropower Plant in Solukhumbu District has also been undertaken by GoI with a grant assistance of NRs. 2.76 crores.

) Irrigation and Drinking Water Projects

Government of India has launched a scheme of Drinking Water Projects for remote villages where people have to walk long distances to fetch drinking water. GOI has provided assistance of NRs. 13.75 crore for drinking water projects in various districts of Nepal. A project to provide drinking water facility at the base camp of Mt. Everest in district Solukhumbu is being undertaken by Government of India at a cost of NRs. 2.46 crores. A MoU was also signed on 06 December 2014 for providing GoI assistance amounting to NRs.64 lakh for Drinking Water supply project in Mustang District. This will mitigate drinking water problems of Purangaon and Ranipauwa villages of Mustang District. This is also expected to contribute to promotion of tourism as also serve the needs of the local populace.

) Flood Control and River Training

India has been providing assistance to Nepal for strengthening and extension of embankments along Lalbakeya, Bagmati and Kamla rivers for flood protection in Nepal and India. India is also providing grant assistance for river training works along Gagan, Trijuga, Lakhandei, Sunsari, Kaligandaki, Kankai and Banganga rivers in Nepal.

India remains committed to continue working closely with Nepal for further development of cooperation in the field of Water Resources so that these contribute to development and prosperity of the two close and friendly neighbouring countries.

5.6.5 Education and Health

Indian 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 Tibhuvan university complex. Kirtipur, Kathmandu. Under the Colombo plan, Government of India agreed to provide additional assistance for the Development of Tribhuvan University for science equipment's 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 HMG/ N 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 Samit 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 62 school/ multiple campuses in 29 districts covering plain to hilly region, under construction or constructed benefiting 75,000 students (Dharamdasani, 1984).

i. Scholarship Program

India has begun 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, economic 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 for students in Nepal and higher studies 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 scholarship 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 10 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, MSC, MCA, and MBA under silver Jubilee of the coronation of Late His Majesty King Birendra. In addition 5 scholarship 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 for undertake in 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 scholarship were awarded to selected Nepalese students for undergraduate course in Nepal.

vi. Mahatma Gandhi Scholarship Schemes for Pursuing ± 2 Courses

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

Besides this India has permitted interested Nepalese Institutions to set up an Open University affiliated with Indragandhi National Open University (IGNOU) 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 communications in India. After 1996, four quotas have been allocated each year for this purpose.

vii. Education

) School/College/Library Buildings

Education creates building blocks for the process of nation-building and is the first step towards the development of any country. Government of India focuses on the creation on infrastructure to provide good buildings, equipped with furniture, labs, computers etc. for providing proper education. It is also ensured that proper toilets and drinking water facilities is provided for students and staff. Government of India is providing assistance to institutions of all levels, starting from primary schools to

universities in Nepal. The total number of educational school projects undertaken by the Government of India in Nepal as SDPs covering nearly all Districts in the country comes to 273 at a cost of approximately NRs. 336 crores.

) **Manmohan Memorial Polytechnic**

This is the first polytechnic of its kind in Nepal providing technical education in three engineering streams and several vocational courses to make the people of that area self-reliant. The project was inaugurated by the Prime Minister of Nepal on 2nd November 2009. The fully residential institute has a capacity of providing education to almost 500 students at a time. Regular Diploma courses in Electrical, Electronic and Mechanical Engineering commenced from November 6, 2008. GOI is extending a faculty support to the Polytechnic for a period of 5 years. A 6-member Indian faculty team was positioned at MMP for the 05 academic years. Estimated cost of project is NRs. 32 crore.

) **About Education and Scholarship**

Over the years India's contribution to the development of human resources in Nepal has been one of the major aspects of India-Nepal cooperation (Mathema, 2002):

-) Around 3000 scholarships/seats are provided every year by GOI through the Embassy of India, Kathmandu to Nepali nationals for undergoing various courses at the Ph.D/Masters, Bachelors and Plus-two levels in India as well as Nepal.
-) These scholarships/seats are provided for a wide spectrum of studies ranging from engineering, medicine, agriculture, pharmacology, veterinary sciences, computer application, business administration, music and fine arts, etc.
-) Around 220 Scholarships are given for studying BE/B.Tech, B.Sc.(Agri), B. Pharma and B.Sc (Dairy Tech) under Complex Nepal Scholarship.
-) Around 110 scholarships are there to undertake undergraduate courses such as BBA/BCA/ Others including 5 scholarships for undertaking Music/Fine Arts courses, three scholarships for studying Hospitality and Management under General Cultural Scholarship Scheme.
-) 120 Scholarships for undertaking post graduate courses in disciplines like MBA/MCA and other PG level courses, 10 seats for M.Sc (Ag) and 8 seats for Ph.D under Silver Jubilee Scholarship Scheme.

-) With the aim of providing comprehensive and integrated training to in-service candidates of GoN/Public Sector nominees of GoN, 30 seats are allotted to Nepal under the Technical Cooperation Scheme (TCS) of the Colombo Plan and 220 seats for employees of GoN and public/private sector under the Indian Technical and Economic Cooperation (ITEC) Programme.
-) The Golden Jubilee Scholarship Scheme was implemented for the first time in 2002-03 under which 200 scholarships are awarded to Nepalese students studying in MBBS, BE/B.Tech and other undergraduate courses in Nepal.
-) Under the Mahatma Gandhi Scholarship Scheme, initiated in 2003-04, 2000 scholarships are being provided every year to students of Class-XI and XII studying in Nepal.
-) The Dr. Homi J. Bhabha Scheme launched in 2004-05, provides 40 scholarships to Nepalese students for studying ME/M.Tech in India.
-) Under a new scheme, implemented in 2005-06, 33 Nepalese students are provided scholarships for studying in Army Public Schools, in India.
-) Bharat-Nepal Maitri Shiksha Karyakaram is a short-term course for undergraduate and post-graduate students of Nepal. The programme was launched recently to provide opportunities to the young minds to better understand different facets of life in India and India-Nepal relations and progress made by the country in various fields. Calcutta University was chosen to host the first batch of students under this Karyakaram.

) **Health**

Health is one of the core areas of cooperation between India and Nepal. Beginning with the supply of medicines and equipment, the cooperation has gone on to build and develop health infrastructure ranging from major hospitals to numerous health posts in even the farthest corners of the country.

) **Bir Hospital**

Five storied OPD complex of the Bir Hospital at Kathmandu was constructed with the GOI assistance in year 1984-85. It has the capacity to accommodate 2500 out-patients and is equipped with sophisticated facilities. A modern Nuclear Imaging Medicine Centre as well as other equipment for use in the OPD were also provided by

Government of India, making this hospital the premier Health Care Institution in Nepal. Services of two Indian experts were also provided for a period of four years for training of medical specialist in Bir Hospital's Nephrology Department.

) National Trauma Centre at Kathmandu

The Centre was constructed with the assistance of GoI is a super specialty hospital and first of its kind in Nepal. It has been built on the lines of the Trauma Centre of the All India Institute of Medical Sciences in New Delhi for the treatment of trauma patients. The Government of India, on the request of Government of Nepal decided to build this Centre fully equipped with modern medical equipment's to save valuable lives. The MoU for establishment of the Centre was signed between GOI and GoN on 30.07.2003. Cost of the Project is about NRs. 100 Crores. The National Trauma Centre was jointly inaugurated by the Rt. Hon. H.E. Shri Sushil Koirala, Prime Minister of Nepal and H.E. Shri Narendra Modi, the Hon'ble Prime Minister of India on 25 November 2014.

) B.P. Koirala Institute of Health Sciences (BPKIHS)

It is at Dharan is the biggest hospital-cum-medical College outside Kathmandu Valley which was constructed with GOI assistance of NRs. 120 crores. This hospital is providing medical care to patients of not only the Eastern region but also to patients coming from all over Nepal. Government of India is also providing medical faculty support to the medical college by deputing expert faculty from reputed institutes of India who are teaching the students and also helping the hospital in treatment of patients and capacity development in the field of medicine and surgery. The institute is providing MBBS and Post Graduate Degrees in medical sciences thereby helping make Nepal self-reliant in the health sector. The Institute building was formally handed over to GoN in September 1999. On 11 March 2014, Ambassador inaugurated the College Block constructed at the premises of the hospital with the GoI assistance of NRs. 6.86 Crores. Since, 2013-14, India is also providing an annual funding of NRs. 1 crore to BPKIHS for five years towards partially covering hiring of Indian faculty for the introduction of super specialty courses by BPKIHS and or any other programme specifically for promoting ties/exchanges with India. Government of India shall provide financial assistance of NRs.2.50 crores to BPKIHS for procurement of furniture and equipment for the College Block at BKIHS, Dharan.

) Hospitals and Maternity Centers under the SDP Programme

Several health posts, nursing campuses maternity centres, eye hospitals, naturopathy hospitals have been undertaken under our Small Development Project scheme. Infrastructure of 25 hospitals has been taken up in the country with Government of India's assistance of NRs. 38 crores in 18 Districts.

) Gifting of Ambulances/Buses

In order to facilitate the movement of patients from rural, remote and far flung areas to medical centres in Nepal, GoI has gifted 462 ambulances since 1994 across 73 districts in Nepal. These vehicles provide a vital link for transporting patients to medical centres and hospitals. 90 school buses have also been gifted to various health and educational institutions to facilitate the movement of teachers, students, doctors and nurses.

) Goitre Control Programme

Iodine Deficiency Disorders (IDD) is a major micro-nutrient deficiency in Nepal. Starting from 1973, GoI has provided assistance of NRs.43 crores for the programme of control of Goitre and other iodine deficiencies in Nepal. Govt. of India has also agreed to provide NRs. 4.3 crores for Iodine Deficiency Disorders Nepal, the MoU for which has been signed. The programme has been very successful in controlling IDD in the country, which has been one of the health related success stories of GoN.

) Assistance to Nepal Netra Jyoti Sangh (NNJS) for Cataract and Trachoma Surgeries Programme

Blindness due to cataract is a major health problem in Nepal. It is estimated that there are about 3.20 lakh blind people in Nepal, including about 1.29 lakh suffering from blindness due to cataract. About 20,000 people develop cataract in one or both eyes each year. Trachoma is the second leading causes of preventable blindness in Nepal. Out of Nepal's 75 Districts, 29 Districts are affected by Trachoma. With the assistance of Government of India, Nepal Netra Jyoti Sangh (NNJS) organizes approx. 400 Diagnostic Screening & Treatment (DST) camps and surgery camp for Cataract in 52 districts and for TT in 14 Districts in the country every year. These camps provide absolutely free medical service to the patients. More than 102,000 patients have been cured for cataract and about 5,100 patients have been cured of

Trachoma under this programme. Government of India is providing assistance of NRs. 2.10 crores to NNJS during 2014-15 for eye care programme.

J School Eye Health Care Programme

Since 2007 Government of India has been providing assistance to NNJS for holding eye camps in schools in remote areas and providing free of cost 9,000 optical dispensing devices to ‘Vision Impaired’ children and 300 Low vision dispensing device to children in Nepal every year. India has provided a financial assistance of NRs. 2.32 crores to NNJS for its School Eye Health Care Programme. A mobile eye care van costing NRs. 13.52 lakh has also been provided to NNJS for holding eye camps in schools. A Memorandum of Understanding was signed on 17 September 2014 between the Embassy of India, Kathmandu and Nepal Netra Jyoti Sangh (NNJS) for providing Indian Grant Assistance of NRs.64 lakhs to NNJS for School Eye Health Care Programme in various Districts of Nepal.

5.6.6 Industrial Development

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

Nepal is suffered by traditional production system until now, by which its production is low qualified with high cost. Because of these reason, 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 materilals, technical knowledge, capital and human resources 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 althogether 11 industrial estates located at Dharan, Butwal, Birendranagar, Rajbiraj, Balaju, Patan, Hetauda, Nepalgunj, Pokhara, and Bhaktpur with existing 507 industries. Among these industries Government of India

were assisted industrial area of Patan, Pokhara, Rajbiraj, Dharan, 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 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 HMG/N. 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 (Sigdel, 2005).

Similarly, on the basis of the agreement signed on 30 the 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 NRs. 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 works 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 utilized primarily to establish industrial enterprise paper, jute cement and textile industrial and such other industries for which the requisite machinery was available in India. The loan was payable in fifteen equal instalments 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 Indian and third countries. Other large projects to be taken up on a joint venture basis related to magnesite, lead, zinc, 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 productive 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 ware, industrial camphor, power looms for cotton fabrics, electricity goods, woollen 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.

5.6.7 Culture

GOI has also contributed substantially towards the renovation and preservation of the unique cultural heritage of Nepal. Some of the important projects undertaken by GoI in past years include the work of restoration of 18 historical sites in District Lalitpur and restoration of Nepal Bhasha Parishad House in Naradevi, Kathmandu. A Library building for Nepal Academy in Kathmandu District is also under process. The Construction of the Library building will not only further enhance the friendly relation between Nepal and India but will also further help to develop a strong monument of relation in the field of literature. Work has also been initiated for the restoration of two historical ponds i.e. Ganga Sagar and Dhanushsagar at Janakpur as also the restoration and renovation of the Rang Bhumi Maidan in Janakpur. This renovation would provide improved facilities for the thousands of devotees who visit the religious and historical city of Janakpur. Over NRs. 16 crores has been committed by Government of India in this field.

Construction of a Dharamshala for Pashupati Area Development Trust: The project envisages the construction of a Dharamshala for Pashupati Area Development Trust an at estimated amount of NRs.18.25 crores. MoU for the project was signed on in March 2004 and extended upto December 2017. Consultant for the project has been appointed and process for awarding the contract for the construction is going on.

5.6.8 Forestry

Nepal is said to be rich in forest resources. At percent, 21 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 a part of contemporary HMG/N 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 Hetauda 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 HMG/N 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 'forest' is smaller than other field but it should not be the undermined because Nepalese livelihood directly and deeply rooted with these fields.

5.6.9 Horticulture

Because of the presence of diverse climate condition and geographical condition in Nepal there 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 in the field. In 31 the August 1960, India agreed to provide financial assistance of NRs. 40 lakhs for 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 place. India extended assistance, 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 equipment and insecticides.

According to the agreement of March 1973, GoI provided NRs. 25.48 lakh for purchase and distribution of agricultural seeds, fruit seed and plant livestock.

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 fulfils 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.

5.6.10 Veterinary Services

The effective veterinary service plays a great role in an agricultural country like Nepal. By realizing the importance of this sector, contemporary HMG/N decided to organize the veterinary services on scientific system. With the request of contemporary HMG/N, 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.

5.6.11 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 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 on various parts on 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 Indian agreed to provide NRs. 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 Tarauma 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

with in 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, orthopaedic, cardiac ENT and all other major operations. In context of rising number of patients because of exploding population especially in Kathmandu valley, the 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 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 NRs. 160 million was also provided for faculty development which would cover the cost of training of Nepalese candidate in India and deputation of selected Indian teachers to BPKIHS. It has highly modern teaching hospital with 646 beds providing different services.

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

5.6.12 Community 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 NRs. 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 efforts 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 and 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 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 HMG/N were trained in India. India has provided NRs. 8.32 million to various Panchayats for the development works (Singh, 1966).

5.6.13 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 in to field of education, relationship, 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 Nepal also borne by the army headquarters.

In the field of health some medical doctor's 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 village have already been covered under this scheme. In addition to this, a special fund exists to cater to additional welfare requirement 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 developments of archaeology in Nepal.

In 1959 contemporary HMG/N decided to organize archaeology 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 (Higgins, 1968).

Similarly, National archives was 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 services of a Sanskrit Scholar was made available to National Archives in 1963 to facilitate the work of cataloguing 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 NRs. 40 million, valuable books worth NRs 1.2 million were also presented to the Lumbini library (Jha, 1998). The Government of India has provided training facility for the museum personnel. 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 NRs. 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 Udyan, Pasupati 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. 17,946 million. In this way, Indian assistance has covered every aspect of Nepalese economy (Pant, 1974).

CHAPTER VI

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Summary of Findings

India has been a key development partner of Nepal. The latter received strong support and solidarity from the people and Government of India in advancing its home-grown peace process as well as in the process of writing the Constitution through the elected Constituent Assembly. Following the massive earthquakes in Nepal in April and May 2015, India promptly offered helping hands. The Government of India has also been substantially supporting Nepal's reconstruction efforts. Summary of findings are as follows:

-) The Indian cooperation started in 1952 with the construction of an air-strip at Gaucharan. Since then, India has been assisting primarily in the areas of infrastructure development and capacity development of human resources in Nepal. Such assistance received from India has helped supplement the developmental efforts of Nepal. India's economic assistance to Nepal has grown manifold in the past few decades, particularly since the restoration of multiparty democracy in Nepal in 1990.
-) Nepal-India Joint Oversight Mechanism has been constituted co-chaired by the Foreign Secretary of Nepal and the Indian Ambassador to Nepal to review the progress made and resolve issues in the implementation of the projects under India's economic and development cooperation. The Mechanism meets once every two months.
-) Over the years, India's contribution to the development of human resources in Nepal has been one of the major aspects of bilateral cooperation. GOI provides around 3000 scholarships/seats annually to Nepali nationals for various courses at the Ph.D/Masters, Bachelors and plus-two levels in India and in Nepal. These scholarships cover a wide spectrum of subjects including engineering, medicine, agriculture, pharmacology, veterinary sciences, computer application, business administration, music, fine arts etc.

-) Government of India provides substantial financial and technical development assistance to Nepal, which is a broad-based programme focusing on creation of infrastructure at the grass-root level, under which various projects have been implemented in the areas of infrastructure, health, water resources, education and rural & community development. In recent years, India has been assisting Nepal in development of border infrastructure through upgradation of roads in the Terai areas; development of cross-border rail links at Joghani–Biratnagar, Jaynagar-Bardibas, Nepalgunj Road-Nepalgunj, Nautanwa-Bhairhawa, and New Jalpaigudi-Kakarbhitta; and establishment of Integrated Check Posts at Raxaul-Birgunj, Sunauli-Bhairhawa, Joghani-Biratnagar, and Nepalgunj Road-Nepalgunj.
-) Generally aid comes with political strategic, humanitarian and economic objectives. Indian aid are normally strategic, broadly political, basically humanitarian, friendship and economic motives, which is being very much blamed for political motive by commentators.

6.2 Conclusion

Nepal is land-lock country bordered by China in the North and India in the remaining three sides. About 86 percent of its population resides in rural area and the literacy rate is estimated to be 56 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 poverty, administrative insufficiency, low rate of capital formation, low per capita income, unfavourable balance of payment, backward social and development infrastructure, political instability etc. To solve above problems, foreign aid is widely accepted.

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

The data shows that there is significant gap between revenue and expenditure in Nepal. The portion of gap is shared by foreign aid. Due to the deficiency of capital and modern technology and adequate mobilization of internal resources, Nepal hasn't accelerated the rate of economic development and growth. The study shows that there is positive relation between flow of foreign aid and economic growth of Nepal.

Regarding the Indian assistance in social infrastructure as well as in human resources development, it has positive impact. India's assistance in social sectors even during the continued political turmoils 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.

In the socio-economic sector Nepal has received large amount of foreign aid. The transportation, communication, agricultural, irrigation and forestry sector's attracted considerable amount of foreign aid in the past followed by industry, commerce and social service sector. Among the total assistance, around 33 % percent aid is disbursed in transportation development of Nepal. It proves that India gives more emphasis on infrastructural development which helps to modernize the every sectors of economy such as health, education, industry, etc.

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

Water resources another non-dismissible subject of study. It is necessary to invest in new technology, seeds, fertilizers, and irrigation facilities. In different parts of Nepal, 14 horticulture development center has been established by India. It has been providing improved and advanced seed and services to the rural people. Similarly

construction, irrigation, canals have been built by Indian aid that has contributed to the GDP. Nepalese rivers are tremendous potentiality of hydropower electricity generation. Scholarship programs are also provided to study in different institutions of India year by year.

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 Indian and Nepal and to strengthen India- Nepal bonds of friendship.

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

Overall, much has been achieved in the past and much remains to be done. India has been a pioneer donor and continues to be for most in 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.

6.3 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 them of the nation. The importance of foreign aid cannot be defined but the proper use of these aid 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 objectives, etc. we can conclude that if the assistance is properly absorbed and obtained in favourable condition of recipient country, it will certainly transform the receiver country's economy in to better state. So, Nepalese government should accept aid in a reasonable extent which appears favourable for that our domestic economy and its utilization must be in productive sectors as well.

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

- 1) Foreign aid should be considered as an addition to domestic resource to accelerate growth and poverty reduction in accordance with the development priorities of the country. Priority should be given to grants rather than loans and use only in productive sector.
- 2) 2. Foreign aid should be used in transparent manner with proper accounting and scientific auditing system of recording the movement of foreign aid.
- 3) Government of Nepal does not seem to able to maintain foreign aided projected after these are handed over. So it is important to pay attention to this problem.
- 4) Through projects type of aid has it own advantages, it would be beneficial if Nepal also receives program type of aid from India. So it is suggested that figure Indian aid flow to Nepal should be program type of aid.
- 5) Industrialization is the key point to develop the economy. However the volume of Indian aid seems to be lower in this particular sector as compared to other sectors. So, Nepal should strive for larger amount of aid to develop industrial sector and India should comply with accordingly.
- 6) The country has to concentrate itself on the projects which can generate backward and forward linkages.
- 7) Effective administrative department should be established in evaluating and monitoring each and every records of Indian aid.
- 8) Frequently arising disputes and dissatisfaction in respect of Indian aided mutually beneficial mega- Projects should be settled permanently and

conductive environment should be developed to launch such additional projects.

- 9) Interactive meeting with politicians, journalists, civil society, organizations and intellectuals are imperative to exchange thought on various aspects of Indian aid.
- 10) Nepalese technicians, contractors and labours should be employed as far as possible in designation and construction works under in Indian aided projects.
- 11) Data and information on flow of Indian aid at different times, sectors and projects should be properly recorded and publicly made available.
- 12) In view of increasing external debt, foreign aid should be accepted in accordance with the development needs and priorities of the country instead of accepting that is available from the external sources.

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APPENDIX-I

Sector-wise Disbursement FY 2011/12 to FY 2017/18

(Amount in US D)

Primary Sector	Actual Disbursement (USD)						
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	/FY 2017/18
Agriculture	45,859,135	38,277,225	44,235,028	50,709,497	48,099,910	59,232,855	76,699,692
Air Transportation	1,511,465	7,713,829	14,429,509	4,771,328	5,354,989	1,852,350	21,272,193
Alternate Energy	13,638,741	11,944,048	13,913,784	20,193,512	14,285,529	6,267,246	4,917,261
Commerce	7,987,443	14,496,067	9,158,246	7,719,959	11,020,407	8,297,265	20,311,662
Communications	1,500,692	2,926,131	8,135,179	4,293,202	767,854	5,540,476	7,871,814
Constitutional Bodies	2,174,009	13,278,522	8,659,210	2,492,938	2,294,370	5,989,373	3,955,309
Defense	-	16,980	612,377	-	-	-	-
Drinking Water	26,801,648	42,278,463	38,842,495	71,004,210	42,285,601	110,093,323	66,449,074
Earthquake Reconstruction	-	-	-	-	21,360,533	45,393,627	49,011,441
Economic Reform	35,077,120	34,636,875	46,737,614	39,407,675	41,441,510	35,107,965	210,720,531
Education	229,049,894	140,271,598	175,053,028	113,684,124	111,552,236	127,273,083	202,167,436
Energy (Including Hydro/Electricity)	116,796,452	90,732,113	58,224,336	78,571,182	150,581,898	72,201,427	116,734,498
Environment, Science and Technology	-	14,150,601	31,429,270	15,957,694	54,183,728	28,733,283	20,481,028
External Loan Payment	-	14,443,836	-	-	-	-	-
Financial Reform	2,537,260	8,607,936	12,303,464	7,143,974	32,377,399	13,120,121	8,943,277
Financial Services	802,923	602,616	2,217,289	5,417,462	6,256,884	7,841,259	10,306,108
Forest	15,847,225	12,484,916	42,831,359	22,991,175	17,274,691	4657837	11,726,269
General Administration	237,321	3,498,765	6,109,213	2,211,232	-	3,382,417	8,003,404
Health	85,078,740	125,514,285	115,723,521	177,747,406	130,443,766	89,576,472	145,251,322
Home Affairs	-	-	-	43,714,515	15,655,219	13,505,053	28,353,247
Housing	-	275,039	-	466,424	34,743,681	112,169,525	88,966,639

Industry	750,128	3,856,458	13,006,347	9,832,114	8,745,924	8,224,792	1,784,434
Irrigation	12304928	8931393	14,542,344	11,808,354	14,410,942	22,180,911	10,839,005
Labour	1073703	4566082	5,595,501	4,552,267	6,262,278	61,616,647	5,977,562
Land Reform & Survey	243822	2608	7,447,062	-	-	-	-
Livelihood	19,969,218	12,174,926	152,337,703	26,711,041	20,446,290	26,500,074	16,818,244
Local Development	153,514,312	118,294,994	-	124,903,019	119,153,479	123,000,975	135,853,877
Meteorology	347,506	-	-	-	-	-	-
Miscellaneous	637,463	124,042	503,975	4,487,098	12,466,880	26,112,195	22,489,406
Office of the Prime Minister	8,593,562	4,403,910	5,929,117	-	-	-	-
Others-Economic	19,436,872	9,614,999	11,871,683	3,230,444	1,792,327	37,431,681	21,514,446
Others-Social	34,348,601	28,634,910	9,504,861	18,297,501	23,809,007	30,713,532	4,339,723
Peace and Reconstruction	42,572,665	36,523,990	46,865,193	9,937,490	48,392,026	72,193,555	50,433,885
Planning & Statistics	852,978	2,745,271	1,016,406	2,786,331	2,340,408	7,503,803	3,270,308
Police	-	4,241,228	-	-	709,019	-	-
Policy and Strategic	993,828	949,023	32,908,238	137,415	1,999,244	101,752,928	4,347,629
Population & Environment	6,458,768	73,637	463,627	105,180	239,844	125,977	66,909
Renewable Energy	-	-	129,219	-	-	178,673	806,985
Revenue & Financial Administration	435,880	794,339	799,362	332,436	-	541,037	714,502
Road Transportation	116,730,820	108,733,850	51,574,246	86,571,257	46,170,127	83,302,461	78,288,846
Supplies	2,339,488	14,538,048	-	-	-	-	-
Tourism	2,609,619	3,794,677	30,761,010	7,249,769	2,662,667	3,456,527	1,543,136
Urban Development	15,324,471	6,146,075	13,326,885	32,801,275	40,350,454	80,804,141	148,743,239
Women, Children & Social Welfare	13,397,080	7,772,850	8,224,185	6,321,447	10,565,209	13,339,483	10,172,248
Youth, Sports & Culture	710,333	434,136	1,226,453	956,408	564,301	422,521	364,147
Total	1,045,297,273	959,951,292	1036648340	1,020,755,157	1,074,060,634	13,946,000,868	1,622,780,736

Source: Development Cooperation Report, (2017/18), MoF/GoN, December 2018,