

CHAPTER 1

INTRODUCTION

1.1 Background

For developing country like Nepal only the internal finance cannot meet the required target of economic growth. The only way to meet the required target of the economic growth as well as pull the economy out of the vicious circle of poverty is to resort to foreign aid. Not only in UDCs but also developed countries have been receiving external assistance in one form or other for speeding up the pace of economic growth.

Foreign aid can be defined as the transfer of capital and technologies from one country to another country either in the form of loan and grants. Foreign aid is also called “Economic Aid” or “External Economic Assistance” or “Development Assistance”. Foreign aid also refers to the flow of capital and technical resources either directly from the government of a donor country or through international channels to the government of the recipient country. It includes bilateral and multilateral grants, concession loans and technical assistance.

Some experts have defined foreign aid as explicit transfer of real resources to less developing countries on concessionaire terms in order to uplift the developing economy and the living standards of the poor. “Foreign aid is the international transfer of public funds in the form of loan or grants directly by one government to another (Bilateral Assistance) or indirectly through the vehicle of a multilateral like “IBRD”. (Todaro, 1988)

There are two components of foreign aid: grants and loans. The grant component of the aid is free resources for which no refund is required. A loan with at least 25 percent of the grant component is considered as external aid. The components of the grant are measured in terms of interest rate, maturity, and grace period (range up to the first principal payment) of a loan. It measures the concessionality of the loan in the form of present value of an interest rate below the market rate over the life of the loan.

Foreign aid is classified in various forms depending on its nature, terms, conditions

and sources. From the point of view it is classified as: a) capital aid, b) commodity aid and c) technical assistance.

Capital aid: Capital aid refers to the provision of capital in cash or in kind for the execution of projects, as well as support for the balance of payments.

Commodity assistance: Commodity assistance usually involves the transfer of surplus product from the donor to recipient countries.

Technical assistance: Technical assistance consists of the training of national beneficiaries and the provision of experts to qualified foreign personnel to carry out the necessary development tasks in the recipient country.

Financial aid: Financial aid translates into grants or loans. Grants are usually gifts. They have no repayment obligation so they should be used on projects with a long gestation period, such as social services. Loans on the other hand have to pay. It generates the flow of reserves from receiving countries. Loans are three types depending on the maturity period, which are; long term, medium and short term. According to hardness loans are usually of two types therefore soft loans and linked loans differ according to the interest rate charged per year and the repayment period provided.

The ultimate goal of foreign aid is to accelerate development activities and try to make the country autonomous. There is such a condition that general expenditure is increasing and as a result domestic resources are not enough. That is why foreign aid is needed to support development costs. Therefore, there is a lack of resources in the current context. There is a mandatory and obligatory need for foreign aid for the development of Nepal.

Developing countries such as Nepal are characterized as poor in capital or low in investment. The emergence of inflationary pressure is evident in developing countries due to the existence of an imbalance between the demand and supply of domestic products. Foreign aid is advantageous in minimizing such inflationary pressure.

Nepal is one of the developing countries with population 28.8 million, growing at a rate of 1.60 percent annually (<http://countrymeters.info/en/Nepal>). Per capita income is estimated at \$ 853 (World Bank 2016), reflecting an equally unsatisfactory standard

of living. About 23.2 percent of the population is forced to live below the poverty line (Economic Survey 2016). The challenge of economic development has been further complicated by its limited or almost unexplained endowment of natural resources, landlocked location and rugged terrain and social infrastructure. Their investment needs for infrastructure development, therefore, are quite substantial. But at the same time public funds available for investment in infrastructure are limited. The country's fiscal resource base is small but unlikely to grow rapidly. This leaves the government highly dependent on external development assistance. Fortunately, international donors and development partners have fully supported their development plans and programs.

It has been proven that external aid has played a key role in the development of a developing country like Nepal. Democratic practice along with development and construction began in Nepal after the emergence of democracy in 1950. Even so, in all development plans foreign aid is playing a vital role in the development of fields such as roads, irrigation, communications, hydroelectricity, drinking water, agriculture and health. Foreign aid also helped increase productivity and production to expand development work and find appropriate technologies.

Nepal faces serious deficiency in resource mobilization due to low savings and high consumption. Especially there is a serious resource deficit (NRs 765871.0 millions (1990 / 91-2016 / 17) problem in Nepal. Therefore, the fiscal deficit is growing annually. Therefore, in this context, a large amount of external aid in the form of capital as well as financial and technical assistance is necessary to solve these problems. Without external help, development seems impossible. (Economic Survey 2016)

The means and forms may differ, but their dependence cannot be denied. A successful foreign aid policy for a country can be defined as its ability to exchange the amount of aid in a paid investment. It defends itself as a path to development, but not forever. It is generally defined as the nominal value of the direct and indirect flow of financial resources and other resources from the government of rich countries to poor countries.

India is playing the leading role in Nepal's development in the fields of transport, industry, education, agriculture, health, technological development, etc. There is no doubt that India is the major donor country for Nepal. Since 1951, India has been

providing aid for the development of different sectors of the Nepalese economy. The magnitude, concentration, pattern, trend, motives and proportion of foreign aid provided by India is not only have economic and developmental influences in Nepal but also have political and strategic motives.

1.2 Statement of the Problem

Economic development of any country depends upon the utilization of available resources, the ability of the people to exploit the available natural resources and others. But it is unable to utilize this all to their full extent due to the lack of domestic sources of capital and technology. People are moving around the vicious circle of poverty, level of income, saving and investment is very low. To increase these all, aid stands as an inseparable actor in the developing countries like Nepal. Foreign aid has been prominent role for the economic development of Nepal. There is hardly any sector which has not received some form of external assistance and in which many donors have been included. Nepal has to rely on foreign aid as it lacks of capital and technology. With its own sources Nepal unable/couldn't move ahead in the path of development. Nepal is facing the problems of low level of living standards, low level of agricultural productivity, high rate of population, high rate of unemployment, low ability to pay for tax, high gap between revenue, high level of trade deficit etc. Therefore country needs foreign aid to overcome the problems. (Economic Surveys and CBS reports)

To generate the employment, enhance the living standards and uplift of all domestic savings only needs huge amount of public expenditure, these makes the foreign aid as necessary thing in Nepal. As we understand that foreign aid brings physical and financial as well as technical knowledge, skilled personal, organization expenditure, advanced production techniques for increasing productivity and market information. Have an objective to develop the under developed countries aid has been providing since long time. In the country like Nepal, we repeatedly hear the government being effortful to receive more foreign aid. Rapid increment in foreign aid is observed every year but it has not been fully utilized (International Co-operation Report). It may happen due to inefficient administration, low absorptive capacity, corruption, delay in implementation of projects from recipient side and vested interest, directed aid programs, their strategic motives etc. form donor's side.

This study has been carried out to seek answer to the following questions:

- i. What is the trend and pattern of Indian Foreign Aid?
- ii. What is the difference between Indian Foreign Aid commitment and disbursement?
- iii. What is the contribution of Indian Foreign Aid for the sectorial development of Nepal?
- iv. What is the impact of Indian Foreign Aid in GDP?

1.3 Objectives of the Study

The basic objective of the study is to examine knowledge regarding the situation of Indian FA in Nepal. In this study an attempt has been made to analyze the role of foreign aid in general and specifically the composition, effectiveness, trend and pattern of Indian aid on the Nepalese economy.

- i. To analyze the trend and pattern of Indian aid in Nepal
- ii. To explore the difference between commitment and disbursement of Indian aid
- iii. To assess the contribution made by Indian aid for the development of various sectors of Nepal
- iv. To examine the role of Indian aid on GDP

1.4 Significance of the Study

Foreign aid has significant role in the development of different sectors of the economy. Nepal has been receiving aid in terms of grants, loan, technical aid, training services scholarship etc. For financial resources deficient country the rapid economic growth and achievement of required growth rate is difficult without foreign assistance. Foreign aid plays a vital role in economic development, unless it is utilized properly. The significances of the study are:

- i. The study provides a clear cut vision about the trend and patterns of Indian aid in Nepal.
- ii. The study also clarifies the Indian aid commitment and disbursement situation

in Nepal and it also provides possible reasons about the disbursement of Indian aid.

- iii. The study also identifies the contribution made by Indian aid in the various development sectors of Nepal.
- iv. The study also helps the researchers, planners and other to decide whether to bring in more aid or reduce dependence on it .As, the study is focused on impact of Indian aid in GDP.

1.5 Limitations of the Study

The limitations of the study are as follows:

- i. The study will be based on Indian aid only because India being close neighboring country of Nepal, the Indian aid has been continuously inflowed in Nepal as compared to other countries. The Indian aid occupied top section on the bilateral donor. (International Co-operation Report)
- ii. The study will be based on data and information available from secondary sources like Economic surveys, Annual Budgets, Indian Embassy and others.
- iii. The study is based on the time limit between FY1990-FY2016 because after the restoration of multiparty democracy and implementation of liberalization, privatization and globalization policies in Nepal, there has been free flow of resources .After 1990, The Indian aid continued to inflow in Nepal. So, the time period of 1990-2016 is chosen.

1.6 Organization of the Study

This study has been organized into five chapters. Chapter I is the introduction to the topic under the study, Chapter II is assigned as literature review then in Chapter III research design and methodology has been explained and data presentation and analysis has been carried out in Chapter IV and finally Chapter V has been organized to summarize and conclude the study.

CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

This chapter presents the literature review for the study. The chapter is divided in two sections. Section 2.1 contains overview of concepts and meaning as well as theories' underpinning foreign aid and section 2.2 contains overview of related studies which include books, research paper and thesis review. The literature reviewed was essential in informing the variables that were selected later on in the methodology section.

In the field of foreign aids, national as well as international authors have written several books, booklets, journals and articles. Similarly, students of economics have submitted dissertations referring to foreign aid for the partial fulfillment of the master's degree and several articles in the local, national and international newspapers are being published.

2.2 Overview of Concepts and Theories

Foreign aid can be defined as the transfer of real resources from one country to another country on concessional term. It is usually planned either to promote economic development or to provide humanitarian relief in emergencies. Aid is that concept which refers to the flows of capital and technical resources from the government of donor country to the government of recipient country. It includes bilateral and multilateral grants, concessional loans and technical assistance. The Development Assistance Committee (DAC) of OCED of UN records has defined it as "the flow of long-term financial resources for less developed countries from multilateral agencies including official flow and private investment, private lending and export credit". In these definitions much emphasis has given on the transfer of real resources to the developing countries but technical know-how and its impact on the whole economy seems to be neglected.

Foreign aid is classified into various forms on the basis of nature, terms and condition and sources. Foreign aid from the point of view of its nature is broadly classified as (i) capital aid (ii) commodity aid (iii) technical aid. Firstly, capital aid refers to the

provision of capital in cash or in kind for the implementation of projects as well as for assistance such as BOP support. Secondly, commodity aid usually takes in the form of surplus product of the donor to the recipient's countries and finally, the technical assistance involves the training of the recipient's nationals and the provisions of skilled foreign personal/experts to carry out the required development tasks in the recipient country. The financial assistance takes the form of either grant or loan. Grants are generally gifts; they do not have repayment liability. So they should be used in the projects with long gestation period such as social services. Loans have to be repaid. It generates reverse flow from the recipient's country to the donor country. It can be classified on the basis of (i) hardship, (ii) nature, and (iii) condition.

Friedman (1958) gave more emphasis on the government aid when he observed, "Foreign aid consists of grants and loans from one government to another government or to enterprise in their countries for specific project regarded as contribution to economic development". In his definition, it is obvious that bilateral aid is the main source of foreign assistance to develop the economic condition of recipient countries. It seems to be profitable to run joint venture enterprise which is not included in the term foreign aid but it is the subject to foreign direct investment. So, the term 'foreign aid' must mean any type of financial and technical assistance provided by the foreign countries and international agencies to the recipient country. However, it should be known that many authors define aid as the flow of resources from advanced countries to less developed countries. This foreign aid is the transfer of financial and other resources from comparatively more advanced countries to less developed countries. (Duigan, 1995, 1-2)

Rodan (1961), in his article "International aid for underdeveloped countries" had argued that the aid should be allocated where it will have a maximum catalytic effect of mobilizing effort. He states the purpose of an international program of aid to accelerate their economic development up to a point where satisfactory rate of growth can be achieved on self-sustaining basis. He also argues technical assistance as part of aid, although it is not a normal capital inflow, because it is a form of transfer of skills, which can result in economic growth. (Ranis, 1962, 484)

Mihaley (1965), in his study "Foreign aid and politics in Nepal" gave descriptive facts about foreign affairs and political condition of Nepal. According to him, "Nepal has

attracted unusual attention from aid donors. Nepal received aid from the year of inception till today from USA, India, China, Japan, Germany, Switzerland, Israel, New Zealand, Australia, United Nations and its agencies. He also explains that in Nepal, there are tribes and groups of people, diversity of religion and languages that are barrier to national unity and to national effect to advance economic growth. Hence, the aid giving country has to face various difficulties. He further argued that Indian and Chinese aid conflict in purpose. India gave a greater urgency to implement the economic aid program after the political changes of Nepal to exclude Chinese influence to Nepal. He also showed that the impacts of minor aid program provided by different donor countries. According to him, in minor aid program few of them are successful to fulfill their indicator, but in aggregate they create serious problems in Nepal. In addition, he had shown the impact of two types of foreign aid in Nepal: short term and long term impacts. In short term impact, aid project did not improve political consciousness as hoped by donors. In long term impact, aid naturally failed to give a significant boost of Nepal's economy but also even made growth more difficult to achieve. (Karan, 1966, 105-106)

Higgins (1969), emphasized the importance of foreign aid by saying that "it is highly unlikely that measures to increase voluntary domestic saving alone or even measure for voluntary and compulsory saving together can provide all the financial sources need for development of underdeveloped countries". Foreign aid is primarily used in the construction of social overhead capital such as roads, dams, electricity projects, bridges and other developmental works. So far capital requirements of LDCs are concerned; it is not so much high as that of developed and fast growing economy because the development work in LDCs is directly related with public welfare. Foreign aid has been a must for them without which development process will be obstructed. (Gunther, 1970, 110-112)

United Nations (1990) in its Least Development Report defines foreign assistance as all transaction from a country or an international organization, which results in a permanent addition to the total resources available for economic development of another country. Nowadays, rendering foreign aid either in the form of grants or loans has been considered as the responsibility of the international community.

ADB (2003) had conducted a research study under the title, "Technical Assistance".

According to the study, the impact of Technical Assistance will lead in reduction of extreme poverty and more equitable impact of rural development on poverty reduction of the most advantageous household. The outcome is to allow the most disadvantaged households to effectively participate and benefit from rural development projects through the implementation of innovative package of activities aimed at the acceleration of their socio-economic status.

Foreign Aid According to Different Theoretical Frameworks

Foreign aid can be viewed from different theoretical perspectives. Each perspective has its own point of view in analyzing the central questions of the link between aid and political power, looking at the motivations behind giving aid and evaluating the positive and negative effects on recipients (Pronk and others, 2004: 65). Some theories are optimistic and believe aid is important and has a positive impact on the donor and recipients. Others are more pessimistic and argue that the large amount of aid that has flowed from developed to developing countries has been wasted. They contend that aid has been of greater benefit to the donors and has only a small impact on reducing problems in recipient countries. In the end, this issue remains a great debate. To be able to understand the discussion, it is important to know the theories and the points that they emphasize. Below the concept of foreign aid is presented according to several theories.

Idealism

In its most general definition, idealism is the theory that human beings are inherently good. When it comes to foreign aid, idealist theory posits that donors such as governments give aid for humanitarian concerns, such as to share wealth, address human rights and alleviate poverty. Idealist scholars believe that foreign aid is effective, and are optimistic that it can solve socio-economic problems in developing countries. In his book, Lumsdaine says that in terms of motivation, “humanitarian concern in the donor countries forms the main basis of support for aid. Support for aid was a response to world poverty which arose mainly from ethical and humane concern and, econdarily, from the belief that long-term peace and prosperity was possible only in a generous and just international order where all could prosper” (1993: 3).

Realism

Realist theory contrasts sharply with idealist theory. It points that human beings are inherently selfish and desirous of power. Realists believe that aid donors are motivated by self-interest. Furthermore, countries that act out of other motivations will become relatively weak, eventually becoming victims of those who did act in their self-interest and therefore became powerful. As Lumsdaine sums up: “Many scholars assume nations act only to secure national self-interest, because of human selfishness and because only self-seeking states will thrive and continue to have influence” (1993: 4).

According to Realism, because donors are acting in their own interests, they will give aid to countries that they can benefit from in some way, for example through a political, economic or military alliance. Thus the poorest countries, the ones in most need of aid, are often overlooked. This view is supported by scholars such as R.D. McKinlay and Steven Hook. McKinaly, for example, conducted research which showed that some of the biggest donors (e.g. the United States and France) base their donations on national interest rather than humanitarian concerns (Fuller, 2002: 79).

Realists also believe that aid is largely ineffective and does not give very much benefit to recipient countries. Some question whether socio-economic conditions can be improved at all, for example Realist scholar Carr, in his book, argues that it is impossible to achieve peace in a world of nations acting in their own self-interest.

In his book, Vincent Martinez Guzman argues that the divide between idealists and realists is not really relevant because they are fighting over different conceptions of human nature, but humans are, in general, not good or bad, selfish or generous, peaceful or violent; they have the capacity to be both. Once humans understand that they have this capacity, they are free to decide. This means that humans are responsible for their decisions, and cannot blame human nature. Nels has a similar point of view, saying: The first is to point out that human nature is not uni-dimensional and that acts of compassion often coincide or alternate with acts of selfishness. Human are able to do good to one another, and bad: why focus on only one side of the story when we have so many examples of altruistic behaviour (Nel, 2009: 100).

Lumsdaine agrees that human nature and motivations are mixed when it comes to foreign aid, saying “Of course aid is not completely pure. Any program involving half a trillion dollars, a score of donor countries, many international agencies, and 120 recipient countries over half a century will involve mixed influences” (1993: 4). Concerning foreign aid, Guzman says that it is merely a palliative measure: it may alleviate problems, but it does not solve them. This is because the root cause of human problems, in his opinion, is structural violence¹. Foreign aid, therefore, would not be necessary if structural violence was addressed. Thus he proposes that foreign aid should not be to only to alleviate living conditions. Naturally, it is important that people eat, but one needs to go beyond that.

Postcolonial Theory

Postcolonialism is an academic discipline that analyzes the social and economic legacies of colonialism and imperialism. Postcolonialists contend that the West views the East as inferior and incapable without their help (Young, 2003: 2). The theories produced by the West are neither neutral nor objective; rather, they are deliberately designed through socio-cultural engineering. Influenced by the ideas of Derrida, Foucault and Gramsci, Edward Said tried to counter the narcissistic and epistemological violence of the West against the East by showing the bias, interest and power that are contained in the various theories put forward by colonialists and Orientalists. For Said, Orientalism is the West’s way of dominating, rearranging and controlling the Orient.

Western colonization for a hundred years has had implications all over the world, both for the colonizers and for the colonized. The West has used its knowledge and power to construct, administer and subjugate the Orient. Therefore it can be said that the modern project of the West is reflecting the history and practice of colonialism, where European colonialism has become a tool in propagating its ideals. In other words, the West uses the idea of foreign aid as an instrument to achieve its hidden agenda and spread its hegemony (Omar, 2012: 45).

Foucault, a French philosopher and social theorist, also criticized aid (Foucault, 1984: 32-50). For him, foreign aid is a modern term where universal happiness is measured by the culture of Europeans on the assumption that it is good for everyone. In fact it is just an idea of the Europeans, who are a minority in the world population. He adds

that aid involves the imposition of European Enlightenment values and ideals such as autonomy, freedom, human rights, etc., which make up an “appropriate identity” for modern people.

Dependency Theory

The diverse components of the underdeveloped do indeed share one characteristic. This is not poverty, stagnation, brotherhood, or skin color; it is the receipt of foreign aid. The concept of the underdeveloped and the policy of official aid are inseparable. Without foreign aid there is no underdeveloped. Official aid provides the only bond joining together its diverse and often antagonistic constituents (Thompson, 1983: 11).

Dependency theory explains foreign aid as an instrument of developed countries and international organizations to exploit developing countries politically, economically and culturally, as well as trap them into colonialism and the global capitalist system. As a result, the conditions of development and underdevelopment occur. At the same time, it creates dependency of developing countries upon the major powers. Sadly, the problem of exploitation is rarely discussed and is replaced by the issue of lack of resources, technical expertise, modern institutions or cultural development. Evidence exists, particularly on the great economic inequality. This was clearly stated by Dos Santos (1970): “the spatial form of dependence, in which some countries (the dominant) achieved self-sustaining economic growth while others (the dominated and dependent), grew only a reflection of changes in the dominant countries” (Peet and Hardwick, 2009: 166).

Dependency is an historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economies. A situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is, subjected (Dos Santos 1970: 226, cited in Peet and Hardwick, 2009: 166-167).

The theory also states other negative impacts of aid on developing countries such as “weakening accountability, encouraging rent seeking, facilitating corruption, fomenting conflict over control and distribution of funding, siphoning off scarce resources from civil services and alleviating pressures to reform from the

government” (Buss and Gardner, 2008: 98). These facts have become important issues in the contemporary debate on foreign aid.

Development Theory

Development is an effort to give people better life conditions. This is the main argument of development theory. In order to develop successfully, a country has two main capitals: human and natural resources. However, sometimes a country does not have enough sources for development. Development theory suggests this can be solved by external sources financing development, in other words foreign aid.

Foreign aid indeed has an important role in development. In his book, Galtung explains that foreign aid via development projects is an important activity in which donor and recipient offer and accept projects of pre-investment, infrastructure, transaction costs, community development, participation, import substitution and export substitution. Aid is also important for achieving the Millennium Development Goals (MDGs), a new global partnership to reduce extreme poverty, which has eight objectives: to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability and develop a global partnership for development (<http://www.un.org/millenniumgoals/>). It is hoped that these goals will be achieved by the year 2015. Their achievement requires a lot of cooperation between donor and recipient countries.

The U.N Sustainable Development Summit (2015, Sep 25-27) adopted the new post 2015 development agenda which is known as Sustainable Development Goals (SDGs). The SDGs includes 17 target goals on various issues such as climate change, economic growth, women rights, equality and health. This is the expansion for the MDGs which included 8 goals. This goal is to be achieved by 2030. The recent announcement of SDGs creates a shift in mentality towards foreign aid and international development. While the previous UN initiative for development, the MDGs focused strictly on improving the conditions for those in developing countries, the SDGs apply to every country. The Development aid is more crucial than ever in era of SDGs.

2.3 Review of Related Studies

Hawkin (1970) in his study, "Trend and Pattern of Foreign Aid", Foreign aid is not a recent phenomenon, originated in the international scene after Second World War. Foreign aid will remain a permanent part of international economy and it will continue to be further development and thinking which will themselves influence the amount and character of foreign aid. The foreign aid in the modern era are new, of course and for Americans, aid is one of the novel aspects of their involvement in the world as greater power so long as that involvement continues, American aid is likely to continue. The reason for which aid should be given to whom should be recognized in what kind and magnitude aids are indeed the central questions. He focused on aid in the form of transaction between rich and poor but independent government restricted about its scope before 1960. The Soviet Union has begun to lend on a small scale to non-communist developing countries with avoiding political objectives. Other countries were just beginning to be involved in aid for social infrastructures as well as economic development.

Poudyal (1983) found positive association between foreign aid and saving by using correlation and regression analysis. The main objectives of this study were to examine whether the project is financed by foreign aid on GDP, saving and consumption. The study is based on the secondary data and materials and field observation. The main findings of the study are (a) foreign aid is being concentrated on infrastructure and neglected other sectors, (b) positive effect of foreign aid is more on saving than on consumption, (c) the GDP, domestic saving and consumption are highly stable function of foreign aid, (d) elasticity between GDP and domestic saving is higher than that of between GDP and foreign aid. Further he concluded that if aid is utilized in road construction, maximum benefits from roads can be obtained only if in areas opened up by roads complementary development programs are lunched simultaneously like agriculture and industry etc. The study shows that there is positive association between foreign aid and saving. Foreign aid is contributing to increase national efficiency through positive effect on income, saving and consumption. The level of GDP is also positively related to the inflow of foreign aid.

Khadka (1991) said that Nepal relies 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 2.6 percent to 6.9 percent during the same period. According to him, aid has not been effective in alleviation poverty in Nepal. On the contrary aid has created dualisms between urban and rural areas in terms of consumption, and it further widens gaps between haves and have not and social disparities is still growing. Aid neither helps to attain the goals nor to establish institutional political machineries. Hence aid failed to alleviate poverty of the country because it was unable to grasp the majority of population who live in rural areas. He has stated that the economic condition has not improved in Nepal despite the priority of aid because an increase in the basic needs to the poor and rural development.

Shrestha (2002) by analyzing sectorial distribution of Japanese aid found that Japanese grant assistance has highly concentrated in debt relief measures, transport, agriculture, power and water supply. Japanese grant assistance has been provide to the industrial sector also but in little amount. In the industrial sector loan has also been provided which is NRs. 4240.3 million in amount. Similarly in the power sector loan has been provided of NRs. 9993.4 million. In an aggregate NRs. 7631.4 million of Japanese assistance is in the form of grant assistance while NRs. 14233.7 million is in the form of loan assistance.

Katuwal (2003) by comparing Japanese and US aid to Nepal After Restoration of Democracy concluded that most of the assistance provided by Japan was disbursed in communication (17.15 percent), transport (15.50 percent), economic management (12.83 percent), disaster preparedness (12.71 percent) sectors and on the other hand most of the assistance provided by US was disbursed in health (34.80 percent), human resource development (16.04 percent), agriculture (20.21 percent) and economic management (7.87 percent) sectors for the period of 1990-1999. It shows that increment in Japanese assistance has been comparatively greater than that of US assistance and furthermore he states that percentage and amount of Japanese aid is significantly greater than US aid. He found that for the period of 1990-1999 amount of total Japanese aid disbursed in Nepal is \$ 673.75 million and amount of total US aid disbursed in Nepal is \$ 190.43 million.

Lohani (2004) uses ordinary least square method to find out the effect of foreign aid on development, and found all of the variables except social aid have the expected signs, and all of them are significant at the 0.05 or 0.01 level. He found that the coefficient of FDI, domestic investment and GDP per capita have a positive impact on HDI. Further he states that countries receive a greater amount of aid if its total saving are low. Poorer countries usually have some of the lowest saving rates, and thus they receive more aid on the basis of such a calculation of aid allocation. Further he found that FDI positively influences human development. When FDI as a share of GDP increases by one percentage, HDI increases by 0.00435, other things being same. Similarly the regression analysis shows that an increase in domestic investment by one percent increases the HDI by 0.0035. Therefore, domestic investment towards schools, roads and hospitals plays a significant role in promoting the well-being of people.

Bhattarai (2007) by employing co-integration test found that per capita development expenditure is positively associated with both per capita aid and per capita GDP in the long run. The long run aid coefficient is 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 states 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, a 1 percent increase in per capita aid leads to approximately 0.6 percent increase in the per capita non-development expenditure, whereas it leads to only a 0.11 percent increase in per capita development expenditure.

Ekanayake and Chatrna (2007) test 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 labor 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.

Pyakuryal, Adhikari and Dhakal (2008) found that the domestic saving and investment gap as the percent of GDP at producers' price averaged around 8 percent during the period of FY 1994/95 till 2003/04, whereas it has leveled around 11 percent during FY 2002/03. However, during FY 2004/05 the preliminary estimates shows the gross domestic savings at 14.4 percent and total investment at 28.9 percent revealing the gap of 14.5 percent of the GDP. Gross domestic saving as percent of the GDP declined from a level of 16.2 percent in FY 1997/98 to 15.2 percent during FY 2003/04, whereas total investment during the same period grew from 24.8 percent of GDP to 26.4 percent. The resource gap has thus widened over the years due to increasing fiscal deficit. The fiscal deficit of NRs. 15.83 billion in 2003/04 increased by 14 percent and escalated to NRs. 18.05 in FY 2004/05 indicating the widening gap between government expenditure and revenue.

Bhattarai, (2009), did the thesis on the topic "Foreign aid to Nepal with reference to Danish Aid". The overall objective of the study was to analyze trend and patterns of Danish Aid to Nepal, to examine the area, volume of Danish Assistance to Nepal and to suggest and recommend to improve effectiveness of foreign aid especially Danish Aid in the economic growth and development of Nepal. The major findings were the trend of foreign aid shows many fold increase in the quantum of aid flows to Nepal. Trend analysis clearly shows that the proportion of loans have been increasing constantly with commensurate decline in grants which implies an increasing debt burden. Danish aid has covered various sectors of Nepalese economy like poverty alleviation, gender issues, democracy, human rights, education, health, and agriculture and power generation.

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). The role of foreign aid to bridge the resource gap in Nepal has been crucial, which is estimated to be more than 60 percent of total resource gap. The remaining part is met by

remittances and foreign currencies earn by tourism sector. The magnitude of remittances including unrecorded flows increasing to \$ 820 million, which is nearly 14 percent of GDP in FY 2003 from about \$ 750 million in FY 2002 and exceeded the size of exports equal to \$ 642.8 million.

Tripathi (2011) did the thesis on the topic “Foreign aid in Nepal with special reference to USAID”. Some of the conclusion of the thesis was that the foreign aid has helped to boost up the Nepalese economy in many instances. The number of hospitals and health post have increased, quality as well as quantity of school, teachers and students has added up, drinking water, irrigation, electricity and road access have also got improvement in their supply. But we have to remember that most of the foreign aid projects were centered on urban areas only. The people of rural areas are beyond the reach of the service of these foreign aid projects expect irrigation.

Basnet (2013) examines the 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. Furthermore by using 2SLS estimation he found the impact of aid on growth is positive and satisfactory significant at the 1 percent level. The result indicates that saving have a satisfactory significant impact on the growth rate of the five countries (Bangladesh, India, Nepal, Pakistan, and Sri-Lanka). He found that saving affects growth rate more than proportionately that is a 1 percent increase in domestic saving rate causes growth to increase by more than 1 percent on average. i.e. 1.5 percent. The growth rate of export and import, however, has a negative association with the rate of economic growth.

Gagan (2013), did the thesis on the topic “Japanese Aid to Nepal”. The major objectives of the thesis was to examine the trend and magnitude of overall foreign aid, to analyze the Japanese aid flowing to Nepal in terms of trend and magnitude and impact of Japanese aid to GDP. He concluded that the foreign aid has important role for the economic growth of our country but due to political instability and policies of nation, aid has not been fully utilized with the interest of donor nations. During his review period total foreign aid was Rs.438276.8 million out of which Rs.250282.2

million was grant and Rs. 187993.6 was loan. Similarly, multilateral aid seemed to be about double than bilateral aid which is Rs.268452.5 million and Rs. 169824.3 million respectively.

Jeffrey (2015) by employing OLS estimation found that bilateral and multilateral aid yields mixed and interesting results. For middle and low income countries, a 1 percentage point increase in inflation on average causes the effect of bilateral aid on growth decrease by 1.516 percentage points and increases the effect of bilateral aid on growth by 2.162 percentage points on average. Further he stated that for multilateral aid, the signs for these two interaction terms (Inflation and Polity2 scores) are opposite to what they are for the bilateral interaction terms. Multilateral aid interacted with inflation yields a positive value, meaning that as inflation increases one percentage point, multilateral aid's effect on growth increases 2.217 percentage points, polity 2 (measure of a country's political regime) scores interacted with multilateral aid are negative, meaning a point increase in a country's polity 2 score results in a decline of 4.557 percentage points.

Galiani, Knack, Xu & 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 investment is consistent with the average capital stock to GDP ratio for the sample countries.

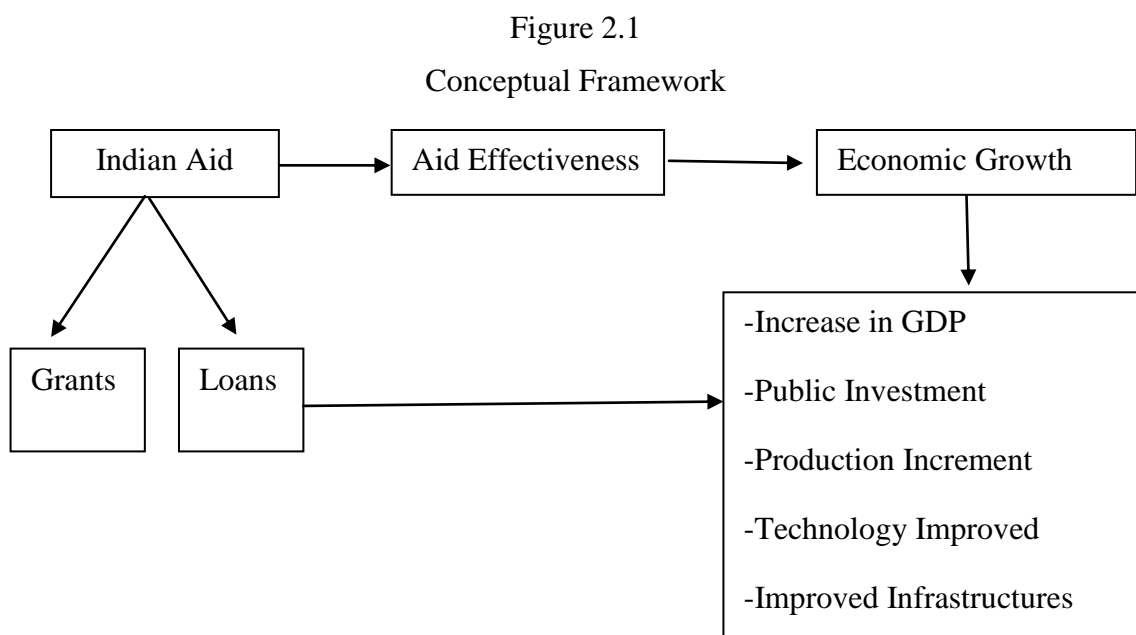
2.4 Research Gap

In the context of foreign aid several writing, studies and researches are found to be conducted and explored to examine the volume, area, trend and pattern as well as policies. These studies have analyzed the secondary data of different time period and the effects of foreign aid with special reference to Indian aid. This analysis carries out the data from Fiscal year FY1990-FY2016 of Indian aid because after FY1990 due to

the restoration of multiparty democracy and implementation of liberalization, privatization and globalization policies in Nepal, there has been free flow of resources. After FY1990, the Indian aid continued to inflow in Nepal. The previous study time period was from FY 1985- FY 2009. The previous study presented the pattern on Indian aid as a percentage of total aid, but in this study it has shown the pattern of Indian aid as a percentage of GDP. The study also tries to present the difference in Indian aid commitment and disbursement which previous study could not. It has also shown the composition of Indian aid in grants and loans while previous study failed to do so. In the previous studies, the impact of Indian aid especially on GDP of Nepal was studied but the present study studies the impact of Indian aid on GDP as well as the impact of Indian aid grant and Indian aid loan on GDP of Nepal.

2.5 Conceptual Framework

Donors give aid in the form of grants and loans. The grants are the free gift from donors but loans have to be repaid. These aids are intended to enhance development in the recipient country. Therefore, aid effectiveness is meant to be aid having a positively significant on economic growth. The economic growth leads to increase in GDP, public investment, production increment, technology, improved infrastructure etc. The conceptual framework can be given as:



CHAPTER 3

METHODOLOGY

3.1 Research Design

After the restoration of multiparty democracy and implementation of various policies there has been transfer of resources in Nepal. The pace of Indian assistance took a rapid shape after FY 1990. Being the close neighbor, India has been providing aid in Nepal for the development of various sector in Nepal. India occupied top 5 position in bilateral donor in providing aid to Nepal. The study is concerned with the trend and patterns of Indian aid to Nepal. The study aimed at examining the effect of Indian aid on GDP in Nepal. The study is descriptive as well as analytical type and focuses on trend, magnitude, composition and concentration of Indian aid.

3.2 Nature and Sources of Data

This analysis of the study attempts to get various empirical results using only secondary data. The required data are also obtained from various sources like Economic surveys, Ministry of Finance (MOF), Indian Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), Quarterly Economic Bulletin (NRB), World bank, International monetary fund, OECD etc. In addition to those data and information were collected from different newspaper as well as published and unpublished documents of various research institutions. The time coverage of the study is from FY 1990 to FY 2016 because after FY 1990 the pace of Indian aid in Nepal continued rapidly due to the restoration of democracy and implementation of various policies. The Indian aid has been providing higher amount of aid after FY 1990.

3.3 Variables and Model Specification

The model specified for the comparative study is given below

$$Y = a_0 + b_0 IA \dots \dots \dots (I)$$

$$Y = a_1 + b_1 IG \dots \dots \dots (II)$$

$$Y = a_2 + b_2 IL \dots \dots \dots (III)$$

Where,

Y = GDP (dependent variable)

IA = Indian Aid (independent variable)

IG = Indian Grant (independent variable)

IL = Indian Loan (independent variable)

a_0 , a_1 and a_2 is the autonomous increase in dependent variable

b_0 , b_1 , and b_2 are slope of independent variables

Symbol	Variable Definition	units
Y	Gross Domestic Product	Rs.
IA	Indian Aid	Rs.
IG	Indian Grant Aid	Rs.
IL	Indian Loan Aid	Rs.

3.4 Methods of Data Analysis

The following statistical tools are used in the analysis:

Correlation Analysis:

Correlation can be defined as a quantitative measure of the degree or strength of relationship that may exist between two variables. If X and Y are two variables, the correlation coefficient is given by the ratio of the covariance between X and Y to the product of the standard deviation of X and that of Y. This can be expressed as:

$$r_{xy} = \frac{\text{Cov. (X,Y)}}{\sigma_x \cdot \sigma_y}$$

The covariance in the numerator gives a measure of the simultaneous change in the two variables and is divided by product of the standard deviations of X and Y to make the measure free of any unit in order to facilitate a comparison between more than one set of bivariate data which may be expressed in different units. Thus, this measure of correlation coefficient is independent of a shift in the origin and a change of scale. The correlation coefficient lies between +1 and -1. The correlation coefficient is

positive when the two variables tend to move in the same direction. In the event of the two variables tending to move in the opposite directions, the correlation coefficient assumes a negative value.

Regression Analysis

The simple regression is the equation with one independent (explanatory) variable. Let us take a simple regression equation with dependent variable Y and independent variables X_1 . Then the regression equation or line of Y on X_1 is:

$$Y = a + b_1X$$

From simple regression, we can find out the relationship between dependent variable and independent variable. Once a simple regression equation has been constructed, one can check how good it is (in terms of predictive ability) by examining the coefficient of determination (R^2). The value of R^2 always lies between 0 and 1.

R² - coefficient of determination

All software provides it whenever regression procedure is run. The closer R^2 is to 1, the better is the model and its prediction. A related question is whether the independent variables individually influence the dependent variable significantly. Statistically, it is equivalent to testing the null hypothesis that the relevant regression coefficient is zero. This can be done using t-test. If the t-test of a regression coefficient is significant, it indicates that the variable in question influences Y significantly while controlling for other independent explanatory variables.

Test of significance

The ***significance level*** α for a given hypothesis test is a value for which a *P-value* less than or equal to α is considered statistically significant. Typical values for α are 0.1, 0.05, and 0.01. These values correspond to the probability of observing such an extreme value by chance. Suppose the *P-value* is 0.0082, so the probability of observing such a value by chance is less than 0.01, and the result is significant at the 0.01 level.

CHAPTER 4

DATA ANALYSIS

4.1 Introduction

This chapter includes presentation and analysis of data. In the process of data analysis the relevant data from various sources are collected, classified and tabulated to fulfill the requirement of the study. Data are presented in the percentage when required. Tables, bar graphs, pie charts, trend line, mean and standard deviation etc are used accordingly to the situation and requirements of the study. The regression, correlation, hypothesis testing are done according to the given sets of data using SPSS software.

4.2 Trend of Indian Aid in Nepal

India being close neighbor of Nepal has been assisting in various activities of Nepal. India has been providing aids in the economic development and various infrastructure sectors of Nepal. The volume of Indian aid to Nepal has been increasing in the recent years. India has been providing high amounts of grants and loans as well as technical assistance in Nepal. The following table shows the volume of Indian aid in Nepal.

Table 4.1
Volume of Indian Aid in Nepal

FY	Indian Aid (Rs. in Millions)
1990-1992	642.1
1993-1995	897.95
1996-1998	874.52
1999-2001	638.5
2002-2004	892.8
2005-2007	2517.95
2008-2010	6929.0
2011-2013	6381.8
2014-2016	26214.36

Source: Appendix B – 3 years Average

Table 4.1 shows the volume of Indian aid in Nepal from 1990-2016 with three years average. The average volume of Indian aid in FY 1990-1992 was Rs.642.1 millions. The Indian aid continued to rise in the FY 1993-1995 to Rs 897.95 millions. However, in the FY 1996-1998, the volume of Indian aid fell to Rs.874.52 millions. The trend of Indian aid continued to fell reaching Rs.638.5 millions in the FY1999-2001. But later, in the FY2002-2004, the volume of Indian aid reached Rs.892.8 millions. The trend of volume of Indian aid rose significantly to Rs.2517.95 millions in the FY2 005-2007. The figure continued to rise reaching Rs.6929.0 millions in the FY2008-2010. But, later in the FY2011-2013, the volume slightly decreased to Rs.6381.8 millions. There was huge growth of Indian aid in the FY 2014-2016 reaching a record of Rs.26214.36 millions which is six times the previous year aid.

Figure 4.1

Trend of Indian Aid in Nepal (1990-2016)

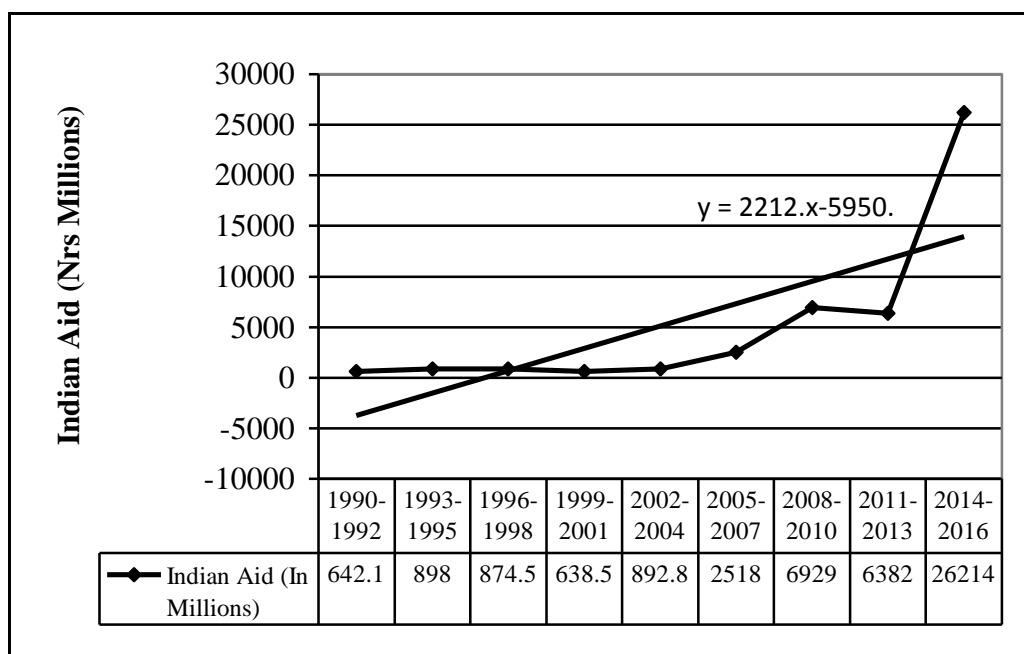


Figure 4.1 shows the trend of Indian aid in Nepal from 1990-2016 in Nepal. In the FY1990-1992, the Indian aid amounts to Rs. 642.1 millions. In the next two FYs (1993-1995 and 1996-1998), the volume of Indian aid has been risen. But in the FY 1999-2001, there has been fall in the Indian aid amount to Nepal. Again, after FY1999-2001 to FY 2008-2010, the amount of Indian has been increasing as shown in figure. There was a slight decrease in the volume of Indian aid in FY 2011-2013 because there was change in government in Nepal which was led by Communist parties and but in FY 2014-2016, the volume of Indian aid has been rose significantly.

From the above figure, it can be seen that the trend of Indian aid is on rising phenomena in Nepal and Indian aid is playing very crucial role in Nepal.

4.3 Pattern of Indian Aid as a Percentage of Total Aid

Many bilateral and multilateral agencies has been assisting Nepal's endeavor for development, in the form of grant and loan. If we consider the assistance of bilateral donors, it is of high importance though its share has declined significantly these days. If we examine the history of foreign aid, India occupied the first position among the bilateral donor upto 1980. Although both India and Nepal are developing countries, India the tiger economy of Asia has been assisting Nepal in almost all sectors. Most of the Indian assistance has taken in the form of grant. However, the loan also occupy ample amount. Nepal has been receiving Indian aid since long time. It has been providing aid in different areas of Nepal. Table 4.2 shows the pattern of average Indian aid and average total foreign aid received by Nepal in various fiscal years. It also shows the average percent of Indian aid as of average total foreign aid. The fiscal year is 3 years average.

Table 4.2

Indian Aid as a Percentage of Average Total aid

FY	Foreign Aid (Rs. Millions)	Indian Aid (Rs. in Millions)	IA % as of TA
1990-1992	7675	642.09	8.36
1993-1995	12365.2	897.98	7.26
1996-1998	15892.67	777.82	4.9
1999-2001	16902.03	638.50	3.77
2002-2004	19485.07	892.79	4.58
2005-2007	25732.27	1391.20	5.40
2008-2010	48039.63	6926.003	14.42
2011-2013	53099.07	6381.83	12.01
2014-2016	210473.6	26214.36	12.45

Source: Appendix B – 3 years Average

Table 4.2 shows the Indian aid as a percentage of total aid of 3 years average FY of 27 years period from 1990-2016. In the FY 1990-1992, the average foreign aid was

Rs.7675 millions and the average Indian aid was Rs.642.09 millions. The Indian aid occupied 8.36% of total average aid in Nepal. The average total aid continued to rise to Rs 12365.2 millions and Indian aid also reached Rs.897.98 millions but the percentage occupied fell to 7.26% from 8.36% in FY 1993-1995. The total aid to Nepal continued to rise from Rs 12365.2 millions to Rs15892.67 millions in FY 1996-1998 but the Indian aid fell to Rs.777.82 millions from Rs.897.98 millions. So, the average percentage declined to 4.9% of total aid. Likewise, in FY1990-2001, the total aid reached Rs. 16902.03 millions but the Indian aid was only Rs. 638.50 millions which is only 3.77% of total aid. The total aid and total Indian aid continued to rise from FY 2002-2010 reaching Rs.48039.63 and Rs.6926.003 respectively. The average percentage of Indian aid to total aid was 14.42% in FY 2008-2010. But in FY 2011-2013, the average of total aid reached to Rs.53099.07 millions and the average Indian aid reached Rs.6381.83 millions. The percentage of average Indian aid to average total aid fell to 12.01 % from 14.42%. In the FY 2014-2016, the average total aid recorded Rs.210473.6 and the average Indian aid reached Rs.26214.36 millions. The average Indian aid to total aid was 12.45%.

Figure 4.2

Indian Aid as a Percentage of Total Aid

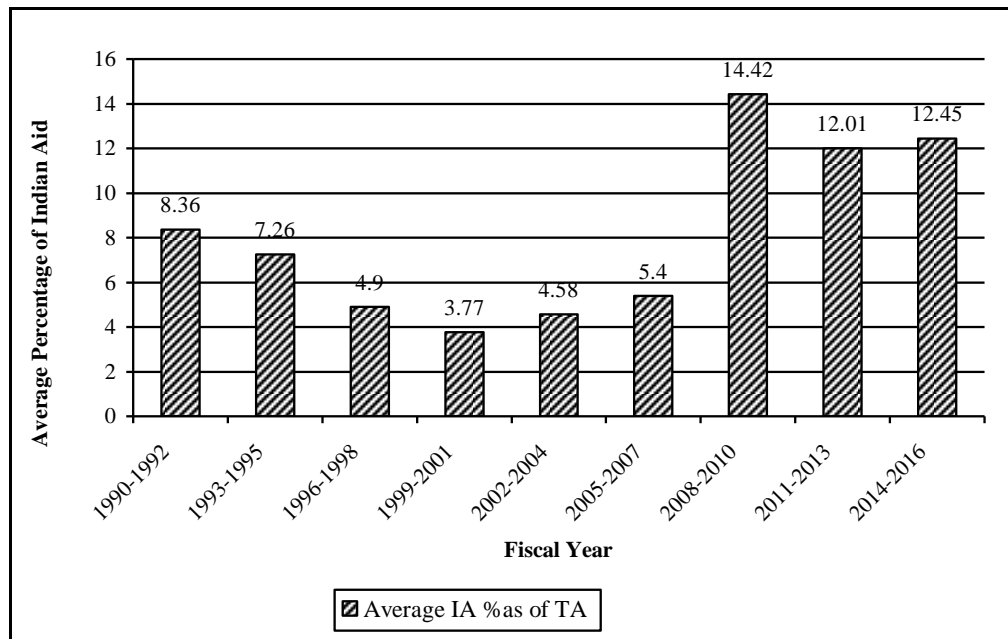


Figure 4.2 shows the average Indian aid as a percentage of average total aid of 27 years period from 1990-2016 with the average period of 3 FY. In FY 1990-1992, the

Indian aid covered 8.36% of total aid in Nepal. But, the Indian aid portion fell to 7.26% from 8.36% in the FY 1993-1995. The Indian aid continued to fall to 4.9% in the FY 1996-1998. The figure continued to fall in the FY 1999-2001 reaching 3.77% recording the lowest in the figure above. The Indian aid rose slightly to 4.58% in the FY 2002-2004. The figure continued to rise from FY 2005 to 2010 reaching the highest percentage of 14.42%. The share of Indian aid in Total aid was increased in FY 2008-10 because with restoration of peace and democracy after people's movement II, there has been regular exchange of high levels visits and interactions between GoI and GoN in this period. The Indian FDI floated largely in Nepal after the restoration of democracy in Nepal during this period. But later, in FY 2011-2013, the percentage of Indian aid to total aid fell to 12.01% from 14.42%. The average percentage of Indian aid rose slightly to 12.45% in the FY 2014-2016.

4.4 Pattern of Indian Aid as a Percentage of GDP

The pattern of Indian aid can be shown in terms of Gross Domestic Product (GDP). Indian aid has been contributing in the different sectors of Nepal for the better production and utilization of various sectors in Nepal. The following table shows Indian aid as a percent of GDP in Nepal

Table 4.3
Indian Aid as a Percent of Average GDP in Nepal

FY	GDP (Rs. Millions)	Indian Aid (Rs. Millions)	% of IA as of GDP
1990-1992	365008.3	642.1	0.17
1993-1995	404264	897.95	0.22
1996-1998	476551	874.52	0.18
1999-2001	551165	638.5	0.115
2002-2004	655176.3	892.8	0.13
2005-2007	916653.3	2517.95	0.27
2008-2010	1380103	6929.0	0.5
2011-2013	1900311	6381.8	0.33
2014-2016	2082121	26214.36	1.26

Source: Appendix G - 3 years Average

Table 4.3 shows the average Indian aid as a percent of average GDP in Nepal. In the FY1990-1992, the average GDP of Nepal was Rs.365008.3 millions. The Indian aid inflow was Rs 642.1 millions. The Indian aid covered 0.17% of GDP in the FY 1990-1992. Likewise, in the FY, 1993-1995, the average GDP reached Rs. 404264 millions and the Indian aid to Nepal was Rs 897.95 millions which is only 0.22% of the GDP. Similarly, the GDP was Rs.476551 millions in the FY 1996-1998 and the Indian aid was Rs.874.52 millions. The Indian aid occupied only 0.18% of the GDP. Again, in the FY1991-2001, the GDP continue to rise to Rs.551165 millions but the Indian aid fell to Rs.638.5 millions. It was only 0.115% of average GDP. The figure continued to rise from FY 2002-2010. Later in FY 2011-2013, the GDP reached Rs.1900311 millions but the Indian aid was Rs.6381.8 millions, which is only 0.33% of the GDP. But in FY 2014-2016, the GDP climbed at Rs.2082121 millions and Indian aid also sky rocketed to Rs.26214.36 millions and recorded 1.26% of the GDP in 3 years average period of 27 years.

Figure 4.3

Indian Aid as a Percent of GDP in Nepal

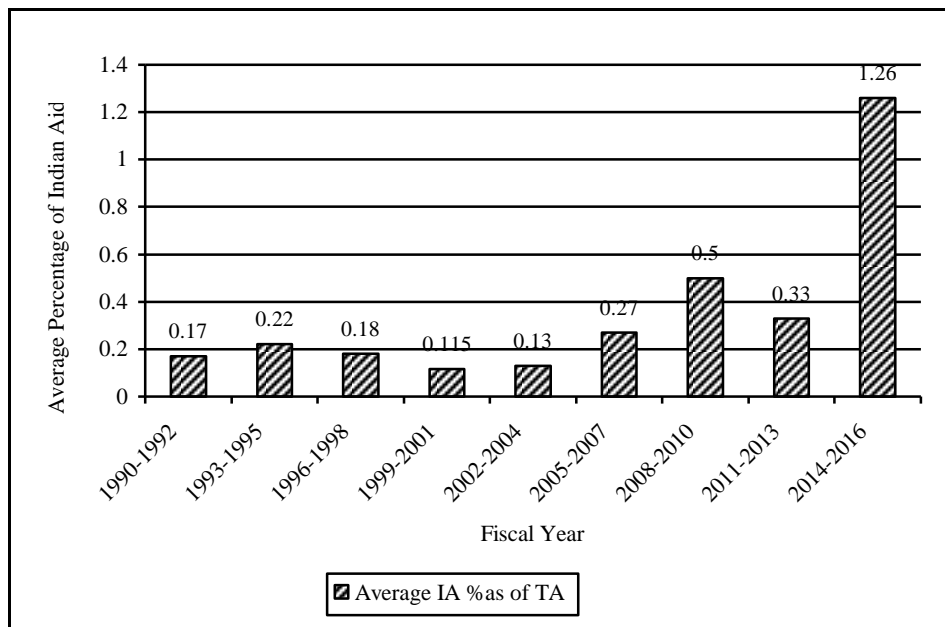


Figure 4.3 shows the average Indian aid as a percent of average GDP in Nepal. In FY 1990-1992, the average percent of Indian aid to GDP is 0.17%. Likewise, in FY 1993-1995, the average percent increased to 0.22% from 0.17%. But in FY 1996-1998, the percentage of average Indian aid to GDP decreased slightly to 0.18%. The figure

continued to fall at 0.115% in FY 1999-2001. The percentage of average Indian aid to GDP continued to rise from FY2002-2004 reaching 0.13 in that FY. Later, in FY 2005-2007, the percentage occupied by Indian aid to GDP was 0.27%. Similarly, the percentage of average Indian aid to GDP reached 0.5% in FY 2008-2010. The figure fell to 0.33% in FY 2011-2013. But, the average Indian aid to GDP recorded 1.26% in the FY2014-2016. From the figure, it is clear that the average Indian aid to GDP is raising and falling giving up and down pattern in the 3 years average FY of 27 years.

4.5 Composition of Indian Aid in Grants and Loans

Aids consist of grants and loans which makes Total aid. The following table shows the total Indian aid in terms of grants and Loans. It also shows the percentage of grants in Indian aid and percentage of loans in Indian aid.

Table 4.4

Composition of Indian Aid In terms of Grants and Loan (Rs. In Millions)

FY	Avg. Indian Aid	Avg. Grants	Avg. Loans	Grants (%)	Loans (%)
2001-2004	866.69	623.815	242.875	72	28
2005-2008	3693.5	2136.111	1557.389	58	42
2009-2012	5716.62	3483.328	2333.293	61	39
2013-2016	21178.34	9735.3	11443.04	46	54

Source: Appendix F- Four Years Average

Table 4.4 shows the composition of Indian aid in Nepal in terms of Grants and Loans from FY2001-2016 making 4 years average FY. In the FY2001-2004, The Indian aid was Rs.866.69 millions out of which grants consist of Rs.623.815 millions and Loan was Rs.242.875 millions. In the FY 2001-2004, the grants in the Indian aid occupied 72% and remaining 28% was occupied by loans. Likewise, in FY 2005-2008, the Indian aid was Rs. 3693.5 millions. The grant was Rs. 2136.111 millions and loans were Rs.1557.389 millions. In the FY 2005-2008, Grant was 58% and loan was 42% in the total Indian aid. Again in FY 2009-2012, the total Indian aid was Rs.5716.62 millions out of which 61% was grant and remaining 39% was loan. In period of 12 years, the Indian Grants dominated the Indian aid to Nepal. However, in the FY 2013-2016, the Indian aid reached Rs.21178.34 millions which consists of Rs. 973503 of

grant and 11443.04 millions of loan. In FY 2013-2016, the loan was 54% and grants were 46%. In the FY 2013-2016, loan was higher in total Indian aid.

Figure 4.4
Composition of Indian Aid

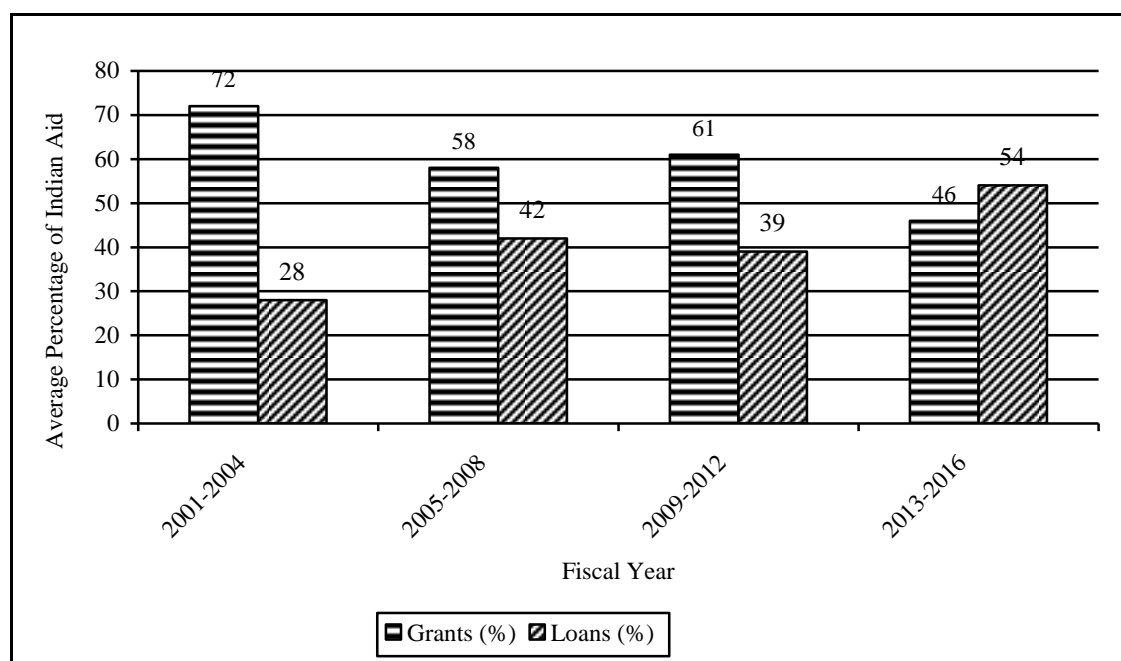


Figure 4.4 shows the composition of Indian aid in terms of grant and loan from FY 2001 to 2016. In the FY 2001-2004, the grant occupied 72% of total Indian aid and loan occupied 28% of total Indian aid in Nepal. Likewise in the FY 2005-2008, grants again were higher than loan which is 58% compared to 42% of loan. Similarly, again in the FY 2009-2012, Indian grant was 61% than 39% of loan of Indian aid. It is clear that in the above mentioned FY grants were higher than loan. However, in the FY 2013-2016, the grant fell to 46% and loan climbed to 54% in the Indian aid to Nepal.

4.6 Indian Aid Commitment and Disbursement

Nepal has been receiving foreign aid from both the bilateral and multilateral donors. India being a close neighbor has been providing assistance in various projects in Nepal. According to International Co-operation Report 2015, India ranks in top 5 bilateral donor in disbursing foreign aid to Nepal. The table 4.5 shows Indian aid commitment and disbursement:

Table 4.5

Indian Aid Commitment and Disbursement (Rs. In Millions)

FY	Indian Aid Commitment	Indian Aid Disbursement	% of Disbursement
2001-2004	866.69	345	39.80
2005-2008	3693.5	1437.5	39.85
2009-2012	5716.62	2973.249	44.06
2013-2016	21178.34	10894.7	51.44

Source: Appendix E

Table 4.5 shows the Indian aid commitment and disbursement situation in Nepal from FY2001 to FY 2016. The average Indian aid commitment was Rs. 866.69 millions in the FY 2001-2004 while the Indian aid disbursement was Rs. 345 millions. Out of aid committed in FY 2001-2004 only 39.80 of Indian aid was disbursed in Nepal. Likewise, the Indian aid commitment was Rs. 3693.5 millions in the FY 2005-2008 and Indian aid disbursement was Rs. 1437.5 millions. The percentage of aid disbursed was 39.85% of total amount committed. Similarly, the aid committed by India in FY was Rs.5716.62 millions in the FY 2009-2012 but only Rs. 2973.249 millions was disbursed in that FY. The disbursed percentage reached 44.06% in the FY 2009-2012. Later, in the FY 2013-2016, the amount of foreign aid committed by India recorded at Rs. 21178.34 millions and the aid disbursed reached Rs. 10894.7 millions which was 51.44% of the amount committed.

Figure: 4.5

Indian Aid Commitment and Disbursement in Nepal

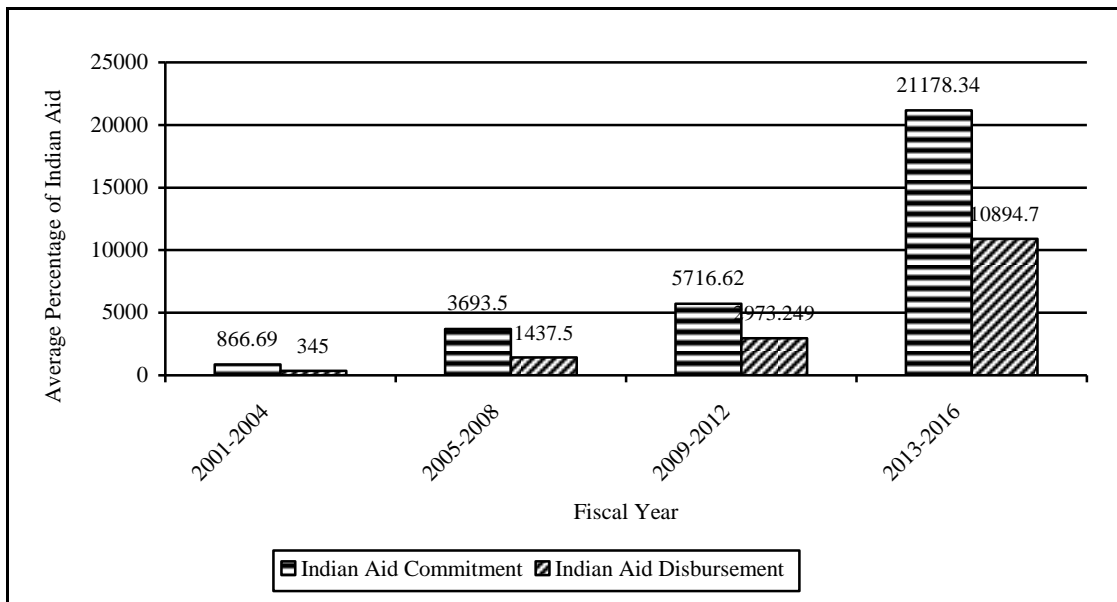


Figure 4.5 shows the Indian aid commitment and disbursement situation in Nepal. The average Indian aid commitment was Rs. 866.69 millions in the FY 2001-2004 while the Indian aid disbursement was Rs. 345 millions. Likewise, the Indian aid commitment was Rs. 3693.5 millions in the FY 2005-2008 and Indian aid disbursement was Rs. 1437.5 millions. Similarly, the aid committed by India in FY was Rs.5716.62 millions in the FY 2009-2012 but only Rs. 2973.249 millions was disbursed in that FY. Later, in the FY 2013-2016, the amount of foreign aid committed by India recorded at Rs. 21178.34 millions and the aid disbursed reached Rs. 10894.7 millions.

4.7 Contribution of Indian Aid in Various Sectors of Nepal

India-Nepal economic cooperation began in 1951. The objective of this program was and continues to be to complement the efforts of the Government of Nepal in the country's national development. India's assistance program in Nepal is guided by the vision that, together with progress in the political process in Nepal, it is equally important to ensure that economic outcomes, particularly in the areas of education, health and infrastructure, must reach people without preconditions. a smooth, fast and unhindered way. To this end, the Government of India provides technical and financial assistance for the multisectoral development of Nepal. The scope and breath of India's economic assistance programme has been expanding over the years. A snapshot of the number of projects in recent years are:

Table: 4.6
Numbers of Projects under Indian Assistance

No. of projects at the end of FY	Small project	Large and Intermediate Project	Total
2004	16	10	26
2005	56	22	78
2006	100	24	124
2007	174	26	200
2008	247	28	275
2009	294	30	324
2010	340	30	370
2011	366	35	401
2012	396	35	431
2013	425	35	460
2014	450	35	485
2014	462	35	497
2014	466	36	502
2015	474	36	510

Source: India Embassy

The small and large and intermediate project significance can be drawn using SPSS. The table below shows the result of paired sample t-test:

Table 4.6.1

Paired Sample T-test

	Paired Differences			t	df	sig
	Mean	Std. Deviation	Std. Error Mean			
Small-large	2.7492	153.85	41.118	6.686	13	.000

The table 4.6.1 shows the pair differences result between small and large and intermediate project. We can see that t-value is 6.686 and the degree of freedom is 13.

The critical value is 3.012. Likewise, the significance value is as 0.000. So, we can conclude that there is significance difference between small and large projects at 1 % significance level.

Small development projects are implemented on the basis of a memorandum of understanding signed between GoI and GoN in November 2003 and renewed in June 2006, August 2008 and August 2011. The validity of the current MoU is until 5 August of 2014 and expands on August 13, 2014 until August 5, 2017. Projects that cost less than NR.5 crores (about \$ 0.7 Million), ie IRs. 3,125 crores) are carried out with emphasis in areas of Infrastructure Development and Capacity Building in the areas of Education, Health Community Development. The projects are implemented through the local bodies of GON viz. District Development Committee (DDC), Municipality, Divisional Office of the Department of Urban Development and Building Construction (DUDBC). The Embassy of India does not release funds directly to beneficiary organizations. Funds are provided to the local GON agency in affected districts in four installments based on progress reports received from the local agency. A supervisory committee consisting of the executing agency (DDC, etc.), the district office (education, health, etc.), local community leaders and beneficiary organizations is established to ensure the quality and timely implementation of the projects. Implementation of the projects is closely monitored by the Embassy's CE Wing through periodic inspections on the site by officials.

The sectoral contribution made by the Government of India in Nepal is as follows:

1. Education

School / University / Library Buildings: Education creates the building blocks for the nation building process and is the first step towards the development of any country. Government of India focuses on building infrastructure to provide good buildings, equipped with furniture, laboratories, computers, etc. to provide a proper education. It also ensures that proper toilets and drinking water facilities are provided for students and staff. Government of India is assisting institutions at all levels, 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 almost all districts of the country reaches 273 at an approximate cost of IR. 336 crores.

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

2. Health

Health is one of the central areas of cooperation between India and Nepal. Beginning with the supply of medicines and equipment, cooperation has been built and developed health infrastructure ranging from major hospitals to numerous health posts, even in the furthest corners of the country.

Bir Hospital: In 1984-85 the five-floor OPD complex of Bir Hospital in Kathmandu was built with the assistance of the Government of India. It has the capacity to accommodate 2,500 outpatients and is equipped with sophisticated facilities. The Government of India also provided a modern Nuclear Imaging Medicine Center as well as other equipment for use in the OPD, making it the most important Healthcare Institution in Nepal. The services of two Indian experts were also provided for a period of four years for the training of specialist physician in the Department of Nephrology Bir Hospital.

National Trauma Center in Kathmandu: The Center was built with the help of GOI is a Super Specialty Hospital and first of its kind in Nepal. It has been built on the lines of the Trauma Center of the Institute of Medical Sciences of All India in New Delhi for the treatment of trauma patients. The Government of India, at the request of the Government of Nepal, decided to build this Center fully equipped with modern medical equipment to save valuable lives. The memorandum of understanding for the creation of the Center was signed between the IG and GON on 07/30/2003. The cost of the project is about IRs. 100 crores. The National Trauma Center was jointly opened by Hon. Shri Sushil Koirala, Prime Minister of Nepal and Shri Narendra

Modi, the Honorable Prime Minister of India on November 25, 2014.

B.P. Koirala Institute of Health Sciences (BPKIHS) in Dharan is the largest hospital-medical-school out of the Kathmandu Valley which was built with the help of Rs GOI. 120 crores. This hospital is providing medical care to patients not only from the eastern region but also to patients coming from all over Nepal. Government of India is also providing medical support from the Faculty of Medicine faculty by deputing expert teachers from renowned institutes of India who are teaching students and also assisting the hospital in treating patients and developing the ability in the field of medicine and surgery. The institute is providing MBBS and Post Graduate Degrees in medical sciences helping to make Nepal self-sufficient in the health sector. The Institute building was formally delivered to GON in September 1999. On March 11, 2014, the Ambassador inaugurated the College Block built in the hospital facilities with the help of GOI of Rs 6.86 Crores. Since 2013-14, India is also providing an annual Rs. 1 crore to BPKIHS for five years to partially cover the recruitment of the Indian faculty for the introduction of superb specialty courses by BPKIHS and / or any other program specifically to promote ties / exchanges with India. Government of India will provide financial assistance of IRs.2.50 crores to BPKIHS for the acquisition of furniture and equipment for the block of schools in BKIHS, Dharan.

Hospitals and Maternity Centers under the SDP Program: Several health posts, nursing centers, maternity centers, ophthalmic hospitals, naturopathy hospitals have been undertaken under our Small Development Project scheme. Infrastructure of 25 hospitals has been occupied in the country with the Government of India assistance of Rs. 38 crores in 18 Districts.

Gift of Ambulances / Buses: To facilitate the transfer of patients from rural, remote and remote areas to medical centers in Nepal, GoI has provided 462 ambulances since 1994 through 73 districts in Nepal. These vehicles provide a vital link for transporting patients to medical centers and hospitals. 90 school buses have also been endowed with various health and education institutions to facilitate the movement of teachers, students, doctors and nurses.

Goiter Control Program: Iodine deficiency disorders (IDD) are a major micronutrient deficiency in Nepal. Since 1973, GoI has provided assistance of Rs.43 crores for Goitre's control program and other iodine deficiencies in Nepal. Govt. of India has

also agreed to provide Rs. 4.3 crores for iodine deficiency disorders in Nepal, whose memorandum of understanding has been signed. The program has been very successful in controlling IDD in the country, which has been one of the success stories related to the health of GON.

Assistance to Nepal Netra Jyoti Sangh (NNJS) for the cataract and trachoma surgery program: Cataract blindness 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 cataracts in one or both eyes every year. Trachoma is the second leading cause of preventable blindness in Nepal. Of the 75 districts in Nepal, 29 districts are affected by Trachoma. With the help of the Government of India, Nepal Netra Jyoti Sangh (NNJS) organizes approx. 400 fields of detection and treatment (DST) and field of surgery for Cataract in 52 districts and for TT in 14 districts in the country each year. These fields provide absolutely free medical service to patients. More than 1.02.000 patients have been cured for cataract and about 5,100 patients have been cured of Trachoma under this program. Government of India is providing assistance from Rs. 2.10 crores to NNJS during 2014-15 for the eye care program.

Since 2007 the Government of India has been providing assistance to NNJS to conduct eye camps in schools in remote areas and to provide 9,000 free optical devices for visually impaired children and 300 low vision dispensers to children in Nepal each year. India has provided financial assistance of Rs. 2.32 crores to NNJS for your School Health Care Program. A moving van that costs Rs. 13.52 lakh has also been provided to NNJS for holding ocular camps in schools. A Memorandum of Understanding was signed on 17 September 2014 between the Indian Embassy, Kathmandu and Nepal Netra Jyoti Sangh (NNJS) for providing assistance of Indian donations of Rs.64 lakhs to the NNJS for the Ophthalmological Health Care Program in several Districts of Nepal.

3. Telecommunications

India's government provided assistance of IR.74 crores to Nepal for the placement of 904 kilometers of fiber optic cable along the East-West Highway and the creation of 80 SDH equipment stations. Fiber optic cable has formed the backbone of the telecommunication network in Nepal and has transformed the lifestyle of Nepalese

citizens and has made connectivity faster and more reliable.

4. Roads and bridges

Government of India has built 807 kilometers of the total road length of 1024 kilometers of the East-West highway from Mahendranagar to Mechi (Mahendra Raj Marg) that today day a life line from Nepal. Twenty-two bridges were built by the Government of India in the Kohalpur-Mahakali section of the East-West Highway. These were delivered to the Government of Nepal in 2001. In addition to this, in recent times 8 urban and urban roads and a bridge with the help of the IR have been built. 12.83 crores under the Small Development Projects Program to facilitate access to people in remote villages. Currently working on the construction of 8 roads and 3 bridges at a cost of Rs. 20.43 crores. GoI is also funding the upgradation of the Dakshankali (Kathmandu) road to Kulekhani (Makwanpur) at a cost about Rs. 9.37 crores and an additional fund of Rs.3.11 crores has been sanctioned for additional work related to drainage, landslide, slop stabilization etc.

Terai Roads Projects: During the visit of the Minister of Foreign Affairs of India to Nepal in January 2010, both Governments signed a Memorandum of Understanding for the development and construction of roads in the Terai area in Nepal. Phase I of the project covers the development of 19 postal / postal roads in the districts of Terai. These 19 roads with a total length of 605 km being built in Phase I with Indian assistance of approximately Rs.700 crores will not only provide easy access to around 88 lakh people but will also aid in promoting trade and industry which will ultimately contribute to the overall economic development of Nepal. Phase I will be followed by Phase II and will cover approximately 845 kilometers of roads. Physical work has already begun on all Phase I roadside packages.

5. Electrification Projects

GOI is trying to bring the smile in the face of villagers who do not have access to electricity and spend their nights in the dark or have to burn kerosene lamps for lighting. GOI is providing assistance of Rs.13.77 crores for the electrification of 28 Peoples through Nepal Electricity Authority. The project is ongoing. The improvement of the small hydroelectric plant of Thame Khola in the district of Solukhumbu has also been undertaken by GoI with a subsidy aid of Rs. 2.76 crores.

6. Drinking Water Projects

Government of India has implemented a scheme of drinking water projects for remote villages where people have to walk long distances to go get potable water. GOI has provided assistance from Rs. 13.75 million for potable water projects in several districts of Nepal. A project to provide drinking water in the base camp of Mt. Everest in the Solukhumbu district is being undertaken by the Government of India at a cost of Rs. 2.46 crores. A Memorandum of Understanding was also signed on December 6, 2014 for providing GoI assistance for a total of Rs.64 lakh for the Drinking Water Supply Project at Mustang Dist. This will mitigate the drinking water problems of the Purangaon and Ranipawa villages of Mustange district. This is also expected to contribute to the promotion of tourism as well as serve the needs of local people.

7. Strengthening Cross-border Linkages

The Government of India has undertaken to assist the Government of Nepal in establishing integrated checkpoints (ICPs) at four major points along the India-Nepal border. These are: Raxaul (India) -Birgunj (Nepal), Saunali (India) -Bhairahawa (Nepal), Jogbani (India) -Biratnagar (Nepal) and Nepalgunj Road (India) -Nepalgunj (Nepal). Both Governments have decided, with mutual consent, to begin work on ICPs Raxaul-Birgunj and Jogbani-Biratnagar in the first phase with Indian assistance from Rs. 270 crores for the segment that falls in Nepal. The PICs will have a state-of-the-art infrastructure, which will facilitate integrated customs and immigration to facilitate cross-border movement of people and goods. Minister of Interior of India laid the cornerstone of the ICP in Raxaul on April 24, 2010, while the Minister of State for the Interior laid the foundations of ICP in Jogbani on June 24, 2010. Minister of Foreign Affairs, Government of India laid the foundation stone of ICP Birgunj on April 22, 2011.

8. Cross-border Rail Links

Government of India has accepted the request of the Government of Nepal for the establishment of cross-border rail links in five places on the Indo-Nepal border. (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 Jalpaiguri in India to Kakarbhitta in Nepal. The work on railway

connectivity at Jaynagar-Bardibas involves the conversion of the 51 km rail line from Jaynagar to Bijalpura into track gauge and its 17 km stretch to Bardibas and at the Joghani-Biratnagar rail link of 17.65 km is underway in the first phase of the project. The estimated cost of the two railway links proposed to be absorbed in the first phase is more than Rs 802 crores.

9. Culture

The Government of India has also contributed substantially to the renewal and preservation of Nepal's unique cultural heritage. Some of the major projects undertaken by GoI in past years include the restoration work of 18 historic sites in the Lalitpur district and the restoration of the Bhasha Parishad House of Nepal in Naradevi, Kathmandu. A library building for the Nepal Academy in the Kathmandu district is also under process. The construction of the Library building will not only further enhance the friendly relationship between Nepal and India but will also help to develop a strong monument of relationship in the field of literature. Work has also begun on the restoration of two historic ponds, namely Ganga Sagar and Dhanushsagar in Janakpur, as well as the restoration and renovation of the Bhumi Maidan Rang in Janakpur. This renovation would provide improved facilities for the thousands of devotees who visit the religious and historic city of Janakpur. More than Rs. 16 crores has been committed by the Government of India in this field. Construction of a Dharamshala for the Pashupati Area Development Trust: - The project envisages the construction of a Dharamshala for the Pashupati Area Development Trust at an estimated amount of crs Rs.18.25. MoU for the project was signed in March 2004 and extended until December 2017. Consultant for the project has been appointed and the process for awarding the contract for construction is happening.

10. Security Cooperation

National Police Academy (NPA): - The Government of India and the Government of Nepal signed a Memorandum of Understanding for the construction of the National Police Academy in Panauti in Kavrepalanchowk district on November 25, 2014. The first stone for the construction of NPA was also put together by Shri Sushil Koirala, Prime Minister of Nepal and Shri Narendra Modi, the Honorable Prime Minister of India on November 25, 2014. The project is being implemented with the assistance of

GoI of Rs.5.49,46 crores. The project will be completed gradually over a period of four years. Its objective is to develop quality human resources so that the Nepal Police achieve organizational and individual goals with a strong commitment to service and responsibility with the people and to maintain public order in the country.

Table 4.7
Indian Aid by Sectors Till 2016

Sectors	Aid Commitment (In Nrs. Millions)	Percentage of Aid commitment
Earthquake Reconstruction	25000	33.5
Road transportation	7302.73	10
Local development	13554	18
Electricity	400	0.5
Defence	22036	29.56
Communication	637.00	0.9
Education	458.82	0.6
Health	70.95	0.1
Drinking water	2555.93	3.42
Energy	2555.96	3.42
Total	74572.17	100

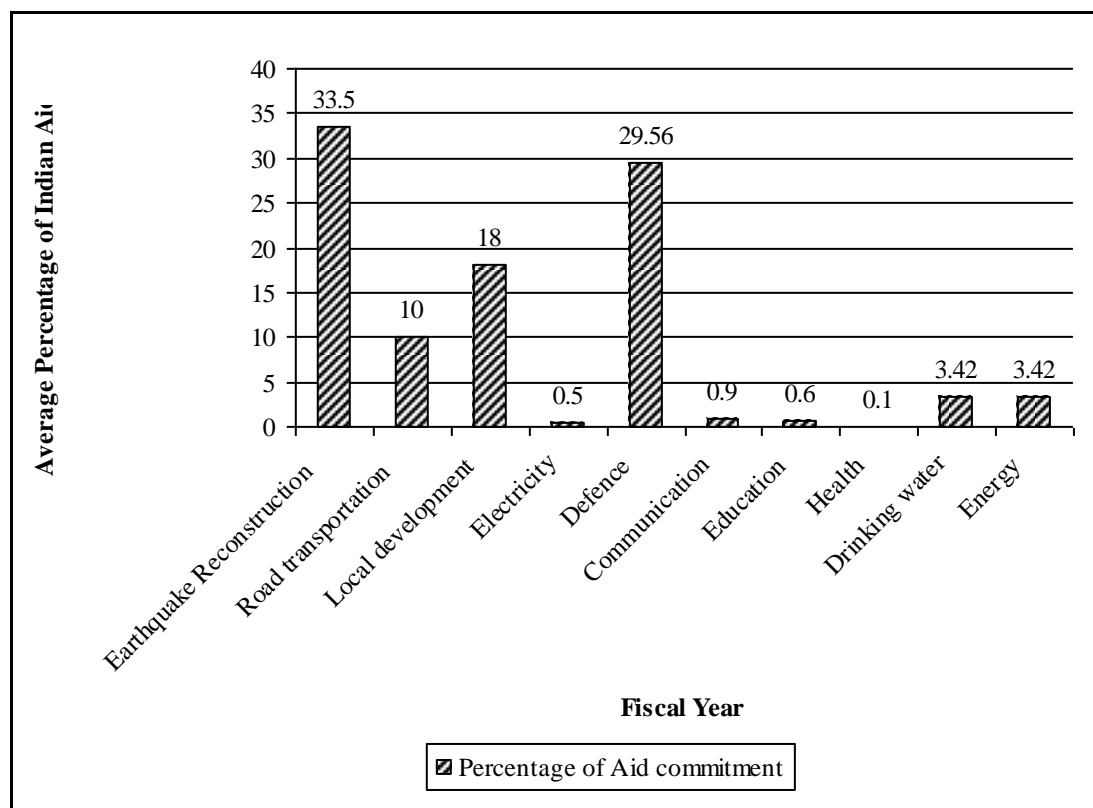
Source: Aid Management Platform, MoF, Nepal (2016)

Table 4.7 shows the Indian Aid commitment till 2016 in various sectors of Nepal. In the above table, Indian aid commitment to earthquake reconstruction was Rs. 25000 millions which occupied 33.5% of the total aid commitment. Likewise, Rs. 7302.73 millions was committed for road transportation by Indian Government in Nepal. The percentage of aid commitment in road transportation was 10%. Similarly, for local development Rs. 13554 millions was committed by India which occupies 18% of the total aid committed by India. Again, the amount committed for electricity was Rs. 400 millions in Nepal. Another huge amount was committed for defense which is Rs. 22036 millions. It occupied 29.56% of the aid commitment. For communication, Rs. 637 millions was committed by Indian government which is 0.9% of the total amount committed. Rs. 458.82 millions was committed for Education by India. It occupied 0.6% of the total aid commitment. Only Rs.70.95 million was committed for health

sector in Nepal by GoI. Likewise, for drinking water and Energy Rs. 2555.93 million was committed respectively.

Figure 4.6

Figure Showing Indian Aid in Various Sectors Till 2016



Source: AMP, MoF Nepal (2016)

The bar graph shows the Indian aid commitment in various sectors till 2016. In the figure above, it can be seen that for Earthquake reconstruction the highest amount was committed by India. Earthquake reconstruction occupied 33.5% of the total aid commitment. Likewise, defense comes in second for highest amount committed by India. It occupied 29.56% of the total aid commitment by India till 2016. Similarly, local development comes in the third place for aid commitment. 18% was committed for local development by India. Road Transportation also occupied 10% of the total aid committed by India. For drinking water and energy, both covered 3.45% of the total aid commitment by Indian Government. Likewise, 0.9% was committed for communication, 0.6 for education and 0.5 for electricity by the India to Nepal. The lowest amount was committed for health sector which is only 0.1% of total Indian aid committed.

4.8 The Impact of Indian Aid on GDP

Foreign Aid is said to have effects on economic growth and overall welfare of the economy. Larger amount of Foreign Aid is necessary for the further growth of the economy. But there is also a question like whether foreign assistance has proved beneficial for Nepal. Has foreign assistance shown positive effects on the economic growth and overall welfare of the country? If the answer to these queries is found positive then to some extent it can be argued that foreign aid has played positive role in the Nepalese Economy and is necessary for the further growth of economy. This intends to analyze the impact of Indian Aid to the total gross domestic product (GDP) of Nepal. All the data in the analysis are taken from various economic surveys, budgets and World Bank. The regression model is used from SPSS software. The following results were obtained:

Table 4.8
Regression Results

Model	B Coefficient	SE	t	Sig	R ²	F	Sig at 0.05	DW
I Constant	1.134E6	145763.569	7.782	.000				
Indian Aid	21.194	9.108	2.327	.034	0.265	5.414	4.5431	0.346
II Constant	1.122E6	147321.548	7.614	.000				
Indian Aid Grants	45.073	19.074	2.363	.032	0.271	5.584	4.5431	0.339
III Constant	1.144E6	147321.548	7.989	.000				
Indian Aid Loan	40.082	17.053	2.350	.033	0.271	5.525	4.5431	0.371

Note: *sig. at 5% level of significance

The table 4.8 shows the output of the regression where dependent variable is GDP and independent variable which is Indian aid (IA). Due to lack of availability of data only 17 years (2000-2016) is taken. In model 1, the Pearson's coefficient is 0.515 which implies that there is positive correlation between the independent and dependent variables. The value of R² is 0.265 implying that predictor Indian aid accounts 26.5% variation in the total GDP. The value of F-statistic is 5.414, which the critical value of F is 4.5431 at 5% level of significance which indicates that R² is statistically

significant. That is the estimated equation is significant. Likewise, the slope of Indian aid inflow is 21.194 which indicate that there is positive relation between GDP and Indian aid. This implies that when total Indian aid inflow increases by 1 million GDP increases by 21.194 millions. The value of d-statistic is 0.346. For $n = 17$ and $k = 1$, Durbin Watson statistic $d_l = 1.133$ and $d_u = 1.381$ at 5% level of significance. Since $d < d_u$. So, there is statically significant evidence of positive autocorrelation.

Similarly, Indian aid consists of Indian Grant and Indian loan. A separate regression model was used in order to see the impact of Indian grant and loan in the GDP. The above table shows the output of the regression. In the model 2, the dependent variable is GDP and the independent variable is Indian Grant (IG). Due to lack of availability of data only 17 years (2000-2016) is taken. The Pearson's coefficient is 0.521 which implies that there is positive correlation between the independent and dependent variables. The value of R^2 is 0.271 implying that predictor Indian aid accounts 27.1% variation in the total GDP. The value of F-statistic is 5.584, which the critical value of F is 4.5431 at 5% level of significance which indicates that R^2 is statistically significant. That is the estimated equation is significant. Likewise, the slope of Indians grant inflow is 45.073 which indicate that there is positive relation between GDP and Indian aid grant. This implies that when total Indian aid grant inflow increases by 1 million, GDP increases by 45.073 millions. The value of d-statistic is 0.339. For $n = 17$ and $k = 1$, Durbin Watson statistic $d_l = 1.133$ and $d_u = 1.381$ at 5% level of significance. Since $d < d_u$. So, there is statically significant evidence of positive autocorrelation.

Likewise for model 3, the dependent variable is GDP and the independent variable is Indian loan (IL). Due to lack of availability of data only 17 years (2000-2016) is taken. The Pearson's coefficient is 0.519 which implies that there is positive correlation between the independent and dependent variables. The value of R^2 is 0.269 implying that predictor Indian aid loan accounts 26.9% variation in the total GDP. The value of F-statistic is 5.525, which the critical value of F is 4.5431 at 5% level of significance which indicates that R^2 is statistically significant. That is the estimated equation is significant. Likewise, the slope of Indian loan inflow is 40.082 which indicate that there is positive relation between GDP and Indian loan aid. This implies that when Indian aid loan inflow increases by 1 million, GDP increases by 40.082 millions. The value of d-statistic is 0.371. For $n = 17$ and $k = 1$, Durbin Watson statistic $d_l = 1.133$ and

$d_u=1.381$ at 5% level of significance. Since $d < d_u$. So, there is statically significant evidence of positive autocorrelation.

Table 4.9
Anova Table

Model	df	F	Sig	Sig at 0.05
1. Regression	1	5.414	0.034	4.5431
Residual	15			
2. Regression	1	5.584	0.032	4.5431
Residual	15			
3. Regression	1	5.525	0.033	4.5431
Residual	15			

From the Anova Table 4.9, for model 1, the value of F-statistic is 5.414, while the critical value for F is 4.5431 at 5% level of significance which indicates that R^2 is statistically significant. That is the estimate equation is significant. Likewise, for model 2, the value of F-statistic is 5.584, while the critical value for F is 4.5431 at 5% level of significance which indicates that R^2 is statistically significant. That is the estimate equation is significant. Similarly, for model 3, the value of F-statistic is 5.525, while the critical value for F is 4.5431 at 5% level of significance which indicates that R^2 is statistically significant. That is the estimate equation is significant. On the whole, the estimated equations are found significant.

4.9 Major Findings and Discussion

The major findings from the analysis of data are given below:

- The Indian aid is continuing to inflow in Nepal as being close neighbor India is assisting and providing aid to Nepal. The total Indian aid reached total of Rs.133843 million since 1990-2016. 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 Rs.64255.21 millions and the total Indian loan aid reached 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 finding of the study was the total aid commitment to disbursement is very

low. Not all the commitment amount has been fully disbursed. 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. We can see loophole here and there is huge difference in aid commitment and aid disbursement.

- India is providing aid in almost every sector in Nepal. The areas include education, local development, defense, communication, health, energy, transportation, electricity etc. India has provided aid in various sector out of which Earthquake reconstruction occupies 33.5%. Likewise defense occupies 29.56%, local development occupies 18%, road transportation occupies 10%, energy and drinking water occupied 3.42% each, communication occupies 0.9%, electricity occupied 0.5% and health occupied 0.1%.
- 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 Indian aid has been increasing in Nepal since the restoration of democracy and implementation of liberalization and globalization policies in Nepal. In the study period (FY1990-FY2016), the Indian aid reached Rs. 133843 millions. However, in the previous study (FY1985-FY2009), the Indian aid was Rs. 29391.39 millions. The total volume of Indian aid increased by Rs. 104451.61 in period of 7 years. In the

present, the Indian aid occupied 8.19% in the total aid. However, the Indian aid was 4.81% in the previous study. In the period of 7 years, Indian aid has assisted two times more of previous period. The total Indian aid grants reached Rs.64255.21 millions and total Indian aid reached 61758.78 millions. However, there were no information about grants and loan in the previous study. From this, we can know that the volume of Indian aid, as well as its components has increased significantly.

The Indian aid commitment and disbursement situation has been low in Nepal. The amount of Indian aid commitment has not been fully disbursed. In the previous study, the disbursement amount was only 26.84% but the disbursement amount is 48.12% of the total aid commitment in the present study.

In the previous study, India has provided aid in agriculture, horticulture, irrigation, road and bridges construction etc. However, the present study finds the shift of aid to earthquake reconstruction, defense, local development, drinking water, communication, electricity, health etc.

Likewise, the impact of Indian aid on GDP has found positive and significant. The slope of Indian aid is 21.194 which implies that when there is 1 million increase in Indian aid, GDP increases by 21.194 millions. The previous study also finds positive impact but the slope was quite low. The study also examines the impact of grants and loans on GDP which previous study failed to show it. In this way, the present study is beneficial for other researchers and concerned stakeholders.

CHAPTER 5

SUMMARY AND CONCLUSIONS

5.1 Summary

Nepal is one of the least developed countries with low level of saving and investment. Nepal suffers from serious problem of resource gap. The revenue collection of Nepal is enough to cover its recurring expenditures. The GON is not able to raise adequate revenue from domestic sources to finance its development projects. The development of Nepal has been patchy and incomplete with limited domestic capital despite having high potential for the exploitation of natural resources. So, GON has been receiving aid from various bilateral as well as multilateral donors. USA, UK, Japan, China, India, Switzerland, Denmark, Norway are major bilateral donors. Likewise, WBG, ADB, UN, IFAD, DANIDA, DFID are some of the multilateral donor supporting in various activities in endeavoring to sustainable economic growth. In the developing countries like Nepal, due to the insufficiency of financial capital, the adequate mobilization of international resources could not have been made without foreign aid in order to accelerate the rate of economic development and growth. If the utilization of aid is effective, foreign aid plays a vital role in developing towards the modernization of under developing countries. Foreign aid has been a dominant feature of the relationship between developed and developing countries since 1960s; aid recipients have been major sources of external finance for the majority of countries in Africa and Asia. The impact of foreign aid on economic growth remains a subject of considerable debate. Its performance varies across countries due to geographical location, policy environments and socio-economic conditions. The history of foreign aid is not very old for Nepal.

The study attempted to get various empirical results using only secondary data. The required data were obtained from various sources like Economic surveys, Ministry of Finance (MOF), Indian Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), World Bank, International monetary fund, OECD etc. The time coverage of the study is from FY 1990 to FY 2016 as more Indian inflowed after the restoration of democracy in Nepal. The regression analysis is used to examine the impact of Indian Aid as well as its components on GDP.

The study main focus was to show the trend and patterns of Indian aid in Nepal. The trend of Indian aid took increasing and decreasing pattern in the study period but the overall volume of Indian aid reached Rs. 133843.8 millions in the study period from FY 1990-FY 2016. The study shows Indian aid in various patterns. The Indian aid occupied 8.19% in the total aid. The Indian aid covered an average of 0.35% in the total GDP of Nepal. The studied showed that composition of Indian aid in terms of grants and loan which indicates that the grants have occupied higher amount than the Indian loan in Nepal. The study shows the impact of Indian aid in GDP of Nepal. From, the regression analysis we find that Indian aid has impacted hugely in the GDP of Nepal. India being close neighbor of Nepal has many similarities in social, economic, religious and cultural aspects. Nepal is a land locked country which is surrounded by India in 3 sides. India has continued its focus on power, irrigation, road and bridges and reconstruction. Likewise, the others areas of assistance include health, education, electricity generation, communication, peace and construction. India being top bilateral donor is contributing in various sector of Nepal.

5.2 Conclusion

Developing countries like Nepal are facing deficiency of capital. There exists high resource gap between revenue and expenditure due to deficiency of capital, adequate mobilization of internal resources could not have been made without foreign aid to accelerate the required growth rate of the economic growth and development. Foreign aid is a means from where a self-sustaining required economic growth rate can be achieved. The function of foreign aid is to enable the developing countries to make the transition from economic stagnation to self-sustaining economic growth. In Nepal foreign aid has definitely brought a significant change in a socio-economic status of Nepalese people. More people have access on education, health and communication from when foreign countries assisted Nepal. The number of schools, hospitals, communications and social services facilities has increased significantly. The road network has also significantly expanded enabling a large number of towns and villages in peripheral areas to expand the local people's economic status as well as social life. Therefore, foreign aid plays a foremost role in Nepal, has been effective in bringing the desired level of benefits to the people. Among the various projects under foreign aid, few of them are successful to fulfill their indicated aim but in aggregate

they has been less effective in bringing effective level of economic growth. Moreover, it has led us to greater aid dependency.

The Indian aid to Nepal has increased significantly after the restoration of democracy in Nepal after FY1990. The Indian aid inflow and GDP of Nepal are highly correlated and Indian aid has played a vital role on increasing the GDP of Nepal. The Indian aid grant inflow is more than Indian aid loan in comparison. The average disbursement level was found 48.12% of total Indian aid commitment which shows a wide gap between Indian aid commitment and disbursement.

The Indian aid to Nepal was largely focused on transportation, irrigation and power generation before the restoration of democracy but after 1990, the focus of Indian aid to Nepal has been shifted to health, education, communication etc. Terms and condition of securing aid from donors including India are normally tough for Nepal. The donors normally pressurize Nepal to receive aid in the areas of their own interest.

5.3 Recommendations

Some weaknesses still can be noted in receiving and utilizing foreign aid to Nepal. On basis of this study, following recommendations are suggested.

- Nepal is impoverish and capital deficient country. So, it is very difficult to gain momentum in economic development of Nepal in the absence of enough foreign aid. However, the terms and conditions of loan and grants should be fruitful to Nepal. So, long term loan should be change into grants inorder to be free from repayment of loan in the future.
- Disbursement of Indian aid to Nepal is not satisfactory. The aid commitment has no significant if the amount is not disbursed. Donors always advocate for the better utilization of resources provided to Nepal under different assistance program. Administrative hurdles and hassles, frequent change in government, poor implementation of program, corruption and lack of strong monitoring mechanism for donor driven projects are making donors to think twice before disbursing aid for a project. So, the above mentioned should be solved inorder to garnish the higher amount of aid disbursement in the country.

- Garnering higher amount of foreign aid is taken to be a matter of pride by the political leaders and bureaucrats of Nepal which certainly increases the debt burden on the shoulders of Nepali people but it does not guarantee that the aid received will be used in productive sectors. So, aid should be utilized in productive activities.
- India should provide assistance in production sectors as well as new and emerging technologies such as information technologies, digitization.

APPENDIX A

Foreign aid inflow in Nepal in terms of Grants and Loan

In NRs. Million

FY	Total Aid	Grants	% of Grants in TA	Loan	% of Loan in TA
1990/91	5990.0	1630.0	27.21	4360.0	72.79
1991/92	7800.4	1531.0	19.63	6269.4	80.37
1992/93	9235.6	3273.9	35.45	5961.7	64.55
1993/94	11557.2	2393.6	20.71	9163.6	79.29
1994/95	11249.4	3937.1	35.00	7312.3	65.00
1995/96	14289.0	4825.1	33.77	9463.9	66.23
1996/97	15031.9	5988.3	39.84	9043.6	60.16
1997/98	16457.1	5402.6	32.83	11054.5	67.17
1998/99	16189.0	4336.6	26.79	11852.4	73.21
1999/00	17523.9	5711.7	32.59	11812.2	67.41
2000/01	18797.4	6753.4	35.93	12044.0	64.07
2001/02	14384.8	6686.2	46.48	7698.6	53.52
2002/03	15885.5	11339.1	71.38	4546.4	28.62
2003/04	18912.4	11283.4	59.66	7629.0	40.34
2004/05	23657.3	14391.2	60.83	9266.1	39.17
2005/06	22041.8	13827.5	62.73	8214.3	37.27
2006/07	25854.4	15800.9	61.11	10053.5	38.89
2007/08	29300.6	20320.7	69.35	8979.9	30.65
2008/09	36351.7	26382.8	72.58	9968.9	27.42
2009/10	49769.4	38546.0	77.45	11223.4	22.55
2010/11	57997.8	45922.2	79.18	12075.6	20.82
2011/12	51893.4	40810.3	78.64	11083.1	21.63
2012/13	47199.2	35229.8	74.64	11969.4	25.36
2013/14	60204.6	42205.8	70.11	17998.8	29.89
2014/15	122914.7	73385.9	59.7	49528.8	40.3
2015/16	205894.1	110929.4	53.87	94964.7	46.13
2016/2017	302612.1	106896.4	35.32	195715.7	64.68
Total	1228994.7	659740.9		569253.8	
Average	45518.3222	24434.8481		21083.4741	

Source: Economic surveys and Annual Budget of various years, MoF, Nepal

APPENDIX B

Foreign Aid Inflow in Nepal with Indian Aid

In NRs. Millions

FY	Total Aid	Indian Aid	% of Indian Aid in TA
1990/91	5990.0	360.81	6.02
1991/92	7800.4	580.23	7.44
1992/93	9235.6	985.25	10.66
1993/94	11557.2	1163.68	10.06
1994/95	11249.4	1450.00	12.88
1995/96	14289.0	80.17	0.56
1996/97	15031.9	1207.37	8.03
1997/98	16457.1	842.59	5.11
1998/99	16189.0	573.60	3.54
1999/2000	17523.9	586.10	3.34
2000/01	18797.4	541.00	2.87
2001/02	14384.8	788.39	5.48
2002/03	15885.5	971.5	6.11
2003/04	18912.4	1083.74	5.73
2004/05	23657.3	623.13	2.63
2005/06	22041.8	342.23	1.55
2006/07	25854.4	4431.77	17.14
2007/08	29300.6	2779.85	9.48
2008/09	36351.7	6872.5	18.90
2009/10	49769.4	3127.48	6.28
2010/11	57997.8	6663.82	11.48
2011/12	51893.4	11659.226	22.46
2012/13	47199.2	1415.995	3.00
2013/14	60204.6	6070.295	10.08
2014/15	122914.7	5585.772	4.54
2015/16	205894.1	10577.939	5.13
2016/2017	302612.1	62479.377	20.64
Total	1228994.7	133843.8	(Avg) 8.19

Source: Economic surveys and Annual Budget of various years, MoF, Nepal

APPENDIX C

Indian Aid Inflow in Nepal with Grants and Loan

In NRs. Millions

FY	Indian Aid	Grants	Loan
2000/01	541	341	200
2001/02	788.39	388.39	400
2002/03	971.5	400	571.5
2003/04	1083.74	1083.74	0
2004/05	623.13	623.13	0
2005/06	342.23	342.225	0
2006/07	4431.77	2042.77	2389.00
2007/08	2779.85	1382.85	1397.00
2008/09	6872.5	4776.60	2095.9
2009/10	3127.455	888.846	1240.609
2010/11	6663.82	4541.834	2121.986
2011/12	11659.226	7769.976	3889.25
2012/13	1415.995	732.654	683.341
2013/14	6070.295	1870.295	4200.00
2014/15	5585.772	2150.00	3435.77
2015/16	10577.939	5561.399	5016.540
2016/2017	62479.377	29359.495	33119.882
Total	126014.00	64255.21	61758.78

Source: Economic surveys and Annual Budget of various years, MoF, Nepal

APPENDIX D

Foreign Aid Commitment and Disbursement

In NRs. Millions

FY	Aid Commitment	Aid Disbursement	% of dis
1990/91	5665.4	5990.0	105.72
1991/92	21054.1	7800.4	37.04
1992/93	20524.1	9235.6	44.99
1993/94	13172.2	11557.2	87.73
1994/95	12876.9	11249.4	87.36
1995/96	16537.3	14289.0	86.40
1996/97	39643.0	15031.9	37.91
1997/98	32022.1	16457.1	51.39
1998/99	18352.5	16189.0	88.21
1999/00	20448.0	17523.9	85.69
2000/01	31287.0	18797.4	60.08
2001/02	33227.7	14384.8	43.29
2002/03	43202.7	15885.5	36.76
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.007
2005/06	20924.2	22041.8	105.34
2006/07	37022.9	25854.4	69.83
2007/08	49186.2	29300.6	59.57
2008/09	47975.2	36351.7	75.77
2009/10	96609.0	49769.4	51.51
2010/11	106096.7	57997.8	54.66
2011/12	98178.7	51893.4	52.85
2012/13	115156.8	47199.2	40.98
2013/14	133445.0	60204.6	45.11
2014/15	255819.0	102075.6	39.90
2015/16	195599.0	107406.1	54.91
2016/17	212044.0	97750.0	46.09
Total	1737960	904805.5	(Avg) 62.62

Source: Economic Survey, 2011/12, 2012/13 and 2014/15, MoF, Nepal

APPENDIX E

Indian Foreign Aid Commitment and Disbursement

In NRs. Millions

FY	Indian Aid Commitment	Indian Aid Disbursement	% of Disbursement
2000/01	541.00	30	5.54
2001/02	788.39	00	0
2002/03	971.5	820	84.40
2003/04	1083.74	70	6.45
2004/05	623.13	490	78.63
2005/06	342.23	120	35.06
2006/07	4431.77	2600	58.66
2007/08	2779.85	1210	43.52
2008/09	6872.5	1820	26.48
2009/10	7250.69	1120	15.44
2010/11	6663.82	5072.8	76.12
2011/12	11659.226	5062.07	43.41
2012/13	1415.995	638.126	45.06
2013/14	6070.295	4779.6	78.73
2014/15	5585.772	2222.7	39.79
2015/16	10577.939	3576.7	33.81
2016/17	62479.377	33000	52.81
Total	130137.22	62632	48.12

Source: OECD, MOF and MEA India

APPENDIX F

Indian Aid in Terms of Grants and Loan with GDP

In NRs. Millions

FY	Indian Aid	Grants	Loan	GDP
2000/01	541	341	200	549425
2001/02	788.39	388.39	400	600706
2002/03	971.5	400	571.5	605088
2003/04	1083.74	1083.74	0	633048
2004/05	623.13	623.13	0	727393
2005/06	342.23	342.225	0	813026
2006/07	4431.77	2042.77	2389.00	904372
2007/08	2779.85	1382.85	1397.00	1032562
2008/09	6872.5	4776.60	2095.9	1254544
2009/10	3127.455	888.846	1240.609	1285499
2010/11	6663.82	4541.834	2121.986	1600266
2011/12	11659.226	7769.976	3889.25	1891357
2012/13	1415.995	732.654	683.341	1885151
2013/14	6070.295	1870.295	4200.00	1924425
2014/15	5585.772	2150.00	3435.77	2000297
2015/16	10577.939	5561.399	5016.540	2131355
2016/2017	62479.377	29359.495	33119.882	2114712
Total	126014.00	64255.21	61758.78	19838514

Source: Economic surveys and Annual Budget of various years, MoF, Nepal

APPENDIX G

GDP and Foreign Indian Aid in Nepal

In NRs. Million

FY	GDP	Indian Aid
1990/91	362756	360.81
1991/92	392148	580.23
1992/93	340121	985.25
1993/94	366004	1163.68
1994/95	406678	1450.00
1995/96	440110	80.17
1996/97	452158	1207.37
1997/98	491869	842.59
1998/99	485626	573.60
1999/00	503364	586.10
2000/01	549425	541.00
2001/02	600706	788.39
2002/03	605088	971.5
2003/04	633048	1083.74
2004/05	727393	623.13
2005/06	813026	342.23
2006/07	904372	4431.77
2007/08	1032562	2779.85
2008/09	1254544	6872.5
2009/10	1285499	3127.455
2010/11	1600266	6663.82
2011/12	1891357	11659.226
2012/13	1885151	1415.995
2013/14	1924425	6070.295
2014/15	2000297	5585.772
2015/16	2131355	10577.939
2016/2017	2114712	62479.377

Source: Various Economic surveys, MoF, Nepal

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