

TREND AND PATTERNS OF INDIAN AID IN NEPAL
(FY1990/91-FY2016/17)

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Submitted by

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LETTER OF RECOMMENDATION

The thesis entitled “*Trend and Patterns of Indian Aid in Nepal (FY 1990/91-FY 2016/17)*” has been prepared by Mr. Madan Regmi under my supervision. I hereby recommend this thesis for approval by the thesis evaluation committee.

Date: 27th December 2017

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We certify that the thesis entitled “*Trend and Patterns of Indian Aid in Nepal (FY 1990/91-FY 2016/17)*” submitted by Madan Regmi to the Department of Economics, Prithvi Narayan Campus, Pokhara, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the degree of **MASTER OF ARTS** in **ECONOMICS** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the Said Degree

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ABSTRACT

Foreign aid can be defined as economic aid from one country to another, the beneficiary typically being a less developed country (LDC). Foreign aid is required for the economic development and growth of the country. Lack of enough capital formation in the country is the main problem for economic development of the underdeveloped country. The developed countries have been providing assistance to the less development countries by providing aid through various medium and agencies.

The study is related to the analysis of trend and pattern of Indian in Nepal (1990-2016). The study shows that Indian aid to Nepal during 1990-2016 is Rs.133843 millions. The India aid occupied 8.19% of the total aid in Nepal. Likewise, Indian aid has covered an average of 0.35% in the total GDP of Nepal. The total Indian grants reached cumulative Rs.64255.21 millions and the total Indian aid loan reached cumulative Rs.61758.78 millions in the 17 years period from 2000-2016. The volume of Indian aid to Nepal is rising taking a pattern of decreasing and increasing through out the study period. The study tries to explain the Indian aid commitment and disbursement situation in Nepal. The Indian aid commitment reached Rs. 130137.22 millions and the Indian aid disbursement reached Rs. 62632.00 millions. The disbursed Indian amount is only 48.12% of the total aid commitment.

India has been providing aids in the various sectors of Nepal. In the past, Indian aid was concentrated in transportation, education and health sectors but nowadays the Indian aid has been diversified on reconstruction, local development occuppies, energy and drinking water, communication , electricity etc. From this, we can see that the contribution of the Indian aid to Nepal is vital for the economic development of the country.

The study tries to see the impact of Indian aid on the GDP of Nepal. The impact of Indian aid on GDP is found to be positive and significant. Using regression analysis, we found that there is positive correlation between Indian aid and GDP. The value of R^2 is 0.265 implying that predictor Indian aid accounts 26.5% variation in the total GDP. The slope of Indian aid is 21.194 which imply that when Indian aid inflow

increase by 1 million, GDP increases by 21.194 millions. Similarly, Indian aid grants and loans are also positive and significant in impacting the GDP of Nepal. There is positive correlation between Indian aid grants and GDP. The value of R^2 is 0.271 implying that predictor Indian aid accounts 27.1% variation in the total GDP. The slope of Indian aid is 45.073 which imply that when Indian aid grants inflow increase by 1 million, GDP increases by 45.073 millions. Likewise, there is positive correlation between Indian aid loan and GDP. The value of R^2 is 0.269 implying that predictor Indian aid accounts 26.9% variation in the total GDP. The slope of Indian aid is 40.082 which imply that when Indian aid grants inflow increase by 1 million, GDP increases by 40.082 millions.

The history of foreign aid to Nepal shows that the donors of Nepal have been implicitly expressing and lobbying their political and economic motives to the GoN. The GoN should be careful while accepting foreign aid. The GoN should always accept foreign aid as per the needs and national priorities. There should be better utilization of foreign aid because aid today adds liability to the future generation.

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LIST OF ACROYONMS

ADB	Asian Development Bank
AMP	Aid Management Platform
DAC	Development Assistance Committee
DW	Durbin Watson
FA	Foreign Aid
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
IA	Indian Aid
IBRD	International Bank for Reconstruction and Development
IDA	International Development Assistance
IG	Indian Grant
IL	Indian Loan
IMF	International Monetary Fund
LDC	Least Development Country
MoF	Ministry of Finance
NPC	National Planning Commission
NRB	Nepal Rastra Bank
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
OPEC	Organization of the Petroleum Exporting Countries
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nation Development Programme
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
USSR	Union of Soviet Socialist Republics
WHO	World Health Organization