

## Chapter 5

NATURE AND PATTERN OF FOREIGN AID TO NEPAL :  
INDIA'S ROLE IN THIS CONTEXT.

Nepal is extremely dependent upon the outside world for development. Nepal's high population growth is contributing factor to this position of dependence. With the population growth rate of well above 2 per cent per annum and nominal per capita income, the rate of savings is low, and the capacity of the government to increase revenue through taxation is likely to remain limited. It ranks among the lowest in the proportion of internal resources used for development. It results in extreme poverty of the country, the low level of monetization of the economy, the absence of a taxable industrial sector, the heavy dependence on low yield agriculture, and the absence of any primary products sought on the world market. Given all these considerations, it is hard to see how Nepal may be much less dependent upon external aid.

Some aid-givers have argued that Nepal is now receiving more assistance than the country can gainfully utilize given her own limitations. But geopolitical considerations rather than Nepal's need or absorptive capacity have largely determined the volume and sources of aid. For the government of Nepal, therefore, the problem is one of how to use the generous aid from outside (whatever the motivations of the giver) to hasten the time when Nepal's dependency can be quickly reduced.

Nature and Pattern of Foreign Aid to Nepal : Broadly speaking there are mainly two types of sources through which aid is channelised bilateral and multilateral. In the context of Nepal, most of foreign aid received by her has been in the form of bilateral grants, the principal donors being India, the U.S.A. and China. To date Nepal has entered into bilateral trade agreements with about 14 countries. The largest donor is of course India which has provided over 38 per cent of the bilateral grants received upto 1979-80. But if we take into account the contribution of three major donors only, India accounts for 50 per cent of the total grants. U.S.A. ranks second and China the third largest donor. Grants from U.K., U.S.S.R. have remained quite moderate, accounting for only 9.3 per cent and 2.4 per cent of the total quantum respectively. Aid from other small donors, e.g. Canada, Japan, Israel, F.R.G. is quite modest but not insignificant.

There is a marked shift in the form and sources of foreign assistance to Nepal. In the early years Nepal was getting foreign aid only from bilateral sources but now she is trying to get aid from multilateral sources. For example, out of the total amount of Rs.382.8 million in the first plan period, only Rs.27.6 million was provided by multilateral agencies. 'Loans' from multilateral agencies, e.g., I.D.A., A.D.B. and O.P.S.C. have been forthcoming since the early

seventies and growing rapidly over the years. As regards 'grants' from multilateral sources, the amount is quite modest, the major contributor being the U.N.D.P. followed by W.F.P. and UNICEF.

There is another marked change in the form and sources of foreign assistance to Nepal. On the one hand the emphasis on multilateral aid is increasing and on the other hand emphasis on 'grant' is decreasing. It means that foreign aid is turning from "gift" to "loan" and from bilateralism to multilateralism.<sup>1</sup> The following table 5.1 shows the total aid inflow to Nepal during 1951-52 to 1979-80.

Table 5.1Total Aid Inflow to Nepal, 1951-52 to 1979-80

(Rs. in Million)

Years	Total inflow	Aid/Grant (Bilateral & Multi-lateral)	Loan (Bilateral & Multi-lateral)	% of Grant in total inflow.	% of Loan in total inflow.
1	2	3	4	5	6
1951-52					
to					
1955-56	95.0	95.0	-	100.0	-
1956-57	27.3	27.3	-	100.0	-
1957-58	58.1	58.1	-	100.0	-
1958-59	35.1	35.1	-	100.0	-
1959-60	125.3	125.3	-	100.0	-
1960-61	125.1	125.1	-	100.0	-
1961-62	182.6	181.6	1.0	99.5	0.5
1962-63	88.1	76.5	11.6	86.8	13.2
1963-64	177.3	165.9	11.4	93.6	6.4
1964-65	146.9	141.0	5.9	96.0	4.0
1965-66	178.6	175.3	3.3	98.2	1.8
1966-67	145.9	142.2	3.7	97.5	2.5
1967-68	158.1	158.1	-	100.00	-
1968-69	185.9	185.9	-	100.0	-
1969-70	251.3	243.7	7.6	97.0	3.0
1970-71	303.2	270.7	32.5	89.3	10.7
1971-72	281.0	242.1	38.9	86.2	13.8
1972-73	227.6	180.2	47.4	79.2	20.8
1973-74	310.5	222.6	87.9	71.7	28.3
1974-75	386.7	282.8	103.9	73.1	26.9
1975-76	505.6	359.7	145.9	71.1	28.9
1976-77	556.9	392.5	164.4	70.5	29.5
1977-78	848.4	466.6	381.8	55.0	45.0
1978-79	989.4	599.3	390.1	60.6	39.4
1979-80	1340.5	805.6	534.9	60.1	39.9
<b>Total</b>	<b>7730.4</b>	<b>5758.2</b>	<b>1972.2</b>	<b>74.5</b>	<b>25.5</b>

Source : Foucayal, S.R. : Foreign aid in Nepal (unpublished)  
CEEA, Dec., 1982.

The above table clearly reveals that about 75 per cent of the total aid inflow has been in the form of 'grant' and about 25 per cent in the form of 'loan'. In fact till 1960-61 all assistance were in the form of 'grant' and it was only since 1961-62 foreign 'loans' started to inflow into the country.

The above table further shows that the trend of cumulative aid inflow into Nepal in the last three decades is quite erratic upto 1972-73, but thereafter it is on an increasing trend. The sharp decline in the quantum of aid was only during 1961-62 and 1966-67 due to Indo-China conflict of 1962 and Indo-Pak war of 1965 respectively. Moreover, the foreign aid component has invariably determined the targets reflected in each plan.

Another pattern of aid is related to project vs. programme aid. For example, project aid has tended to concentrate on large infrastructure projects while programme aid has flowed into agriculture, education, small-scale industry and administrative services.

In case of Nepal, both of these approaches have been used. While India and the United States provide aid to Nepal mostly on the basis of programme, China and the Soviet Union provide aid in the form of project. China also provides

construction materials (commodity assistance) for the completion of various aided projects.

Aid is also given in the form of technical assistance. For example, the agreement of Nepalese government with the Swiss confederation says "the Borrower shall appoint specialised consultants acceptable to the lender". This is the case with the major donors - India, U.S.A., China and F.R.G.

Again in Nepal a large proportion of the assistance flows back to the donor countries (e.g. India, China, U.S.A.) in the form of payments for the imports of machinery and manpower under the conditions of aid. Since the costs of these supplies are generally high, the real value of the assistance may be far less than the face value.<sup>2</sup>

Foreign aid has played an important and decisive role in the economic development of Nepal. It constitutes over 50 per cent of the total outlay envisaged under the development plans. Foreign aid in Nepal has gone in three directions - infra-structural development (including power), health, education and recently on rural development.

Nepal has persistently sought to moderate its dependence relationship by diversifying the sources of economic aid in order to avoid heavy dependence on any one aid programme.<sup>3</sup>

But foreign aid has not been adequate to wipe out the deficit. In fact, gap between total expenditure and total receipts (total revenue plus foreign aid) is widening in Nepal. To bridge the gap, recourse had to be taken to internal as well as foreign debt. Increasing loan means larger outlay on debt services and use of foreign exchange. Deficit financing has its own limitations in Nepal.<sup>4</sup>

India is a unique example of developing country which is itself recipient of a large quantity of foreign aid from the advanced countries of the world and yet is a donor of considerable assistance to other developing countries.<sup>5</sup> This looks more paradoxical if we stick to the popular notion of aid immediately after the second world war in which case only the developed countries extended to less developed countries.<sup>6</sup>

Further, it is unique in the sense that both India and Nepal are underdeveloped in their nature. If India suffered from continuous colonial onslaughts, in Nepal the feudal-cum-aristocratic elite did not permit the benefits of economic development to percolate down to the people.<sup>7</sup>

Objectives of India's Aid Policy to Nepal : India joined the foreign aid programme in 1950, when the representatives of the Commonwealth countries agreed upon a plan for the Co-operative Economic Development of South and South-East Asia, known as the Colombo Plan.<sup>8</sup> India is both a recipient as well as donor of technical assistance under the aegis of Colombo Plan. India's aid policy is to create a climate of mutual trust and confidence as international peace is the prerequisite for economic development. India is extending aid to its neighbouring countries to expand and consolidate economic, technological and scientific co-operation and growth on a long term, stable and mutually advantageous basis.<sup>9</sup> The corner-stone of India's foreign policy is to respect the forces of progress, democracy and national independence as well as non-alignment and to regard them as friends in the common struggle for development and progress. The Indian Prime Minister, Mrs. Indira Gandhi has explained India's role in the development by observing that :

"We feel that it is our duty and privilege to share the knowledge which we have gathered and the experience which we accumulated in the process of development and to allow others to avail our institutions and capacities".<sup>10</sup>

New Delhi's approach was formally brought out in the letter exchanged along with the Treaty of Peace and Friendship, 1950. Para 4 of the letter stated :



'If the government of Nepal should decide to seek foreign assistance in regard to the development of natural resources or of any industrial projects in Nepal, the government of Nepal shall, give first preference to the government or nationals of India, as the case may be, provided that the terms offered by the government of India or Indian nationals are not favourable to Nepal than the terms offered by any other foreign government or by other foreign nationals'.

An analysis of the letter clearly brings out the point that India wanted to keep its pre-eminent position in Nepal. The priorities of India's assistance programs to Nepal covering a period of over three decades were determined by its objectives as stated above.<sup>11</sup>

India's aid to Nepal has been basically guided by three considerations : the need for economic progress, political stability and strategic factors. India's massive experience in planned development has been considered specially appropriate and useful because the type of technology developed in India are not very capital-intensive which is more suited to the present stage of development in Nepal. Nehru during his visit to Kathmandu in June, 1951, said :

"If you seek our help in any technical or other sphere, we will do our utmost to be useful to you, but we never want to interfere".<sup>12</sup>

Accordingly, the major portion of India's aid to Nepal has been channelised for communication, power projects and irrigation, industrial development and community development schemes which have immense economic value to build the economic infra-structure of the kingdom.

There is another aspect where India's vital economic interest has been involved in Nepal. A large part of the eastern river system of India has its head in Nepal which can be used by both the countries for mutual benefit. There three principal rivers - Kosi, Gandak and Karnali which have their origin in Nepal and without Nepalese co-operation, one of the largest river systems in the world will remain underdeveloped and unharnessed. This interest has prompted India, to seek the co-operation of Nepal in the economic field. The point was put forward by Nehru as early as June, 1948. He observed :

"We have three big river valley schemes which in addition to irrigating land, preventing floods, soil erosion and malaria will produce a very great deal of hydro-electric

power and at the same time we will have "industrial development".

He further said :

"If you look at the map of India, you will see the noble range of the Himalayas from north to north-east. I do not think, there is any part of the world similar in area that has so much concentrated power-latent potential power if only it can be tapped and used. Well, we intend tapping and using it".

India undertook more and more economic programmes in Nepal, like joint ventures and so on.<sup>13</sup>

India also geared her aid to encourage political stability in the kingdom of Nepal. India believe that for the successful working of a political system it is essential to build up a sound economic base which will fulfil the rising aspirations of the people and thus bring political stability in the country. Nepal's partyless panchayat system apparently suits India, stable democratic set up will strengthen the economic development.<sup>14</sup>

India's aid to Nepal is also covered by strategic considerations. With the occupation of Tibet by China, Tibet

no more remained a natural buffer between India and China. Nepal thus emerged as the last and very important buffer between two giants.<sup>15</sup> Further, China's potential activity in Nepal much concerned India. So, Nepal is of immense strategic importance to India. Nehru said :

"Where the question of India's security is concerned we consider the Himalayan mountains as our border".<sup>16</sup>

Nehru was determined to strike a balance between Indian national interest and the liberal ideas of aid.<sup>17</sup>

However, the Nepalese government agreed to collaborate with India in defence measures in case of an aggression in either country by a third power in terms of the letters exchanged with the Treaty of Peace and Friendship. The Nepalese government may import arms and ammunitions from any country with the prior permission and scrutiny by the government of India. The other provisions of the Treaty are noted below :

'Neither government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with any such threat, the two governments shall consult each other and devise effective counter measures'.<sup>18</sup>

Indian Aid to Nepal : Early Stage \* Indian aid programme to Nepal began soon after the end of the Rana regime in 1950.

Immediately after independence India regarded Nepal as her most trusted ally and always stood by her side in any event of distress. Nehru firmly said,

"We have desired not only to continue our old friendship with Nepal but to put it on a still firmer footing".<sup>19</sup>

In October 1951, this pledge materialized in the form of despatch of an official to be the King's Secretary. Two Nepalese officials were given a six-month training course in statistics in India. In January 1952, M.P. Koirala, the Nepalese Prime Minister, came to India to ask for help on a large scale. Significantly, he was sent to the Indian Planning Commission, rather than to the Ministry of External Affairs. This could be explained in part by the presence in the planning body of the Indian government's leading specialists in economic development. But, as later events demonstrated, this was also the first indication of the character of India's assistance to Nepal. By turning the problem over to its Planning Commission, India prevented it from being treated as an entirely external matter, with goals and requirements distinct from development efforts in the Indian States.

Though the Planning Commission told Koirala that

it could not act until Nepal had some sort of plan, it did assure him of India's willingness to assist his government. The reaction to this in Kathmandu, at least in the government, was favourable, but Nepalese officials were conscious of the growing suspicions of India's intentions. The Finance Minister, Subarna, was forced to take account of these feelings in his statement on the Indian assurances :

'I want to make it clear that the Indian government has not attached any strings to assurances of economic aid .... while taking economic aid and technical aid our government will not accept such terms as shall endanger our sovereignty and independence .... you will surely join me in thanking the Indian government for its help and cooperation in our time of need'.

In March 1952, a ministerial delegation from Nepal came to discuss plans with the Indians; or rather, it came to discuss the lack of plans. It was agreed that a team of experts from Indian Planning Commission should go to Nepal to make an assessment of Nepal's needs, and that Indian aid should be in the form of a loan.

The Indian team arrived in Kathmandu in June 1952 and on its return

'Suggested that a comprehensive development plan for Nepal could not be attempted satisfactorily at this stage because of

lack of basic data. Therefore the main emphasis should be on the creation of a sound administration and financial system, collection of basic data, and survey of important resources. Special stress was laid, however, on the development of communications'.

In reporting on the Team's findings eleven months later, Mehru noted impatiently that Nepal's reactions were still awaited. This delay should not have been surprising. The Indian experts had suggested intensive Indian participation in the Nepal administration. It was bound to cause controversy in a sovereign nation in which suspicion of India was profound. Nevertheless a number of the recommendations concerning the training of Nepalese officials in Nepal's ministries were eventually accepted.

Nepal was extremely interested, however, in Indian assistance in the development of communications. The ministerial delegation which in March 1953 had laid the groundwork for the Indian mission's visit, had also asked India to build an airport for Kathmandu and a road from Kathmandu to Raxaul, the Indian town on Nepal-Bihar border. At the time, India had agreed to finance the airport. After the 1952 mission's report, it determined to go ahead with this project also.

The construction of both projects began in 1953.

with estimated costs set at Rs.20 million (approx.) for the road and about Rs.17 lakhs. for the Gauchar (Kathmandu) airport, both seems to be deducted from the still unspecified Indian loan to Nepal.

The manner in which these projects were carried out revealed the direction of Indian thinking about aid to Nepal at the time. Both the road and the airfield were built by Indian Army engineers with little Nepalese participation. Nepalese involvement was limited to supplying unskilled labour. No effort was made to utilize the construction phase as a training period for Nepalese who would later build roads and airports or, more important, maintain the two facilities being built.

Given the chaotic conditions then prevailing in Nepal, this may have the most efficient approach in terms of getting the job done. But it contributed little to the Nepal government's ability to assume the subsequent responsibility. This is not implied that the Indian government was consciously attempting to curtail Nepal's future self-reliance, but rather that India at this time tended to assume that what is good for Bihar or Uttarpradesh was good for Nepal. In much Indian thinking Nepal was still a part of India.



India's early economic aid to Nepal, therefore, placed little emphasis on one of the two major assumptions underlying American assistance. India had little interest in building up the de facto independence of the recipient of its aid. In contrast to the American view that only a strong state was proof against subversion, India appears to have deduced that communism as represented by China was best excluded from Nepal by the maintenance of the kingdom's special (economic and political) relationship with India. The two major projects begun in 1953, in addition to being economically valuable, had the advantage of facilitating this relationship. The road from Kathmandu to Raxaul (Tribhuvan Rajpath) not only opened the Kathmandu market to trade with India, but it facilitated the defence of Kathmandu by the Indian military. Gauchar airport, then the only airfield in Nepal, made possible quick and reasonably reliable travel from Delhi, Calcutta and Patna to Kathmandu. The runway was only long enough for Dakota aircraft and was not designed for expansion which would permit larger aircraft coming from other countries (or over the mountains) to land. These two projects constituted physical bonds between India and Nepal. This fact was emphasized by the continued Indian participation in their operation. Despite relatively rapid progress (the Rajpath and airport were largely completed in 1955 and 1954 respectively), the Indian programme as it was constituted proved to have serious limitations.

By the year 1954, owing to the change in the political and economic climate of Nepal, some shift was seen in India's approach towards Nepal. At this stage, India had concluded an agreement with China by which she recognised Chinese suzerainty over Tibet and also counselled Nepal to regularise its relations with China. As a result, China entered into the Nepalese political scene and after 1956 began to play a significant role in the economic affairs of Nepal. Thus, with the entrance of China along with the other donor nations United States and United Kingdom, the aid programmes in Nepal became more competitive. This was a new development because earlier India had played a dominant role in the economic development of Nepal. The process was accelerated with the assumption of power by King Mahendra who believed in diversifying Nepal's aid resources, thereby reducing Nepal's dependence on India. He was ready to accept aid from any country if it was without strings.

In view of the above compulsions, the quantum of Indian aid went up. The terms of aid also changed and India undertook many development-oriented projects with a view to removing the lingering fear among the Nepalese that the Indian aid was motivated by political considerations primarily and not for the economic development of Nepal. By this time, India had incurred an expenditure of Rs.7.44 crores towards Nepal's development projects. A major portion of it was

utilized on building basic infra-structure like Tribhuban Rajpath, Gauchar airport and training of Nepalese personnel. India also contributed a sum of Rs.16 crores for Nepal's First Plan period. The process of change in India's aid to Nepal was significant. Earlier India's aid given to Nepal was on adhoc basis and lacked by systematic planning and institutional framework. India for the first time in 1954, established an Indian Aid Mission in Kathmandu, headed by a senior official with a view to coordinating the existing projects and to plan for future ones.<sup>21</sup>

India's next move indicated the extent of the change in Indian thinking on aid to Nepal. Nehru announced, on 8 September, 1954, that India would grant Rs. 13 million (approx.) for irrigation and drinking-water projects. The fund would be handed over to the government of Nepal, and Indian advisers would help only as required. A number of changes in approach were implicit in this grant. First, the fact that it was a grant, — previous doctrine had been favourable to loans only. Second, direction of the projects was to be in Nepalese hands. This appears to have been a concession to Nepalese nationalist sentiment. Third, the agreement called for a number of projects. Therefore, no one project would be large. In addition, irrigation projects theoretically yield an almost immediate return. India was

thus shifting towards small, short-term, high-yielding projects. Fourth, the inclusion of drinking-water projects in the agreement manifested the more overtly political content of the aid. Drinking-water systems, like hospital equipment, could only have an indirect impact on development. They could, however, be tangible evidence on India's goodwill towards Nepal. Finally, India's interest in irrigation was a departure in the sense that this was a type of project which could have an immediate impact on the productivity of Nepal's economy.

The Indian aid programme was now vulnerable to the chaos prevailing in Nepal. For economic and political reasons, India had ceased to give first priority to efficiency, as it had in its earlier projects. The much broader range of projects now undertaken would confront India with considerable difficulties, as was apparent from the fate of the hospital equipment and the irrigation money, both of which were put to uses never intended by the donor. Though no breakdown of how the money was spent exists, an idea can be gained from Paul Rose's assessment that the irrigation projects was, in a word, a 'flop'. ~~A more substantive commentary was the resumption of Indian control over aid funds in 1957.~~

During the period 1951-57 India also placed increased emphasis on scholarships for Nepalese students.

In 1951 only 2 students were made available; by 1954 the number had risen to 76, and in 1955 to 118.<sup>22</sup>

The aid continued without a change in India's approach even during the political deadlock between the two countries in 1961-62.<sup>23</sup> India at this time granted Nepal Rs.400 million (approx.) to support its second plan (1961-65) which was then in preparation. The sum was allotted as grants to cover costs a canal of Kosi river, projects for flood control and irrigation. India and Nepal signed five more project-agreement on 31 August, 1960. These provided for development of Engineering School and an industrial estate, for projects in horticulture, veterinary services and forestry. In October 1960, India also agreed to assist Nepal in the establishment of its national archives.<sup>24</sup>

#### Indian Aid to Nepal : During the decade of Sixties :

After the Sino-Indian conflict, India increased her assistance to Nepal considerably both in quality and quantity. She poured massive economic aid to Nepal to expedite its economic development. His Majesty, the King of Nepal inaugurated the Indian aided Patan-Industrial estate in November, 1963 and Her Majesty, the Queen of Nepal opened the Fruit Preservation Laboratory in December, 1963. Meanwhile the Trisuli-Hydel Project was executed by the Indian experts.

Two permanent steel bridges constructed upon the

rivers Tade and the Trisuli were inaugurated by His Majesty, the King of Nepal in February 1964. In July 1964, experts of the National Productivity Council, Bangalore visited Kathmandu to conduct a training course on marketing and sales. The drilling engineers of the Geological Survey of India visited Nepal for guiding drilling operations. Another delegation of experts from India to Nepal came to oversee the drilling operations. A delegation from India visited Kathmandu to negotiate with the Salt Corporation of Nepal for the supply of salt to Nepal. As a result, a 3-year agreement between the State Trading Corporation of India and the Salt Corporation of Nepal for the supply of 55,000 tonnes of standard quality salt annually was signed on July 14, 1965. On September 26, 1964, the two governments negotiated the details of the loan of Rs. 1 crore that was offered to Nepal earlier during 1964-65 for industrial development. An agreement to this effect was signed on September 26, 1964. The loan carried interest at the rate of 3% and was repayable in 15 equal annual instalment. An agreement for the construction of the Chattru canal, which was estimated to cost Rs. 400 lakhs, was also signed on November 22, 1964. The project was completed in 1976. A new Bridge over the Bagmati River (Rs.19 lakhs) and the construction of Kathmandu-Balaju Road (Rs.1.15) lakhs) was taken up during the Third Plan period. The aid was increased by Rs.300 lakhs bringing the total aid during the Third Plan period to Rs.2100 lakhs.

An agreement relating to the air service between India and Nepal came into force with effect from September 1965, as a result of exchange of instrument of ratification between the government of India and Nepal in New Delhi. As agreed to at the first Aid Review talks, the Central Engineering Division and the Aviation Division were transferred to the Administrative Control of the government of Nepal from August 1, 1965. The maintenance of the Tribhuban Rajpath was also transferred to the government of Nepal from September 1965 from the hands of Indian engineers. India agreed to construct the East-West Highway in Nepal. The major part of the 640 mile long road connecting Jhapa in the east and with Nepalganj and Janakpur on the western border of Nepal was constructed by the Indian engineers. The government of India also undertook to build on the river Kamala a barrage over which the East-West Highway passes. The Gadaveri and Khotku Khola irrigation schemes were inaugurated in 1965. In October 1965, at the request of the government of Nepal C.S. Chandrasekhar, Minister of Town and Country Planning of Health, visited Nepal in order to outline a Master Plan for the development of Pokhara town. A delegation consisting of senior officers of Panchayat Ministry of government of Nepal visited India in December 1965 to see and study the working of panchayat projects in India.

During 1964-65, India agreed to take up

Sonauli-Pokhara Road Project and setting up of overhead transmission lines in Kosi area at an estimated cost of Rs.97.9 lakhs. In 1965, India also signed two agreements with Nepal at an estimated cost of Rs.42.8 lakhs for the development of irrigation, drinking-water supply and drainage and another for the construction of road between Janakpur Airport and Janakpur town.

In July 1966 the government of Nepal requested the government of India for facilities of transport and air-dropping of food supplies to the victims of earthquakes in western Nepal. In addition to detailing IAF planes for the operation, the government of India supplied 50 tonnes of black corrugated sheets, while the Indian Red Cross Society gave medical supplies. In October 1966, Indian Prime Minister participated in the inauguration of the Sundarigal Water Supply Project. The General Post Office in Kathmandu was also inaugurated. Mrs. Indira Gandhi also redesignated the 'Indian Aid Mission' to Nepal as the "Indian Co-operation Mission" which marked the new phase in Indo-Nepal cooperation. The Lumbini-Pokhara Road in Central Nepal was made jeepable and further work progressed satisfactorily.<sup>25</sup>

There were further progress in the projects undertaken in Nepal with Indian Cooperation. In January 1967, the Veterinary Laboratory in Kathmandu was opened. During



1967-68 the following projects were successfully completed by the Indian engineers and handed over to government of Nepal, namely, Dundaiva Harinath and Manusumara Irrigation Project; water supply in Nepalganj, Bhairava, Pokhara; Rr Trisuli Power House Transmission line (first phase) and Balaju Sub-station; Phewatal Dam; Janakpur Airport Project; Hithasara Forestry Institute and University Library. Another landmark in Indo-Nepalese Economic Cooperation was the signing of an agreement between the two government on July 17, 1967 for the setting up of a Carrier-Trunk Telephone lines between Kathmandu and Raxaul and a domestic telephone exchange at Birganj in Nepal. Under this agreement overhead telecommunication alignments were constructed between Kathmandu and Raxaul at an estimated cost of Rs.94.5 lakhs. India also provided facilities at additional cost for the training of the Nepalese personnel in the telecommunications field.

India extended economic assistance in the order of Rs.869 lakhs to Nepal, of which direct aid was in the amount of Rs.11.49 lakhs during 1967-68. A sum of Rs.12 crores was allocated for cooperation programmes by India to Nepal during 1968-69. By this time, the Indian Cooperation Mission handed over to the government of Nepal : Hunger at Tribhuban airport, Bagmati Bridge, Tukular Structures of Tribhuban University, Foreign Post Office building, Biratnagar airport,

### **Pokhara Hydel Project and Calcutta-Kathmandu telephone links.**

Some of the important agreements entered into between India and Nepal during 1968-69, related to the establishment of : 5 kw radio-transmission; Telephone links between New Delhi and Kathmandu; Horticultural Development; and Expansion of the Tribhuben University. The major projects under the Indo-Nepalese Cooperation programme also included the East-West Highway; Sonauli-Pokhara Road; Chattra Canals; and Trisuli Hydel Project (other phases).

The scope of Indo-Nepalese cooperation in the field of economic development registered a remarkable increase in 1969-70. The main emphasis of the Cooperation Programme was on projects designed to build the economic infrastructure of Nepal for further development. India provided an expenditure of nearly Rs.60 crores towards the cooperation programme by March, 1969 and a sum of Rs.14.5 crores was allowed for the next year. By this time the Indian Cooperation Mission handed over to the government of Nepal : Dukshin Kali Road (19 kms.); Pokhara Hydel Project (II phase) and Tribhuvan University Girls' Hostel, Boys Hostel and Art Block.

Under the Chattra Canal Scheme India took additional responsibility for the construction of irrigation canals upto 5 cusecs at a cost of Rs.50 lakhs. The survey work on the Central sector of the Mahendra Raj Marg was taken

up. In 1969, work was started on a modern stadium in Kathmandu and two coaches for football and athletics were deputed from India. A number of other welfare schemes in various parts of Nepal were also financed out of the funds of the Indian Cooperation Mission. Apart from the construction of hospitals, a significant project of medical assistance was the running of eye-relief camps in Kathmandu, Pokhara and Dharan by the Blind Relief Society of India with the help of Indian doctors and equipment. Thousands upon thousands of patients were treated in these camps, year after year. An Indian railway team completed a traffic and engineering survey for the laying of a broad gauge railway line from Raxaul at the Indian border to Hitauda in Nepal.

Indo-Nepalese cooperation on development projects in Nepal continued. By March 31, 1970, India spent a sum of Rs.70 crores in Nepal. For the year 1970-71, a sum of Rs.12.55 crores was earmarked. The year 1971 saw the completion of Trisuli Hydel Project in Nepal at a total cost of Rs.12.17 crores and also the inauguration of the Chattrra Canal Project which was completed at a cost of Rs.9.28 crores. The Trisuli Hydel Project supplies 21,000 Kw of power to Kathmandu Valley and other parts of Nepal, while Chattrra Canal irrigates 12.02 lakh acres of land.

Other major projects like East-west Highway and the

Sonauli-Pokhara Road made satisfactory progress. In Kathmandu a block of buildings consisting of 20 residential flats for the Professors of the Tribhuvan University and a girls' hostel with an attached warden's flats was completed.

The 12 channel VFT System linking Kathmandu by telephone and telex with Delhi, Calcutta and Patna which was temporarily installed at the time of wedding of the crown Prince of Nepal, was retained at Nepal's request. The constructions of telephone exchanges at Birganj, Anlakhganj, Simra, Mitsuda, Bhainse, Palung and Kathmandu were completed by the Indian engineers. India and Nepal have reached an understanding for the investigation of the Karnali hydro-electric project which will generate 4000 to 5000 KW of power.<sup>26</sup>

Indian Aid to Nepal : Recent Trends : Indo-Nepalese relations which had greatly improved expected to be further strengthened as a result of Prime Minister, Mr. M. Desai's visit to Kathmandu. In 1976 several important developments took place in the field of economic cooperation between the two countries. The Central budget for 1976-77 had provided Rs.10 crores as grant-in-aid to Nepal for implementing some development schemes. Among the projects completed in 1976 with Indian assistance were the industrial estates of Nepalganj and Dharen, a drinking water treatment plant in Rajbiraj and black-topping of the 49 km. long Rani Panwa-Trisuli Road.

Progress was made in the construction of the 250 km. long 'East-West Highway' and a 1,300 km. line cross-bar telephone exchange in Biratnagar. Discussions were also made between the delegations of both the two countries on joint harnessing of river waters for mutual benefit.

Another significant feature of the agreement reached between the two Prime Ministers relates to the drawing up of a time-bound programme on four projects. For instance, the Karnali multipurpose project, the biggest of them, is estimated to cost over Rs.1,400 crores which is about three-times than the original figure. This 3,600 MW project is of great importance to the economic development of Nepal but India will also benefit by getting the surplus power from this source. However, it remains to be seen whether New Delhi and Kathmandu will readily agree to the rates at which the later will be prepared to sell its power. This had created differences and difficulties in the past.

The joint communique says that "an improved atmosphere conducive to beneficial cooperation prevails in the entire region" and it expresses the hope that this would enable all countries in the area to divert their energies and resources to economic progress and thus strengthen the structure of peace."<sup>27</sup>

In the recent years, the pattern of Indian assistance

to Nepal is undergoing a significant change and the new approach is increasingly reflected in its future aid programmes. India's emphasis now is more on setting up industrial estates, technical training institutes and to assist in the developmental programmes of the Kingdom so that Nepal may be self-reliant in the field of economic development. The new thinking was evident from the report of the Ministry of External Affairs wherein it was stated that "India would help Nepal in setting up industrial ventures in a number of fields and that India would extend assistance to Nepal worth Rs.9 crores to be utilised in the couple of years for setting up industrial estates, technical centres, polytechnics, etc." For development programmes in Nepal, the Report said that "an amount of Rs.10.90 crores was provided during 1978-79 for meeting expenditures on schemes in hand".

Thus, in her aid programme to Nepal, India is putting great emphasis on industrialisation. In this respect the "Memorandum of joint investment and industrial cooperation" between the two countries in September 1978, is of considerable importance. Under this agreement India has agreed to set up cement, paper, pulp and other industrial projects in Nepal at a total cost of Rs.2,610 million. Besides, India has agreed to finance Rs.300 million for the Devi hydro-electric project under an agreement conceived in October 1978.

Among the new schemes which have to be completed includes the grant of Rs.15,000 crores for Karnali Project on Ghagra. Besides, India has also agreed to an expansion of Paropakar Maternity Hospital and area survey of the alignment of the Dolaghat-Dhankuta road.

India also assisted Nepal in regard to more reliable and stable communication links between the two countries by having a 4.5 km. long coaxial cable between the border towns of Raxaul in Bihar and Birganj in Nepal. An agreement of Rs.13 lakhs in this regard was signed in July 1980 between India and Nepal. The coaxial cable link along with microwave system of both countries upto the border territories will ensure much larger capacity and reliability in telecommunication services between the two countries.

In November 1981, India's External Affairs Minister Mr. Narasimha Rao paid a visit to Nepal. During the visit Mr. Rao discussed the issue of harnessing the water resources between the two countries. India on her part emphasised the need for bilateral agreements to tap the water sources. Mr. Khodayat, the Nepalese Power and Water Minister also, it is believed, conveyed to Mr. Rao that Nepal understood the Indian point of view and assured him that emphasis would now be on bilateral cooperation in this field

and Nepal would not try to internationalise the issue.

Mr. Rao's visit was followed by Mr. Sanjiva Reddy, Indian President, who visited Nepal in December 1981. As a result of Mr. Reddy's visit India announced on December 9, a special grant of Rs.1.3 crores for welfare schemes to be undertaken in Pokhara valley, where a large number of ex-servicemen of the Indian Army are residing. Mr. N.K.Jain, the then India's Ambassador to Nepal also, announced India's decision to provide Rs.1.3 crores aid to assist Nepal's economic plan, in addition to the grant already earmarked. Mr. Jain later told the newsmen that with the newly sanctioned aid, a new hospital would be built and the drinking water supply schemes would be implemented, two in Lamjung and four in Kaski.

In its budget provision, the government of India has extended Rs.144.8 million as aid to Nepal during 1979-80. In the new budget during the financial year 1980-81 New Delhi has provided Rs.175 million. In addition, India will spend Rs.15.21 lakhs during the same period on the Indian Cooperation Mission in Nepal.<sup>28</sup>

Of the budget proposals for 1982-83 presented by Finance Minister Mr. Y.P.Pant to the Rashtriya Panchayat.... of the total proposals Rs.918.72 crores, Rs.695.88 crores will



be spent on development. The proposals show Nepal's continued heavy dependence on external assistance on the shape of grants and loans. Of the total development expenditure more than 50% (Rs.362.8 crores) is proposed to be met from external assistance.<sup>29</sup>

It may be noted that India so far has spent Rs.50 lakhs on the University's various schemes, and has committed to spend another Rs.53 lakhs. India has also provided 20 Professors and Readers for teaching Post-graduate courses in the University.<sup>30</sup>

India has offered Nepal about Rs.13 million (NRs.) as its assistance for undertaking the feasibility surveys of some of the projects in which India has shown interest.... The Indian delegation .... has shown interest in 12 of the 57 project proposals presented by Nepal.<sup>31</sup>

Government of India recently in its budget of 1985-86 has allotted Rs.20.56 crores as assistance to Nepal. This economic assistance will be spent for technical assistance, for the development of transport, irrigation and for welfare projects. Now the work for electrification in rural areas of Nepal under Devighat hydro-electric project, Mahendragharg project and the expansion of Bir Hospital are in process.<sup>32</sup>

## SUMMARY

Foreign aid in Nepal is considered broadly to promote economic development of the country. Practically, this type of continued external assistance since 1950s has become vital in ensuring the success of Nepal's planning and hence her economic growth and development.

Nepal's developmental efforts for every major sectors have got strong support in the form of external aid from the countries, like India, and international financing organisations. The total grants and loans received by Nepal averaged about 3 per cent of the GDP during the 1960s and 1970s. The total foreign aid commitments during the Sixth Plan period of Nepal ending 1984-85 was Rs.18949 million with an annual average of about Rs.3800 million (60 per cent of the total plan outlay). Sector-wise the total commitment showed that the agriculture, irrigation and forestry sectors absorbing about 35 per cent, power 21 per cent and transport and communications 14 per cent. However, there is no consistent pattern in the annual sectoral commitment according to plan priorities. Disbursement during this period totalled Rs.10708 million making an average of Rs.2100 million. The disbursements average 65.5 per cent for the entire plan period. The proportion of aid from multilateral sources has sharply increased - from 5 per cent of the total aid in 1960-70 to

over 61 per cent in 1983-84. Among the bilateral donors, India, U.S.A. and China are traditionally the major ones whose collective share of aid has, however, declined from 88 per cent during the First Plan to 22 per cent in the Sixth Plan. Thus, diversification of sources of foreign aid is observed in Nepal. Prior to 1956, India and U.S.A. virtually dominated the aid scenario. But now, the aid supply has mounted by the multiplicity of donors from other countries. Moreover, Nepal has attained certain success in mobilising aid in line with her needs and priorities and that is why recent shift to channelise aid in the field of agriculture and power sectors have been found very much prominent.

Thus, on the one hand emphasis on multilateral aid to Nepal is increasing, on the other hand foreign aid is turning from 'grant'/'gift' to 'loan'. This is because of increasing total plan outlay of Nepal and a sharp rise in the quantum of assistance to Nepal by the international monetary organisations.

Indian aid to Nepal has been basically guided by three factors : Strategic factors, need for economic progress and maintenance of political stability in Nepal. There is no denying the fact that India's strategic interests loom large in economic aid to Nepal. India's aid was mostly on the basis of programme and in the form of 'grants', the 'loan' element being very small. Though India's aid to Nepal has been marked

to increase, it has been shown to decline in terms of percentage.

India's economic assistance to Nepal began soon after the end of the Rana regime in 1950. In the post-1951 period, India started many projects in Nepal under the 'Mutual Benefit Project' Scheme. The first venture undertaken by India was the construction of 'Tribhuvan Rajpath', the first National Highway, which linked Kathmandu with the Indian border town Raxaul. The work was completed in 1956. India also undertook the reconstruction and modernisation of 'Gaucher' airport, then the only airfield in Nepal, for quick travel from Delhi, Calcutta and Patna to Kathmandu. India for the first time in 1954, established an 'Indian Aid Mission' which redesignated later on as the 'Indian Co-operative Mission' in Kathmandu, headed by a senior official with a view to co-ordinating the existing projects and to plan for future ones. Power generation is the sphere which offers extensive scope for Indo-Nepalese Co-operation and India undertook various hydro-electric-cum-irrigation projects like Kosi, Trisuli, Gandak, etc. Most of the Indian aid during the two decades of 1950s and 1960s had been investing in the building of the infrastructure in Nepal. The significant and major venture undertaken by India in this field was the construction of 'East-West Highway', known as 'Mahendra Rajmarg'. Besides

building of various roads, India also embarked upon the construction of air-fields in different parts of Nepal. India also assisted Nepal in the field of postal and telecommunication services. In 1981, the micro-wave system was completed and in 1983, cable link between India and Nepal had also resumed. India also directed her assistance in the field of education in order to effect social change. The first major step in this sphere was the setting up of the Tribhuvan University in 1960. In subsequent years, India constructed National Archives and other buildings necessary for the University. India provided training facilities and technical assistance under the Colombo Plan. In the field of social services, India extended her assistance in medical and health services. India co-operated Nepal for the implementation of various projects for the supply of drinking water. Though it is evident from the sector-wise India's allocation of aid that India provided comparatively small assistance in the field of industry, in recent years she is giving priority to this sector. In 1983, India committed to grant assistance of Rs.1.25 crores for the setting up of an industrial estate at Rajbiraj. A joint venture was proposed to set up Udaipur Cement Project which will be ready for commercial production by May 1989.

The nature and scope of India's aid programme to Nepal over a period of three decades was determined by the

objectives as stated earlier and these can be divided under two broad heads : (i) supporting assistance, and (ii) Development assistance.

First, there are projects which had both strategic relevance and economic value. These projects were mostly undertaken during early 1950. These projects, when completed, linked Nepal more closely with India and contributed towards an early and easy access to the kingdom from India. Furthermore, India involved considerable expenditure in extensive surveys and mapping in Nepal which have immense strategic benefits.

Secondly, there were projects which had economic value and in no way related to strategic and political considerations. These were in the field of agriculture, power, industry, education, health and social welfare. These projects laid the foundation of Nepal's infrastructure as well as economic growth of the country.

It is largely owing to Indian aid for the growth of infrastructure that Nepal has been able to register some amount of economic growth.

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