Chapter V.

ECONOMIC AID, COOPERATION AND FOREIGN EXCHANGE RELATIONS.

The main objective of this chapter is the exploration of India's aid and economic cooperation to Nepal in various fields of development. Section one and two of the chapter discuss the Indian aid policy and volume of Indian aid to Nepal. Section three reviews India's economic cooperation in various fields of development of Nepal, and briefly describes some Indian aided projects in Nepal, while section four presents some mutual benefit schemes. Section five is a brief description of private industrial and business collaboration between India and Nepal. Section six comments on Indo-Nepalese foreign exchange relations, and finally, section seven makes some concluding observations on the evidence of financial and technical aid and cooperation in many fields of development.

Nepal came on international economic scene only in post-war years. Geography has played an important role in moulding her economy and most notably her foreign economic policy. In Nepal the land tenure system is one of the worst in Asia. The average holding of a family of seven members in Kathmandu Valley was 1 to 16 acres and this small area too was widely scattered. Also, there was a widespread rural
indebtedness. The village and cottage industries could not revive due to the cheap imports of foreign goods. The vicious circle of poverty, less production, less surplus, less social progress, primitive technology and less capital formation persisted there for centuries. Of late, Nepal has pledged herself to change from her feudal character to the dynamic society under the leadership of King Mahendra. He realised that the political stability should be supported by a sound administrative structure and a stable economy. Hence, Nepal took up development plans in 1956. Various programmes of agricultural, industrial, transportation and social services demanded heavy investments. To meet them there was no proportionate increase in the internal sources of the Government and domestic savings were running in deficit as compared to expenditure. The overall deficit during the decade 1951-52 to 1960-61 was Rs. 195.9 million.

In the First Plan of Nepal (1956-61) estimated total expenditure was Rs. 330 millions while the actual expenditure was Rs. 214 millions only. The domestic contribution of H.M.G. was only Rs. 22 million as against the originally planned estimates of Rs. 145 millions. Therefore, the Plan had to

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depend almost entirely on foreign aid. In the Second Plan (1962-65), out of the total outlay of Rs. 670 millions, Rs. 500 millions i.e. 74 percent was financed by foreign aid. In the Third Plan (1966-70) too, out of Rs. 25,000 million, Rs. 10,600 millions were estimated to come from foreign aid. In the Fourth Plan (1970-75), total expenditure was Rs. 35,400 millions of which Rs. 16,022 millions were estimated, to come from foreign aid. In the Fifth Plan (1975-80), Maximum Programme of expenditure is 11,404.8 millions and minimum Programme is of Rs. 9,197.0 millions. This much amount is to be greatly aided by India, U.S.A., China, U.S.S.R. and others. Prior of 1960, other sources of financing were practically non-existent in Nepal and the first internal loans were raised only in the year 1963-64.

Nepal has lately drawn the attention of the world. Due to her strategic situation in the South Asia, several world powers diametrically opposed to each other for having a purposeful hand in the uplift of this kingdom. They have tried to turn the kingdom virtually a cockpit of cold war. United States, U.S.S.R., China and other European countries

has assisted her both financially and technically. A few countries like India, Britain and Australia have assisted her under Colombo Plan, while others have helped individually as well as in collaboration with other international organisations. Using aid as a weapon of diplomacy, these nations are befriending Nepal. Being the sovereign state she is accepting large volume of aid freely in order to keep up several alternatives to avoid dominance of anyone.

1. Indian Aid Policy.

There are no two countries in the world which are closer to each other than India and Nepal. Inspite of the economic problems which India itself has been facing, it has assisted Nepal with expertise, men and money since 1951 - to make her economically strong and progressive. India never ignored the basic principles of equality and respect for sovereignty. She never cared for the cheap heart-winning policy of other donors in Nepal. Her motives have been primarily moral, economic and humanitarian. She had a great faith in the future of Nepal and was happy to make her contributions to the prosperity and well-being of Nepalese. She believed that her own progress would be incomplete without the economic growth of her neighbour. India has been helping Nepal in order to bring her increasingly into a network of international economic plane. Freedom has its own responsibi-
India wished that her friendly neighbour Nepal should given proper encouragement and financial and technical help to develop her resources in her own way. India is certainly not amongst the better developed nations and receiving aid from foreign friendly countries even than she is engaged in giving aid to Nepal. It is noteworthy, that India's assistance to Nepal springs not so much out of the feeling that she is materially better off than Nepal, but only out of friendship and fellow feelings, endeavouring to import her available knowledge, experience, know how and meagre resources.

India has accepted foreign aid from all friendly countries both from Soviet and the Western block but she does not like to be guided or dictated in her internal or other matters by such donors, she always advocated, the policy of non-alignment and peaceful co-existence. No deviation was made, in this approach in Indo-Nepalese relations. Such aid is always of greater advantage than the tied one. Nepal too would prefer aid without any kind of ideological strings attached to it. India firmly believes that economic aid should guarantee the ideals of equality and fraternity. Since India gathered considerable experience in planned development and growth, she was in a position to share it with Nepal and supplied it without any sense of patronage.
Her experience has been considered specially appropriate and useful because the type of technology developed here neither very sophisticated nor very capital intensive, is more suited to the present stage of development of Nepal. Sri Morarji Desai (then Dy. Prime Minister) remarked, "whatever may be our difficulties, it will be our duty to contribute our utmost to the economic development of Nepal."

2. Indian Aid To Nepal.

Economic aid and co-operation with Nepal started significantly after 1951. India was the first country in this field. The first hint, that she was willing to help Nepal came during the visit of Prime Minister Jawaharlal Nehru in June 1951. In October 1951, this pledge materialised in the form of the despatch of an I.C.S. Officer to be the King's Secretary. Later on, two Nepalese officials were given a six months training in courses of Statistics in India. There is hardly a sphere of economic activity of Nepal in which Indian economic assistance has not penetrated. Besides India, Nepal used to get foreign aid from U.S.A., U.S.S.R., China and some European countries. They have assisted her

1. The Times of India, New Delhi, October 25, 1967.
financially as well as technically. Of the total foreign aid received by Nepal approximately 40 percent share of it is of India. India is doing her best to helping Nepal for her economic development.

A study of yearly aid to Nepal and its sectoral utilisation serves the purpose. Since 1965-66 India's share in total foreign aid to Nepal become the larger. The ensuing Table 5.1 gives an account of yearly Indian aid to Nepal. In 1951-56 it was of the value of Rs. 4.42 (IC) crores i.e. Rs. 7.07 (NC) crores which reach to Rs. 113.2 (NC) crores in 1977-78. The major proportion of Indian aid had been towards the construction of roads followed by irrigation and power, agriculture, community development and technical assistance. A picture of the sector-wise utilization of the Indian aid is given in the table 5.2, which reflects that the major expenditure was incurred on sound infrastructures like transport facilities, roads and airports and irrigation and power gets the second priority.


Table - 5.1: India's Annual Aid to Nepal.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in crores of Rs. (IC)</th>
<th>Amount in crores of Rs. (NC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-66(5Yrs)</td>
<td>4.42</td>
<td>7.07</td>
</tr>
<tr>
<td>1962-67(6Yrs)</td>
<td>5.22</td>
<td>8.35</td>
</tr>
<tr>
<td>1963-68</td>
<td>2.65</td>
<td>4.36</td>
</tr>
<tr>
<td>1964-69</td>
<td>1.89</td>
<td>3.10</td>
</tr>
<tr>
<td>1965-70</td>
<td>2.93</td>
<td>4.76</td>
</tr>
<tr>
<td>1966-71</td>
<td>4.98</td>
<td>8.16</td>
</tr>
<tr>
<td>1967-72</td>
<td>8.10</td>
<td>13.27</td>
</tr>
<tr>
<td>1968-73</td>
<td>8.87</td>
<td>8.23</td>
</tr>
<tr>
<td>1969-74</td>
<td>8.81</td>
<td>11.89</td>
</tr>
<tr>
<td>1970-75</td>
<td>10.98</td>
<td>14.82</td>
</tr>
<tr>
<td>1971-76</td>
<td>11.97</td>
<td>16.20</td>
</tr>
<tr>
<td>1972-77</td>
<td>12.63</td>
<td>16.20</td>
</tr>
<tr>
<td>1973-78</td>
<td>12.47</td>
<td>16.20</td>
</tr>
<tr>
<td>1974-79</td>
<td>10.01</td>
<td>16.20</td>
</tr>
<tr>
<td>1975-76</td>
<td>11.54</td>
<td>16.20</td>
</tr>
<tr>
<td>1976-77</td>
<td>12.80</td>
<td>16.20</td>
</tr>
<tr>
<td>1977-78</td>
<td>10.39</td>
<td>16.20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>113.50</td>
<td>193.13</td>
</tr>
</tbody>
</table>

Table - 5.2: Sector-wise Utilisation of Aid till March, 1976 (Rs. IC in crores)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount (Rs. IC in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Roads and airports</td>
<td>71.88</td>
</tr>
<tr>
<td>2. Post and Telecommunications</td>
<td>1.49</td>
</tr>
<tr>
<td>3. Irrigation and Power</td>
<td>34.87</td>
</tr>
<tr>
<td>4. Horticulture, Agriculture, Veterinary and Forestry</td>
<td>1.24</td>
</tr>
<tr>
<td>5. Community Development</td>
<td>3.57</td>
</tr>
<tr>
<td>6. Education and Health</td>
<td>1.33</td>
</tr>
<tr>
<td>7. Industries</td>
<td>1.17</td>
</tr>
<tr>
<td>8. Archaeology, Surveys and Technical Assistance</td>
<td>6.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>122.52 crores (IC)</strong></td>
</tr>
</tbody>
</table>

Source: Supplied by Indian Co-operation Mission, Kathmandu, Nepal.
3. Economic Cooperation.

Indo-Nepalese economic co-operation commenced in 1961, with the construction of the Goucher Airport. Since then, Indian projects in Nepal have increased in volume and extent and today embrace many fields of development such as road construction, airports, irrigation, power, water-supply, horticulture, forestry, education, past and telegraphs, industry, veterinary and health services and training programmes. The aid to Nepal has been gratis, except for a loan of Rs. 1 crore (IC) at 3 percent simple interest, extended in 1964, for the development of small scale industries.

In the first instance of co-operation military aid was given to Nepal in the form of sending 150-men Military Mission to organise her army. The arms aid was not gratis and Nepal had to pay for the supplies, and it was without political strings and did not affect in any way the non-alignment policy of Nepal or India. In the past few years Nepal has received military aid from other countries too. India believed in political neutrality, she never wished to aid in this field but at the request of the Nepal Government.

she has given some aid of military nature to her for maintaining regional peace, security and welfare.

In 1964, Indian Government despatched a Senior I.C.S. Officer to Kathmandu to establish a Technical Assistance Mission and as a result in 1966, a full-fledged Indian Aid Mission (renamed Indian Co-operation Mission when Prime Minister of India, Mrs. Indira Gandhi visited Nepal in October, 1966) was established to co-ordinate the existing schemes in Nepal. She had received nearly Rs. 7 crores from India and Rs. 2 crores from U.S.A. before the commencement of her first Plan. After the establishment of I.A.M. - a suitable agency for channelising the resources, the volume of Indian assistance gradually extended from scholarships and technical assistance under Colombo Plan to the provision of cash grants and procurement of stores. India assisted Nepal in the real spirit of economic advancement and not merely moved by political on other narrow objectives. Foreign aid to Nepal is of three form bilateral, multi-lateral and partly bilateral-partly multi-lateral as in the Colombo Plan i.e., India's participation in His Majesty's Government, development programmes

1. Indian Aid Mission (Brochure) March 1961, Kathmandu.
assume three forms:

(i) Directly executed projects: Under this system, the projects are executed by Government of India organisations set up in Nepal. Nepalese technical personnel are, however, provided employment and training opportunities at the projects. The Trisuli Hydel Project, the Sonsuli-Pokhara Road, and the East-West Highway (Eastern Sector) are examples.

(ii) Jointly Executed Projects: Certain schemes are jointly executed by His Majesty's Government and the Government of India. Some of these projects are also jointly financed. Departments of His Majesty's Government are in overall charge of the execution of such schemes/programmes, but the services of India-based technical personnel are placed at the disposal of His Majesty's Government for execution of these schemes. The Programmes of development of Horticulture, construction of hospital and Tribhuwan University buildings, etc. fall in this category.

(iii) Projects Executed by His Majesty's Government: In many programmes, His Majesty's Government is the sole executing agency and the Government of India wholly or partly finances the programmes. In some of these programmes, technical advice is also provided by the Government of
India. Programmes of this type include Remote Areas Development Schemes, Panchayat Development Projects, Village, Cottage & Small Scale Industries Development etc.

The financial grants for particular projects considered on the recommendations of the Mission and a Development Board set up under the statute of Nepal's National Panchayat consisting representatives of His Majesty's Governments and the Mission. There are projects which are executed by I.C.M. itself, while the certain complex projects are executed by the specialised departments of the Indian Government.

3.1 : Transport:

Transport and communication is the basic infrastructure for the development of a country. They are essential for the growth of nation's foreign trade, in flow of technical know-how and resources from friendly countries. Good communication facilities are also necessary for the expansion of administrative, commercial and industrial activities in the country. In view of this, India's Cooperation to Nepal was given in roads, airfields, railways, postal and telecommunication services.
3.1-1: Roads:

About half of the Indian aid has gone into road building. Nepal has an area of about 54,000 sq. miles and is about 550 miles in length from East to West and about 125 to 160 miles from North to South. Three-fifths of the country lie in the hilly region with an altitude ranging from 2,000 ft. to 22,000 ft., and the rest lies in the plains. The country is lined by many streams, rivers, rivulets and mountain ranges. In 1961, when Nepal entered the modern era, there were little or no communications, cities, towns, and villages were cut off from one another and the people in general lived in isolated pockets. In the field of Road development, --- the 125 km. long Tribhuvan Rajpath, the first road to link Kathmandu Valley with the outside world, was taken up by India in 1953 and completed in 1956. It was maintained by the Indian co-operation Mission till August 1965 when it was handed over to His Majesty's Government. It is a pucca bitumenous surfaced road with stone soling and metalling. It runs from an altitude of 2,500 ft. at Bhainse to about 8,200 ft. at Simibhanjan near Daman, and on the way passes through the Valleys of Palung and Naubise before finally reaching 4,400 ft. in the Kathmandu Valley. Another 81 km. long road through the plains connects Bhainse with Raxaul on the Indo-Nepal border. The road connects Bhainse with Thankot.
near Kathmandu, between Bhainse and Thankot, there are 622 culverts, 10 bridges and 42 causeways. The road forms part of the Asian Highway network and has been given the National Highway No. A.5. The cost of road on completion was Rs.564.86 lakhs I.C. It connects Indian border areas with Palug, Raptiñoon and Kathmandu. It provided an administrative link for the first time between the capital and other parts of Nepal.

Kakrawa-Lumbini Road was constructed in 1967-68 at a cost of Rs. 4.20 lakhs I.C. to make easy the tourists movement in Nepal. The 8 Km. road links Kakrawa on the Indo-Nepal border with Lumbini, the birth place of Lord Buddha.

Balaju Road constructed at a cost of Rs. 1.70 lakhs I.C. between 1964- and 1966, the 3 km. road lies in the Kathmandu Valley. The road starts from Lanchaur near the Royal Palace and terminates near Mahendra Park at Balaju from where the road to Trisuli takes off.

The 9 Km. Tripureshwar-Thanl^ot road links the city of Kathmandu with Tribhuvan Rajpath terminating at Thankot. The work on the road was taken up in 1965-66 and completed the same year at a cost of Rs. 1.00 lakhs I.C.

In 1968, the Governments of Nepal, USA and India entered into a Tripartite Agreement for the construction of roads in various parts of Nepal. An agency by the name Regional Transport Organization consisting of representatives of the three Governments was set up to carry out the programme. The following 8 roads were planned for construction:

1. Raxaul - Bhasinse (46 miles)
2. Sonali - Pokhara (131 miles)
3. Kathmandu - Trisuli (43 miles)
4. Nepalganj - Surkhet (71 miles)
5. Dharan - Dhankutta - Bhojpur (93 miles)
6. Kathmandu - Janakpur (130 miles)
7. Dhangerhi - Dandeldhura - Baitadi (180 miles)
8. Krishnanagar - Piuthan (80 miles).

The programme was finally terminated in February 1963 by which time 236 km of jeepable tracks and 320 km of motorable roads had been constructed in different areas. The Government of India's share in the expenditure on these roads came to Rs. 99 lakhs I.C. These roads would make easy the movements of surplus produce and would increase Nepal's customs and revenue.

Janakpur Town Road: Janakpur is an important town in the Eastern Terai of Nepal and has a great religious significance, being the birth-place of Sita, the legendary figure of Ramayana. In May 1964, when H.M.O. and the Government of India signed an Agreement for the development of airports in Nepal, Janakpur was also included as the site for one of the airports. To link the airport with the city, a road was necessary. Accordingly, on 3rd September, 1968, H.M.O. and the Government of India exchanged Letters providing for the construction of a 4 Km. road from the airport to the railway station through the centre of the town, and an approach road to the Janaki Mandir. The road was completed in 1966-67 at a cost of Rs. 3.08 lakhs I.C.

Dhakshinkali Road: South of the Kathmandu Valley is a temple dedicated to Goddess Chamunda, which is a pilgrimage centre for the people of the Valley, and others. Situated in beautiful surroundings, the place also attracts tourists visiting Kathmandu. The old road leading to the temple was just a track. On 25th April, 1962, H.M.O. and the Government of India exchanged Letters for the improvement of 19 Km. road from Tripureshwar to the site of the temple. The road also provides access to the ropeway terminal, the Tribhuvan University campus, the Central Horticultural station at Kirtipur, Chaubar Gorge, and Pharping where Tribhuvan Adarsh Vidyalaya and a Power House are located. The road was renamed Ishwari Marg on

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10th June, 1969, the date on which it was inaugurated.
The cost of the road was Rs. 13.45 lakhs I.C.¹

Bagmati Bridge : The River Bagmati which flows
through the Kathmandu Valley separates the Kathmandu city
from the Lalitpur area of the Valley. The two parts of the
Valley were connected by a small narrow single bridge. With
the increase in the traffic in the city, the bridge became a
traffic bottleneck. To remove this bottleneck, His Majesty's
Government were interested in constructing a modern R.C.C.
bridge capable of carrying a two lane traffic. On May 1, 1964,
His Majesty's Government and the Government of India signed an
Agreement for the construction of this bridge which was complet-
ed in 1969 at a cost of Rs. 23 lakhs I.C. It is a R.C.C.bridge
capable of carrying two way traffic with separate pavements
on either side for pedestrians.

Kathmandu - Trisuli Road : This was one of the roads
included in the programme of road construction by the Regional
Transport Organisation. By the time the organisation was
wound up in 1963, not much progress had been achieved on its

¹ Indo Nepal Co-operation (1952-72), Indian Cooperation Mission, Kathmandu.
² Ibid.
completion. The lack of a proper road held up the work on the construction of the Trisuli Hydel Project located at Trisuli Bazar. On 10th July, 1963, His Majesty's Government and the Government of India exchanged letters where by the Government of India undertook the maintenance and improvement of the Kathmandu-Trisuli Road. The work on the road was speeded up and this enabled the movement of heavy machinery to the site of the Trisuli Hydel Project. The 69 km. road starts from Balaju on the outskirts of the Kathmandu city. Till 31st March, 1972, a sum of Rs. 70 lakhs I.C. has been spent on its maintenance and improvement. The 23 km. stretch from Balaju to Ranipauwa has been recently taken up for blacktopping at an additional cost of about Rs. 20 lakhs I.C. 

Sonauli - Pokhara Road (Siddhartha Rajmarg): This was also one of the roads included in the programme of the Regional Transport organisation. H.M.C. and the Government of India signed an Agreement on 25th August, 1964 for the construction of a 200 Km. road from Sonauli on the Indo-Nepal border to Pokhara, the Second largest Valley of Nepal. Of the 200 Kms, the first 27 kms from Sonauli to Butwal is in the plans. The next 161 k.ms pass through the hills reaching

over 4,000 ft. at Tansen and the last 12 kms is in the township of Pokhara itself. The road includes 34 bridges and 888 culverts, the bridge on the River Kali Gandaki at Ramdighat is a single-K-stress steel bridge and is the longest bridge of its kind in Nepal. It was constructed at a cost of Rs. 26 lakhs. The road has been built to very high standards, having a formation width of 9.75 metres in the plains and 7.3 metres in the hills. It was completed in 1972 at a cost of Rs. 16.56 crores I.C. The towns connected by this road are Bhairwa, Butwal, Bartung, Tansen, Arbhanjan, Ramdighat, Galling Bhanjan, Walling, Syangja and Kubind Bhanjan.

East-West Highway (Eastern Sector of Mahendra Rajmarg):
His Majesty's Government have planned a road running from East to West in Terai for over 1,000 kms. The road has been divided into 7 sectors. The Eastern Sector of this road from Mechi to Janakpur - Butamore, 300 kms constructed with Indian cooperation. The road consists of 873 culverts and 129 bridges. The cost of the project on completion was Rs. 27.82 crores I.C.

2. Ibid.
Kosi Area Roads: On 18th May, 1966, H.M.O. and the Government of India signed an Agreement which inter alia provided for the construction of roads from Hanumannahar to Rajbiraj, Fathepur and Karauli in the Kosi Area in Eastern Nepal. The construction of the roads was entrusted to the River Valley Project Department of the Bihar Government. The total length of the two roads is 51 kms. A portion of this road from Bharda to Kanchanpur, a length of 13 kms, forms part of the Mahendra Rajmarg (Eastern Sector). The work completed in 1973 at cost of Rs. 216 lakhs I.C.

Kathmandu - Godavari Road: Improvement and black-topping of this road of 16 kms. long completed in February 1975 at a cost of Rs. 69 lakhs I.C. It takes of from Patan and terminates at the site of beautiful Royal Botanical Garden in the South-Western part of the Valley will be a great facility for tourist traffic. It will provide easy access to the marble quarry at Godavari, the brick and tile factory at Harsachi and the Transmission Centre of Radio Nepal on the way. Pulchowk, at the end of Godavari, has been selected at the site for Joint communication Centre for civil Aviation and Telecommunication Departments. The road will greatly facilitate the construction work of the Joint Communication Centre. Besides being the Centre of a pretty fresh water area

and fish hatchery, Godavari is also an important religious centre where an important fair is held annually.

Mahendra Rajmarg Central Sector (Butwal to Nepalganj): On 16th June 1972, His Majesty's Government of Nepal and the Government of India signed an Agreement for the construction of the central sector of the Mahendra Rajmarg from Butwal to Nepalganj at a cost of Rs. 25.82 crores I.C. The Agreement is the largest single economic cooperation entered into by His Majesty's Government with any country so far. The central section would be a 251 km long road from Butwal (on the Sonauli-Pokhara Road) to Chappargauri near Nepalganj. Nepalganj is an important township in Eastern Terai and would be linked with this highway through a 21 km long road. An additional 31 kms of feeder road will be constructed to link important towns to the highway. Of the 251 km length of the main road, 199 km would be in the plain and 52 km in the hilly region. The highway would generally conform to the Asian Highway standards. The road will pass through Pipra, 2 Shivpur, Bhalubang Lambai, Jalkundi, Kusum and Shamsherganj.

1. Indian Aid to Nepal Brochure, March 1978, Kathmandu, Nepal.
3.1-2: Railways:

The present position of Nepal's railways is grievous and a hindrance for the extension of her foreign trade. Perhaps, India is the only country to help her in this field. India provided the services of an expert team for the survey of 60 km. Raxaul-Amlekhganj rail link for upgrading it from narrow to broad gauge and extending it to Hetauda. It amounted Rs. 8 crores. It will solve many problems of trade and transit and economic social development.

3.1-3: Airfields:

India has undertaken to construct airfields in different places of Nepal. The first airfield Gauchar on the outskirts of the Kathmandu Valley was taken up in 1951. By 1952, the improvement work was completed and the airstrip was commissioned and named Tribhuvan Airport. Soon, however the traffic increased so much that it was found necessary to construct a pucca and regular airfield to cater to the growing demands of civil aviation. This work was taken up and completed by 1964. Later in 1963 an agreement has been signed for the construction of a hanger at the Tribhuvan Airport at a cost of Rs. 4.60 lakhs I.C. In 1964, a

A comprehensive programme was drawn up for the construction/improvement of airfields at Bhairwa, Janakpur, Simra, Biratnagar and Pokhara to facilitate internal communications. An Agreement was signed in 1964 between H.N.C. and the Government of India for the construction/development of airports at the above places at a cost of Rs. 50 lakhs I.C.

In pursuance of the above Agreement, pucca airports have been constructed at Bhairwa, Janakpur and Biratnagar and Kutch airdrops improved at Simra and Pokhara. The facilities provided at these places include terminal buildings, staff quarters and approach roads from airports to the cities.

3.2 : Communication:

Nepal has developed her postal and telecommunication services with Indian co-operation.

3.2-1 : Postal Services:

Indian collaboration with Nepal in the postal field dates back to the 19th century when an Indian Post Office was opened in 1816 in the then British Residency to provide postal facilities for the Nepalese of the Indian Army. Within a short time, this post office came to be utilised by the

general public for communication with places outside Kathmandu. Since then, things have changed enormously and Nepal's postal system has taken firm roots. In 1966, she became a member of the Universal Postal Union. To recognise the Nepalese postal system, an Indian Adviser in 1968 carried out an intensive survey of the postal arrangements and made suggestions for improving internal and external postal services, mail and delivery arrangements and expansion of postal facilities. A Mail Centre in the premises of the General Post Office, Kathmandu, was set up with the assistance of Indian experts in order to provide greater postal facilities to the public and for expediting disposal of mail at all levels. In 1966, the foreign postal traffic of Nepal, which was being handled by the Indian Embassy Post Office, was transferred to the Postal Department of H.M.O. Nepal. In order to provide for adequate accommodation for the General Post Office, Letters were exchanged on 26th April, 1962 between H.M.O. and the Government of India for the construction of a General Post Office building in Kathmandu. The new building which provides accommodation for G.P.O., Mail Centre and Training classes, was completed in January 1967 at a cost of Rs. 12.00 lakhs I.C.

Similarly, with a view to ensuring the efficient handling of the increased volume of international postal traffic, the two Governments signed an Agreement on 14th September, 1966 providing for the construction of a Foreign Post Office building. The Rs. 7.65 lakhs I.C. building was completed in August 1968.

3.2-2 : Tele Communications:

In the early fifties, when His Majesty's Government decided to expand telecommunication facilities, a Radio Telephone link was provided between Kathmandu and New Delhi in 1950 under Indo-Nepal Cooperation. Thereafter, India joined U.S.A. in extending co-operation to Nepal in the development to telecommunication facilities, and a Radio Telegraph facility was provided between Kathmandu and New Delhi and Radio Telephone between Kathmandu and Calcutta in 1964. Under an agreement between H.M.G. and the Government of India on 24th June, 1968, India provided assistance for installation of a teleprinted link between Kathmandu and Calcutta. The circuit was commissioned in October 1968 at a cost of Rs. 4.81 lakhs I.C.

In July 1967, H.M.G. and the Government of India signed an Agreement for the setting up of a Trunk Telephone

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2. Ibid.
and Telegraph line between Kathmandu and Raxaul, an automatic Cross-bar Exchange at Birganj, and Transmission and Trunk Exchange equipment at Kathmandu and Birganj for the Trunk Exchanges at both the places. The cost of project  is Rs. 90.60 lakhs I.C. under the project, an overhead Trunk line has been erected and commissioned between Kathmandu and Raxaul in February 1970. Carrier telephone and telegraph circuits between Kathmandu and Patna/Birganj/Hithaura and between Kathmandu and Hithaura provide instant communication between these places. Civil works, including airconditioning of the Exchange Building at Birganj, are complete. Equipment for the 300 line Automatic Exchange at Birganj, using Pentaconta cross-bar equipment, has been installed. An International telephone exchange in Kathmandu have been established. Smaller manual exchanges of 10 lines each at Bhainsa, Anlekhganj and Simra, and a 20 lines exchange at Hithaura, including building at these 3 places, have been completed and commissioned in May 1971. The entire project has already been completed and handed over to H.M.G. A number of Nepalese Assistant Engineers, Engineering Supervisors, Technicians, Cable Jointers and Telegraphists have been trained for maintenance of this project.

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Under a Letter of Exchange signed between H.M.G. and the Government of India on 11th December 1970, an overhead line between Biratnagar in Eastern Nepal and Jogbani on the Indo-Nepal border has been erected providing a direct circuit between Biratnagar (Nepal) and Forbesganj (Bihar). Since Forbesganj is connected to Katihar, Patna and Calcutta, the Biratnagar-Forbesganj link will enable the people of Biratnagar to communicate with the people at these places conveniently. The cost of Biratnagar-Jogbani Link is Rs. 60,000 I.C.

The Government of India have agreed to provide Rs. 61.80 lakhs I.C. for the establishment of three Telephone Exchanges at Janakpur, Biratnagar and Jhapa, costing Rs. 66.66 lakhs I.C., the remaining cost being borne by His Majesty's Government. An Agreement to this effect was signed on March 13, 1972. The Exchange at Biratnagar is a 1,300-line cross-Bar, Automatic Exchange inaugurated on 12th January, 1977. The other two at Janakpur and Jhapa have been completed, they are Manual Exchanges of 200 and 100 lines respectively. This project forms parts of the World Bank project for the development of telecommunication services in Nepal. It is proposed to establish a co-orial link between Samaul and Biriganj in the near future.

2. Indian Aid to Nepal Brochure (1977), Kathmandu, Nepal.
India maintained telecommunication accounts, on behalf of Nepal, with other countries. India assisted in the training of staff, drawing up of procedures for operational work, both for telegraph and telephone trunk working, calculation of trunk call rates, standardisation of forms etc. This work was taken over by H.M.G. in August, 1966.

A direct composite radio link of 10 kilowatt capacity was commissioned between Kathmandu and Bombay on the 1st March, 1972. The equipment has been given on loan by the overseas Communication service of the Government of India, costing approximately Rs. 10 lakhs I.C. The installation of the equipment was commenced in December 1971 by the Overseas Communication Service, India and completed in February 1972. The link would provide a direct radio telephone, telegraph and telex circuit each between Kathmandu and Bombay for transmitting international traffic of Nepal to and from other countries. In addition, there is a provision for leasing a teleprinter circuit to any private party between these two places. As Bombay is connected through the International Communication Satellite to a number of countries, this link would provide more speedy and efficient telephone and telegraph communications between Nepal and outside world.

3.3 : Irrigation And Water Supply Scheme:

Economic development of a country based on Industrial as well as Agricultural upment. Industries are based on power while Agriculture on Irrigation. In Nepal, nine out of every ten persons derive their livelihood from agricultural activities, and approximately two-thirds of the National Income originates from this primary sector. Although plans to diversify the economy in Nepal are underway, it is certain that agriculture will remain the principal component of Nepal's economy for a long period.

Since modern irrigation system have a direct bearing on raising farm output, His Majesty's Government have all along laid stress on constructing major as well as minor irrigation projects in the country. With its experience of irrigation, the Government of India has been cooperating with His Majesty's Government on a number of irrigation Schemes.

3.3-1 : Irrigation:

The Chandra Canal Project, Nepal's biggest irrigation scheme is a symbol of cooperation between Nepal and India. The project which consist of a 35 mile long canal, 16 distributaries of a total length of 125 miles and minor up-to 5 cusecs capacity has been completed at a cost of Rs.14 crores I.C. and is for the exclusive benefit of Nepal. The canal will irrigate more than 2,12,000 acres of land
in Eastern of Nepal i.e., Morang and Sunsari districts of Nepal. Following the availability of irrigation waters from the Chatra Canals, it is estimated that the crop production per year would increase to the extent of 39 lakh maunds. The vast land in the Kosi region will be transformed into a rich granary and the level of living in 450 villages situated in the command area will improve considerably within a few years.

Besides the major irrigation project at Chatra, India has extended assistance for the construction of a number of minor irrigation projects all over the country. Between the period 1964 to 1968, fifteen irrigation schemes have been executed at a cost of Rs. 203.8 lakhs I.C. under aegis of His Majesty's Government's canals and Drinking water supply Board, to irrigate 1,12,920 acres of land. The ensuing Table 5.3 gives up the details of the scheme.

Encouraged by the fruitful results obtained from those minor irrigation projects, Nepal and India are cooperating in the execution of small irrigation schemes including tubewell irrigation at a cost of Rs. 104 lakhs I.C. This sum has been allocated from the additional assistance of

2. Ibid.
Rs. 400 lakhs I.C. offered in 1967 during the visit of the Deputy Prime Minister of India to Nepal. The programme is being executed by the Ministry of Water and Power, His Majesty's Government. Under this Scheme, irrigational facilities for 75,000 acres of land are being provided. The projects executed/under execution are shown in the ensuing Table 5.4.

Over and above these projects, the Government of India under Agreements signed with the Government of Nepal are executing schemes for the proper canalisation of the waters of Kosi and Gandak flowing down from the holy Himalayas.

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### Table 6.3: Irrigation Projects Executed in Nepal by Indian Cooperation Mission

<table>
<thead>
<tr>
<th>Location</th>
<th>Area irrigated (in Acres)</th>
<th>Year of completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tika Bhairab Kathmandu Valley</td>
<td>6,700</td>
<td>1961</td>
</tr>
<tr>
<td>2. Mahadev Khola -do-</td>
<td>3,600</td>
<td>1960</td>
</tr>
<tr>
<td>3. Budha Silkanth -do-</td>
<td>2,000</td>
<td>1961</td>
</tr>
<tr>
<td>4. Ashe Khola Kulo Chautre District</td>
<td>120</td>
<td>1960</td>
</tr>
<tr>
<td>5. Lower Vijayapur Pokhara Valley</td>
<td>7,200</td>
<td>1961</td>
</tr>
<tr>
<td>6. Phewatal Band -do-</td>
<td>3,000</td>
<td>1961</td>
</tr>
<tr>
<td>7. Beglung Beglung District</td>
<td>400</td>
<td>1960</td>
</tr>
<tr>
<td>8. Jhaj Bera, Parsa &amp; Rautahat Districts</td>
<td>16,000</td>
<td>1961</td>
</tr>
<tr>
<td>9. Danduwa Banke District</td>
<td>7,000</td>
<td>1964</td>
</tr>
<tr>
<td>10. Khotku Khola Kathmandu Valley</td>
<td>1,800</td>
<td>1965</td>
</tr>
<tr>
<td>13. Hardinath Mahottari District</td>
<td>900</td>
<td>1965</td>
</tr>
<tr>
<td>14. Manusmara Sarlahi &amp; Rautahat Districts</td>
<td>4,600</td>
<td>1966</td>
</tr>
<tr>
<td>15. Tita Pulhi-Majkhnd Dist, 50,000 (in progress)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total** 1,12,920

*Source: Indian Cooperation Mission, Kathmandu.*
Table-5.4 : Irrigation Projects Executed/Under Execution
In Nepal By Indian Cooperation Mission.

<table>
<thead>
<tr>
<th>No. of Schemes</th>
<th>Areas to be irrigated (in Acres)</th>
</tr>
</thead>
</table>

**Lumbini Anchal**

1. Kapilvastu District. 6 5,000
2. Palpa District. 1 2,400
3. Rupandehi District. 5 2,800
4. Nawal Parasi District. 3 3,300

**Mahakali Anchal**

5. Kanchanpur District. 2 5,300
6. Dang and Dhopu District. 1 5,300
7. Rapti District. 1
8. Darchula District. 1

**Seti Anchal**

9. Dhangari District 7 16,600

**Bheri Anchal**

10. Baradia District. 4 3,100
11. Banke District. 6 2,600

**Rapti Anchal**

12. Dang Deckhari District 5 2,150

**Machi Anchal**

13. Jhapa District. 2 5,000

**Kosi Anchal**

14. Morang District. 3 10,700
15. Sunsari District. 2 2,080
16. Dhankuta District. 1 1,230

Contd...
<table>
<thead>
<tr>
<th>Anchal</th>
<th>District</th>
<th>Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sagarmatha Anchal</td>
<td>17. Saptari District</td>
<td>1</td>
<td>800</td>
</tr>
<tr>
<td>Narayani Anchal</td>
<td>18. Chitwan District</td>
<td>2</td>
<td>2,720</td>
</tr>
<tr>
<td>Bagmati Anchal</td>
<td>19. Lalitpur District</td>
<td>2</td>
<td>1,400</td>
</tr>
<tr>
<td></td>
<td>20. Nawakot District</td>
<td>1</td>
<td>630</td>
</tr>
<tr>
<td></td>
<td>21. Kabreypalanchowk Dist.</td>
<td>1</td>
<td>520</td>
</tr>
<tr>
<td></td>
<td>22. Bhaktapur Dist.</td>
<td>1</td>
<td>160</td>
</tr>
</tbody>
</table>

Source: Indian Cooperation Mission, Kathmandu.
3.3.2: Water Supply Schemes:

His Majesty's Government with the cooperation of the Government of India, have been engaged in developing water supply schemes in various parts of Nepal since 1954. Between 1954 and 1967, the two Governments signed nine agreements for the development of water supply schemes for big and small towns of Nepal. Under those Agreements, filtered and uninterrupted water supply had been provided for the towns in the ensuing Table 5.5. The Indian aid for drinking water has been canalised through the Canal and drinking water supply Development Board of Nepal Government. Out of the 90 drinking water supply projects in Nepal, 27 have been implemented with Indian assistance costing Rs. 43 lakhs I.C. These water supply schemes provides a total of 6 million and 491 thousand gallons of water daily. 405 had pumps all over the country and piped water supply at 13 places have already been completed which amounted Rs. 22 lakhs N.C. About four lakhs of people have been provided with safe and pure drinking water. The important projects have been:

1. Kathmandu-Sundarijal, which has a capacity of providing 132 lakhs gallons of filtered water per day to Kathmandu was completed in 1966 costing Rs. 87 lakhs I.C.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
2. Ibid.
(ii) Rajbiraj Water Supply Scheme - completed at a cost of Rs. 2.1 million I.C. and handed over to Government of Nepal on 6th March 1976.

(iii) Nepalganj Water Supply Scheme.

Since 1964 about 24 schemes for the provision of safe drinking water has been implemented at a cost of Rs. 2.7 crores.

Table-5.6: Water Supply Projects In Nepal Executed by Indian Cooperation Mission.

<table>
<thead>
<tr>
<th>Location</th>
<th>Population Benefited</th>
<th>Year of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundrijal(Kathmandu)</td>
<td>2,35,000</td>
<td>1966</td>
</tr>
<tr>
<td>Panchami</td>
<td></td>
<td>1960</td>
</tr>
<tr>
<td>Bishnumati</td>
<td>1,23,000</td>
<td>1960</td>
</tr>
<tr>
<td>Chhahore Khola</td>
<td></td>
<td>1962</td>
</tr>
<tr>
<td>Karki Manthali</td>
<td>1,600</td>
<td>1960</td>
</tr>
<tr>
<td>Sankhu</td>
<td>5,600</td>
<td>1960</td>
</tr>
<tr>
<td>Balambu</td>
<td>1,680</td>
<td>1960</td>
</tr>
<tr>
<td>Gaucher</td>
<td>200</td>
<td>1961</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location</th>
<th>Population Benefited</th>
<th>Year of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Janpeth</td>
<td>150</td>
<td>1961</td>
</tr>
<tr>
<td>11. Satang Barang</td>
<td>11,200</td>
<td>1962</td>
</tr>
<tr>
<td>12. Deorali</td>
<td>900</td>
<td>1962</td>
</tr>
<tr>
<td>13. Sanga</td>
<td>1,500</td>
<td>1961</td>
</tr>
<tr>
<td>14. Panzuti</td>
<td>4,000</td>
<td>1962</td>
</tr>
<tr>
<td>15. Amlekhganj</td>
<td>20,000</td>
<td>1960</td>
</tr>
<tr>
<td>16. Biratnagar</td>
<td>45,000</td>
<td>1964</td>
</tr>
<tr>
<td>17. Dhulikhel</td>
<td>2,000</td>
<td>1960</td>
</tr>
<tr>
<td>18. Pokhara</td>
<td>60,000</td>
<td>1966</td>
</tr>
<tr>
<td>19. Bhaktapur</td>
<td>45,000</td>
<td>1965</td>
</tr>
<tr>
<td>20. Birganj</td>
<td>15,000</td>
<td>1966</td>
</tr>
<tr>
<td>22. Nepalganj</td>
<td>10,000</td>
<td>--</td>
</tr>
<tr>
<td>23. Janakpur</td>
<td>8,000</td>
<td>1966</td>
</tr>
<tr>
<td>24. Rajbiraj</td>
<td>12,000</td>
<td>1966</td>
</tr>
<tr>
<td>25. 405 handpumps in different parts of Nepal.</td>
<td>2,000,000</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Indian Cooperation Mission, Kathmandu.
3.4: **Power Supply**

Power is an important pre-requisite for launching any significant programme of industrialisation in a country. In the absence of coal or oil, hydro-electric power is the main source of energy in Nepal. Nepal's three river systems and their major tributaries, fed by melting snows and monsoon rains provide enormous potential for the generation of electric power. The hydel potential of Nepal has been estimated at about 83 million KW, which in per-capita terms in the highest in Asia.

While the water of Kosi and Gandak rivers are being harnessed for the mutual benefit of the people of India and Nepal, a hydel project for the exclusive use of Nepal has been built at Trisuli Bazar - 69 kms north-west of Kathmandu Valley by tapping the waters of river Trisuli. The Agreement for the construction of Trisuli Hydel Project was signed on 20th November, 1958, and the scheme envisaged initial constructions of three generating units of 3,000 KW each, with provision of 4 more similar units for a total capacity of 21,000 KW. Since the demand for power has been increasing in and around the Valley, the project has been constructed to its optimum capacity of 21,000 KW. The work was completed in two phases; the first phase comprised the construction of the entire civil

1. *Indian Express*, July 24, 1980.
works consisting of a 139.60 metre long diversion dam, a power channel of a total length of 4,790 metres, a balancing reservoir with 2,660,000 cubic metres capacity, and a Power House with three generators of 3,000 kW each. This phase was completed in 1936 and formally inaugurated in February 1967 by His Late Majesty King Mahendra Bir Bikram Shah Deva. The second stage of the project, covering the installation of the remaining four generating units and ancillary civil works, was completed and inaugurated by the Prime Minister of Nepal, Right Hon'ble Shri Kirtinidhi Bista, on 17th November, 1971. During the first phase itself, 66 kv transmission lines were erected from Trisuli Power House to Balaju in the suburb of Kathmandu from where the power is distributed in the Valley and beyond down to Birganj on the Indo-Nepal border. The total cost of the project is Rs. 13.66 crores I.C.

To save the long-term problem of silting of the balancing reservoir, His Majesty’s Government and the Government of India, exchanged Letters on December 6, 1972 for the construction of a desilting basin at an additional cost of Rs. 54 lakhs I.C. Model studies for the desilting tank have been completed at the Central Water Research Institute, Poona, and the designs have been prepared in the Central Water and Power Commission, Government of India. Under an Agreement

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signed on 1st May, 1964, for the development of irrigation, water supply, power and drainage in Nepal, the construction of a Hydel Station at Pokhara was agreed upon. The water impounded by a dam constructed at the famous Phewatal lake has been drawn through a lined channel to the site of the power house at Phusre Khola. Four generators of 250 kW each were installed in the Power house to generate 1,000 KW. It would be of interest to mention that in the absence of land communication at that time, the generators were airlifted by parts and assembled at Pokhara. The project was commissioned on 1st November, 1967 and formally inaugurated in two phases in 1967 and 1969.

Under the Indo-Nepal Agreement on the Kosi Project, Nepal is to receive 50 percent of the power generated by the project. The Power House on the Eastern Kosi Canal has been designed to produce 20,000 KW, out of which Nepal's share would be 10,000 KW. To enable Nepal to receive power from the Kosi Power House, a separate Agreement was signed between His Majesty's Government and the Government of India on 18th May, 1966 for the erection of 33 KV transmission lines from Kosi Power House to the towns of Rajbiraj and Biratnagar in Eastern Nepal. The lines have since been erected and energised at a cost of Rs. 38 lakhs 1.C.


2. Ibid.
A hydel power house with an installed capacity of 15,000 kW being built on the 9th mile of the main western canal of the Gandak Project at a cost of Rs. 6.25 crores, be made over to His Majesty's Government after completion.

The two Governments have also agreed to exchange power at the border towns. Under the agreement, the Bihar State Electricity Board and the Uttar Pradesh State Electricity Board in India will supply power to border towns across their border in Nepal while Nepal would supply power to the Bihar Electricity Board at Birganj. Recent developments and changes regarding hydro electric projects are given in Appendix V.

3.5: Industrial Development:

In the initial stages of her development, Nepal had necessarily to place emphasis on the growth of small scale industries which encompass traditional and folk crafts, and to organise them into small scale industrial units. For the development of small scale industries His Majesty's Government and the Government of India agreed to cooperate in the establishment of an Industrial Estate in Patan (Kathmandu), and an Agreement for this purpose was signed on 31st August 1960. The Agreement provided for an investment of Rs. 18 lakhs I.C. which was subsequently raised to Rs. 33.65 lakhs I.C. to cover the actual cost of completion and expansion. The
Patan Industrial Estate has been developed in three phases. The Estate has now 22 workshops sheds, 2 common facility workshops fully equipped with modern machines, an administrative block, workshop sheds, a common store block with 16 store rooms, and a block for bank, post office etc. Necessary approach and service roads and power facilities have been provided. A distinguishing feature of the Estate has been the common service workshop where latest machines have been installed to provide facilities like lathes, shapers, electroplating, welding, milling, grinding, tool cutting etc. to various units located within and outside the Estate. The services of an Industrial Adviser and a Technical Assistant have been provided to supervise and provide technical guidance to various industrial units. The industries now existing in the Estate cover many fields like cotton and nylon hosiery, dry cell battery, plastic products, hardware, industrial camphor, power-loom for cotton fabrics, calendering and sizing, brass and copper products, wooden and steel furniture, woollen carpets, electrical goods, curios, etc. Some of the traditional crafts like curios, woollen carpets, cotton hosiery, weaving etc. have revitalised themselves by adopting modern techniques of production. Some new units like plastic products, dry cell battery, nylon buttons, electrical goods, etc. have successfully introduced new products in a competitive way.

The success of Patan Industrial Estate has encouraged His Majesty's Government to plan for similar Industrial Estates in other parts of the country. With the assistance of the Government of India two more Industrial Estates have been established at Dharan in Eastern Nepal and Nepalganj in Western Nepal at a cost of Rs. 41 lakhs I.C. An Agreement for this purpose was signed by the two Governments on May 10, 1972. Industrial Estate at Nepalganj completed with Indian assistance was inaugurated by Minister of State for Industry and Commerce, Dr. Harkha Bahadur Gurung on 25th February, 1976.

An agreement has been entered into with HMG of Nepal for the provision of Rs. 22 lakhs for the construction of Patan Industrial Estate, Phase IV.

An expert team of Government of India visited Nepal in 1967 and submitted a report for the development of village cottage and small scale industries in Nepal. Based on the recommendations of the team, a scheme was drawn up to provide facilities for the development of village, cottage and small scale industries all over Nepal. With a view to organise training-cum-production programmes for different trade and industries, zonal centres were set up in various parts of Nepal. A Handicraft Training-cum-Production Centre in Patan, and an Industrial Technical Institute in Kathmandu were setup.

The total cost of the programme, which started in July 1967, has been Rs. 45 lakhs I.C. upto end July 1972.

Lack of capital has been one of the many reasons hindering the development of industries in Nepal. To overcome this problem, His Majesty's Government and the Government of India signed an Agreement in September 1964 providing for a loan of Rs. 1 crores I.C. at a rate of interest of 3 percent for the promotion of small and medium scale industries in Nepal. Out of this loan, Rs. 70 lakhs I.C. has been allocated for medium industries and the balance of Rs. 30 lakhs for small and cottage industries. A total loan of Rs. 67 lakhs I.C. has so far been disbursed, and the industries established with this money include leather and shoe making, oil, rice and flour mills, fruit canning, hosiery, paper making, soap, motor-servicing, furniture, textiles, tea blending, bee keeping, wood carving and transport.

Among the industries in which India would extend economic co-operation are paper, plywood, woollen and cotton textiles and light engineering. She has agreed to buy manufactured and semi-manufactured goods of Nepal in view of her limited markets.

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1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
2. Ibid.
3.6: Horticulture And Agriculture:

Nepal is predominantly an agricultural country. A special feature of the country is its greatly varying agro-climatic conditions dependent mainly on elevation ranging from 250 ft to 29,000 ft. above sea level. This make it possible to grow a large variety of fruits and vegetables in Nepal. As horticulture yields much greater income per unit-area than ordinary agriculture, the improvement of the economic condition of the farmer depends much on their taking to horticulture on modern lines. Appreciating the key role of horticulture in the economic development of Nepal His Majesty's Government sought the cooperation of the Government of India for developing horticulture in an organised way in Nepal. An Agreement was signed on 31st August 1960 where by Government of India agreed to provide financial assistance of Rs. 25 lakhs I.C. It was also agreed to utilise the services of technical experts from India. Under this programme, horticultural station/centres were set up in various areas where trial production of various fruit plants was taken up on an experimental basis and the results propagated to the neighbouring areas for taking up horticulture on a large scale. Ten horticultural stations/centres were set up at Kirtipur (Kathmandu), Pokhara, Daman, Dhankuta, L.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
Dhunibesi, Trisuli, Janakpur, Sermathang, Beitadi and Thak. At these centres, valuable work on the selection of suitable varieties of fruits and vegetables was done. Cultural, manural and varietal trials in respect of fruits and vegetables were started. Production of quality fruit plants and vegetables seeds was another important activity undertaken at these stations.

Encouraged by the results of the horticultural programme during 1960-66 period, His Majesty's Government and the Government of India entered into a fresh Agreement in August 1968 for implementing a composite scheme of horticulture during 1966-71 at a cost of Rs. 43.60 lakhs I.C. Under this programme, while the activities in the old centres were continued, fresh centres were taken up for development so that all potential areas were covered under the programme. Three new centres were established at Dhunche, Jumla and Palpa. The necessity of developing the seed potato industry was also keenly felt and accordingly a Potato Development Centre was set up at Jaubari in Eastern Nepal, besides taking up intensive research work on potato at the Horticultural centres at Kiritipur and Daman.

At the 14 horticultural stations/centres set up in various parts of Nepal valuable work on the selection of suitable varieties of fruits and vegetables, cultural, manural and root stock trials on fruits, nursery production work and

raising of vegetable seeds has been taken up. These stations are annually producing more than a lakh of grafted plants and about 2,000 kgs of vegetable seeds. Intensive horticulture development work has been started at the Centres at Kirtipur, Daman, Sarmathang, Dhunisbesi, Dhankuta and Baitudi. Under this scheme, free technical advice on selection of site, plant material and layout is given to prospective growers. In addition to this, a subsidy of Rs. 80 per acre for planting of orchard and substantial subsidies on the purchase of fertilizers, tools, implements, plants and insecticides and fungicides are given. During the past three years, more than 600 acres have been planted with fruit trees under this scheme.

A fruit preservation unit has been set up at Kirtipur for developing and standardising the processes for preparation of various kinds of fruits and vegetable products. Community canning service and training to entrepreneurs and housewives are also imparted at the station. More than 35,000 pounds of fruit products have been produced by this unit and products like lapsi condy, junar and squash have found favour with the consumers.

The Agreement for the composite scheme of horticulture expired on 31st March, 1971 and a Letter of Exchange for continuing the scheme till 31st March 1973 was signed on May 10, 1972.

Agriculture is one of the schemes financed from the additional assistance of Rs. 400 lakhs committed by India in 1967.

The scheme, implemented by His Majesty's Government, comprised the purchase and distribution of improved agricultural seeds, fruit seeds and plants in northern areas, and livestock and poultry.

An amount of Rs. 26 lakhs I.C. was allotted for these items of works.

3.7: Veterinary:

An Agreement was signed between H.M.G. and the Government of India on 31st August 1960 for establishing Veterinary facilities in Nepal at a cost of Rs. 25 lakhs I.C. The facilities consisted of a veterinary research laboratory

in Kathmandu and dispensaries in other parts of the country, provision of equipment for carrying out vaccination campaign among animals, and training Veterinary Assistants to ensure rapid expansion of veterinary services in the country. As Rinderpest was frequently occurring in epidemic form in the Terai areas, a Rinderpest Eradication Programme was launched during this period. In addition to the establishment of four veterinary check posts, 3.4 million cattle out of 4 million estimated cattle in Terai were immunised against Rinderpest. Ever since the completion of the Rinderpest Eradication Campaign, there has been no outbreak of the Rinderpest disease in epidemic form.

The Agreement signed in 1960 was renewed in 1967. A further assistance of Rs. 10 lakhs I.C. for veterinary schemes has been given under the additional assistance of Rs. 400 lakhs I.C. committed in 1967. So far, a Central Veterinary Hospital in Kathmandu, and 33 veterinary hospitals and cattle breeding centres have been set up. The hospital in Kathmandu provides the much-needed improved veterinary treatment and diagnostic facilities. The building consists of 6 rooms for doctors, one case examination room, operation theatre, dispensing room, X-Ray room, store and waiting hall.

2. Ibid.
The central veterinary laboratory produces the required quantities of different types of vaccines for control of Rinderpest, Haemorrhagic Septicaemia, Ranikhet disease and Pox. Efforts are in hand to start production of anti-rabic vaccine.

3.8: Forestry:

45,235 sq. kms., constituting a third of Nepal’s area, is under forests. Forests are a rich source of national wealth in Nepal and planned exploitation of these resources is essential for the prosperity of Nepal. At the instance of His Majesty’s Government, the Inspector-General of Forest, Government of India, visited Nepal in April 1954 for preparing a report on the best way of utilising and developing the forests sources. Subsequently, the Director of Forest Education, Forest Research Institute, Government of India, visited Nepal in 1957. In July 1958, the Indian Co-operation Mission prepared a Report on the re-organisation of the Nepal Forest Department. In this Report, it was recommended that immediate and urgent steps be taken for saving the forest wealth of Nepal and for its scientific management. Afforestation on a large scale was suggested and it was estimated that if the forest resources are properly utilised, the revenue from this source could be Rs.6 crores N.C. per annum.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
In 1969, His Majesty's Government adopted a national policy on forests for the planned exploitation and development of forest resources. It was considered necessary that working plans for the various forest divisions of Nepal should be prepared on scientific lines. On 31st August 1960, His Majesty's Government and the Government of India signed an Agreement for the development of forestry in Nepal, at a cost of 15 lakhs I.C. which was increased to Rs. 32 lakhs I.C. in 1961. Under this Agreement, a sum of Rs. 5 lakhs was provided for making available the services of Indian experts for preparing the working plans for the three forest division of Kanchanpur, Birganj and Biratnagar. Another sum of Rs. 10 lakhs was provided for constructing a Forest Institute at Kathaura. The programme further included maintenance of the Institute and implementation of the working plans. The Agreement of 1960 was renewed in June 1967 to continue the programme envisaged under the agreement. The working plans were prepared by 1966. The forest Institute building was completed the next year and it was inaugurated by His Late Majesty King Mahendra on 30th September 1967. The services of Indian teachers were made available initially for imparting training in forestry at the Institute.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
3.9: Education

India has also assisted Nepal in the field of education. She has spent almost Rs. 32.22 crores I.C. for this purpose.

India's association with the development of Higher Education in Nepal started in 1960, a year after the formation of the first national university of Nepal - the Tribhuvan University at Kathmandu. Under the Indo-Nepal Agreement for the development of this University signed on 7th October, 1960, a sum of Rs. 20 lakhs I.C. was provided for the construction of the following buildings:

(i) Science Block - The Science building houses the Department of Chemistry, Botany and Zoology. The building has been equipped with furniture and laboratory apparatus.

(ii) Tribhuvan University Library - Adjacent to the Science Block, a modern library building with an area of 17,700 sq.ft. has been constructed. The facilities in the library include a commodious stack hall, a main hall, a reading room, a reference room, room for periodicals, faculty reading room, a special room for book on Nepal, and an Administrative Wing. The Library has been supplied with furniture and books.

(iii) Student's Hostel - The Hostel provides accommodation for 50 post-graduate students.

(iv) Staff Quarters - Four residential quarters have been constructed for the University staff at the campus.

A Letter of Exchange was signed on June 24, 1968 committing a further sum of Rs. 11.25 lakhs I.C. for completing the Library Building, setting up of a Gas Plant in the Science Block and furniture and fixtures in the Library.

Out of the additional assistance of Rs. 400 lakhs I.C. offered to Nepal in 1967 for her various development programmes a sum of Rs. 44 lakhs I.C. was allocated for the Tribhuvan University. With this assistance, the following buildings have been completed.

(i) Girl's Hostel - The Hostel has a provision for accommodating 80 girl students and other common facilities like dining hall and kitchen.

(ii) Staff Quarters - 20 quarters for University teachers have been constructed at the campus.

(iii) Stadium - a modern stadium where games of hocky, football, cricket etc. can be arranged has been constructed.

2. Ibid.
3. Ibid.
(iv) Research Scholar's Quarters - 25 quarters have been constructed at the campus for the research scholars.

(v) The building for the Student's Club, and the Botany Block are under construction. The Gandhi Bhavan is already complete. A Rose Garden has been developed as a part of the Gandhi Bhavan complex. Provision has also been made for science equipment and other facilities to various departments, and books to the Tribhuvan University Library.

To man the Post-Graduate Departments of the Tribhuvan University till suitable Nepalese teachers become available, the services of 8 professors, 12 readers and 2 lecturers have been provided to teach chemistry, Physics, Botany, Zoology, Mathematics, Commerce, Economics, Political Science, Sanskrit, English, Geology and Hindi.

Trichandra College - The Trichandra College is a premier college in the Kathmandu Valley. To help in the development and expansion of the college, the Government of India extended assistance in the construction of the Science building of the college and provision of furniture, fittings and equipment costing Rs. 12 lakhs 1.C.


2. Ibid.
Tribhuvan Adarsha Vidyalaya, Pharping, Kathmandu -

At the instance of His Majesty’s Government, India agreed in July 1963 to provide assistance to the extent of Rs. 3.5 lakhs I.C. for the development of the Tribhuvan Adarsha Vidyalaya. The programme included - construction of a new school building, eight teacher's quarters and a dispensary. Initially, two teachers from India were provided to serve on the staff of the School.

In the field of sports a cash grant of Rs. 5 lakhs I.C. was given for the construction of a stadium at Kathmandu. A similar grant of Rs. 12 lakhs I.C. is proposed to be given for a sports complex at Pokhara.

3.10 : Health :

India’s cooperation in the field of health was confined initially to the supply of medicines to various voluntary organisations and dispensaries. In 1959, at the instance of His Majesty’s Government, the Government of India extended assistance in the development of the Paropkar Shri Panch Indira Rajya Laxmi Devi Maternity and child welfare Centre, Kathmandu. The hospital has been set up by

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
2. Ibid.
voluntary contributions and named after the first wife of His Majesty, King Mahendra. India's co-operation with the institution has continued since 1959. The facilities set up with Indian assistance include various wards of the hospital, out-patient department, clinics, laboratories and dispensaries, X-ray unit, mortuary, equipment and medicines. At the initial stage, services of Indian doctors and nurses were provided. The total assistance provided by India in the development of this institution is Rs. 23 lakhs I.C.

Out of the additional assistance of Rs. 400 lakhs I.C. provided in 1967, a sum of Rs. 25 lakhs I.C. was allocated for the development of hospital and health posts in various parts of Nepal. A 25-bed hospital at Rajbiraj was completed in 1971; a 25-bed hospital at Dhangeri, a 15-bed hospital at Taulihawa; Gulmi and Ilam have been completed. A health centre at Terathaum in Eastern Nepal in nearing completion. Six health posts in Narayani Anchal in Terai have been constructed. This programme includes provision of hospital furniture and surgical equipment.

Goitre is a wide-spread disease in the hilly areas of Nepal. It is mainly caused by deficiency of iodine in the human body. Control of this disease could be achieved

1. Indo Nepal Cooperation(1952-72), Indian cooperation Mission, Kathmandu.
2. Ibid.
by the induction of iodine in the body. The end
ed for this purpose is the iodisation of co
distribution for public consumption. His ex-
iment and the Government of India have worked out a scheme
for the control of Goitre through the distribution of
iodised salt in Nepal. To make this salt available to the
people at a rate at which ordinary salt is now being sold,
the Government of India have agreed to subsidise the cost
of iodisation of the salt as well as the cost of packing
and distribution in certain areas where the cost of distrib-
ution would be high, because of remoteness and lack of good
communications. It is expected that the cost of subsidy
would be Rs. 25 lakhs I.C. per annum. A sum of Rs. 50 lakhs
I.C. has been earmarked for the operation of this scheme for
two years from the additional assistance of Rs. 400 lakhs I.C.
offered in 1967. For a further period of three years,
assistance has been provided by the Government of India for
this scheme to the tune of Rs. 75 lakhs I.C.

In 1965-66, Indian Co-operation Mission organised
Eye Relief Camps at Pokhara, Trisuli and Kathmandu in colla-
boration with the Rotary Club. The number of patients who
attended them came to 18,000 approximately.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation
Mission, Kathmandu.

2. Ibid.
About 93 percent of Nepal's population live in villages. For their economic and social betterment, schemes of village and local development are of primary significance. His Majesty's Government and the Government of India entered into two Agreements in 1969, one for village development programmes and the other for local development works, at a total cost of Rs. 280 lakhs I.C. The scheme was an integrated programme of economic and social development of rural areas by increasing food and agricultural production, development of horticulture, improvement of live stock, introduction of new skills and recreation, provision of education and health facilities including water supply, improvement of village communications etc. The main emphasis in this programme was on the development of people's initiative and productivity. Eleven intensive development blocks and one rural development block were covered under this scheme, besides three schemes of intensive Valley development centering around Pokhara, Lalitpur and Palung Valleys. In these blocks, demonstration of the judicious use of fertilizers, improved agricultural practices, and better varieties of seeds and methods of sowing of wheat, barley, gram, tea and potatoes was organised. A batch of selected farmers and block officials was taken on tour to India to study community development projects. Under this programme, attention was
also paid to removing rural indebtedness and increasing agricultural production through cooperative development. A scheme was prepared for expansion of the co-operative movement, and by-laws of different co-operative societies were drafted. Advice was rendered in forming 300 co-operative societies with a membership of 10,300 and an authorised capital of Rs. 2.33 lakhs N.C. Areas not covered by village development blocks were brought under the local development work scheme on self help basis. About 1,500 works of local importance were developed under the local development work scheme. They were:

1. Schools and libraries - 320
2. Drinking Water Schemes - 710
3. Culverts, bridges and bunds - 280
4. Village roads - 110
5. Other Works - 96

The programme of village and local development works came to close in 1962 when His Majesty's Government decided to channelise the development through Panchayats.

A 4-tier Panchayat system of Government was introduced in Nepal in 1962 and measures were taken towards decentralisation of administration. At the base of the new system, village panchayats were organised followed by district, anchal

and national panchayats. In 1965, the Panchayat Development and Land Taxation Act was adopted and an Ordinance on Local Government was promulgated on 16th December 1965. This was an important landmark in the programme of development in Nepal, which sought to achieve complete decentralisation of Government functions and resources by providing suitable administrative machinery at various levels of the Panchayat system. To organise a sufficient number of field workers to man various panchayat institutions and conduct elections under the Panchayat system, Government of India's assistance in the field of training and the services of an Adviser on Panchayats were desired by His Majesty's Government. Accordingly, assistance was rendered in organising a training programme for district Panchayat officers and supervisors recruited by the local administration, and about 160 officials were trained. A few officers of the Panchayat Ministry of His Majesty's Government were sent to India for training.

An Adviser on Panchayats was placed at the disposal of His Majesty's Government. The Adviser visited places in the interior of the country and studied the reactions of the people to the institution of the Panchayat system, and suggested ways and means to improve upon the organisational aspect of the system. To provide funds to various panchayats for development work under their charge, the Government of India was approached for assistance. A sum of Rs. 52 lakhs I.C. out of the additional assistance of Rs. 400 lakhs I.C.
committed in 1967 was made available for giving grants to various panchayats for their development programmes.

3.12: Archaeology:

India has provided assistance for the construction of National Archives buildings, Kathmandu and for archaeological surveys in Nepal.

In 1959, the services of an Expert to advise His Majesty's Government in organising the Department of Archaeology as well as to draw up a plan for the development of archaeology in Nepal was desired by His Majesty's Government. The Director General of the Archaeological Survey of India visited Nepal in 1960 and submitted a report which formed the basis for the re-organisation of the Department of Archaeology as well as its programmes of excavation and exploration. In pursuance of these recommendations, the Archaeological Survey of India conducted in 1961 a pre-historic survey of the Kathmandu Valley and excavations at Tilourakot and Kodan near Taulihawa in Terai. Excavations at Paisia near Lumbini and explorations in the area east of Lumbini were also carried out in 1964. In 1965, excavations at Lazimpat and Hadi Goon on the outskirts of Kathmandu were

conducted. Iconographical survey of the Kathmandu Valley was carried out in 1963. A chemist of the Archaeological Survey of India undertook the chemical treatment of the murals at Bhaktapur in 1965-66.

Alongside these activities, a programme for training personnel of the Department of Archaeology, His Majesty's Government, was initiated, and in course of time, a number of people have been trained in India in epigraphy, iconography, surveying, archaeological engineering, pottery drawing etc. The Department of Archaeology, His Majesty's Government, was also provided with a number of books and essential equipment for survey and training. Recently, a Physical Anthropologist from India visited Nepal to study the skeletons found in the excavations at Tilaurakot. The Government of India also undertook to print the Reports of various surveys and excavations carried out by the officers of the Archaeological Survey of India. The services of an Indian Archaeologist have also been placed at the disposal of the Department of Archaeology, His Majesty's Government, as Adviser.

3.13 : National Archives:

For the proper upkeep and preservation of Government records and manuscripts of cultural and historical interest, His Majesty's Government and the Government of India agreed

to co-operate in the construction of a modern archives building where all the manuscripts could be brought together and preserved in a scientific and methodical manner. The two Governments signed an Agreement in October 1960 to provide for the construction of a suitable building and the collection of manuscripts and books from Bir Library, Rastriya Pustakalaya and other places and cataloguing them on scientific lines. The manuscripts had to be restored wherever necessary, microfilmed and housed in a fireproof section of the building. The building was constructed in 1967 adjacent to the Supreme Court building in Kathmandu. The building contains, besides a huge stack-room to accommodate about 30,000 manuscripts, Office accommodation, conference room, cataloguing room and laboratories for lamination, photography and other modern techniques of preserving the old records. It has also been fitted with a microfilming camera and a projector.

The services of a Sanskrit scholar were made available in 1965 for cataloguing and indexing of the old manuscripts. He also edited some of those manuscripts for the publication programme of His Majesty's Government.

The technical experts of the National Archives of the Government of India, New Delhi were invited to demonstrate the technique of microfilming of manuscripts, and under their supervision about 600 manuscripts running into 280 rolls
of films were microfilmed.

The cost of the entire programme was Rs. 7.37 lakhs

3.14: Survey:

Development Plan For Pokhara:

Pokhara is the second largest valley of Nepal situated 95 air-miles north-west of Kathmandu and the largest single human settlement in the western hills. It is 2,500 to 2,000 ft. above sea-level. The township, Pokhara Bazar, is mostly developed on the western side of the River Seti which flows from north to south. There are two other rivers viz., Phusri Khola and Bijay Khola, flowing through the Valley which contains three large lakes viz., the Phewa Tal, Rupa Tal and Begnas Tal. The natural scenic beauty around Pokhara with Annapurna range to the north rising to the height of 26,000 ft. makes Pokhara a haven for tourists. With the completion of the Sonauli-Pokhara Road, tourism has become an important industry here.

When the Sonauli-Pokhara Road project was taken up, it was felt that by the time the road is completed and Pokhara is opened up, it would lead to great socio-economic

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1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
changes and the township was bound to expand on all sides. To prevent the haphazard growth of the township and settlements in the Valley, His Majesty's Government expressed a desire in 1965 that a plan for development of the Pokhara town be drawn up in advance of the opening of the Valley, in order to guide its future development along appropriate lines. The work of preparing this plan was entrusted to the town and Country Planning Organisation of the Government of India. After a general reconnaissance of Pokhara, the Town and Country Planning Organisation prepared a preliminary outline development plan in September 1965 indicating the broad lines for planning the growth of Pokhara. The proposals were preliminary in nature, since in the absence of a detailed physical survey of the area and socio-economic studies, it was not possible to work out a more detailed development plan.

After the preliminary report on the development plan of Pokhara was accepted by His Majesty's Government, the preparation of a comprehensive plan was taken up. The Town and Country Planning Organization undertook a socio-economic study of Pokhara in the national context before drawing up a comprehensive plan. The plan, which consists of proposed land use and circulation pattern, provided a 20 year perspective for development of Pokhara town for an estimated population of about 40,000 by 1986. Since the future growth of
Pokhara is inevitable beyond 1986, the plan encompassed a much larger area than the requirements for a population of 40,000 people.

To formalise the expenditure incurred on the preparation of the Development Plan, His Majesty's Government and the Government of India exchanged Letters on 24th June, 1963, providing for an assistance amounting to Rs. 1.50 lakhs I.C.

3.14-1 : Geological Survey:

To locate Nepal's mineral wealth and exploit it for the well-being of its people, His Majesty's Government and the Government of India agreed to start a survey at a cost of Rs. 40 lakhs I.C. under an Agreement signed on 17th November, 1961. The programme envisaged under this Agreement was to end in March 1966 but the same was continued till September 1970 when it was finally wound up. During the first period of the programme from November 1961 to March 1966, the following investigations were carried out:

1. Detailed investigation of the Kulikhani - Arkhaule copper deposits.

2. Investigation of cobalt deposits in western Nepal.

3. Investigation of gas and lignite in Kathmandu Valley.

4. Detailed investigation of statuary marble at Godavari and the investigation of the fossiliferous Palaeozoic rocks near Kathmandu.

5. Continuance of mapping and pitting and trenching in Mangre-Bhorle area for copper and nickel.

6. Further investigation of Trisuli Hydro-electric project.


8. Investigation of ground water resources of Kathmandu Valley.

During the second phase starting from April 1966 to September 1970 systematic geological mapping on 1:63,360 scale (1 inch = 1 mile scale) was done in the regions of Gandaki, Naraini, Bagmati, Janakpur and Sagarmatha Anchals.

The total expenditure on geological survey and mineral investigation was Rs. 39.814 L.C.

3.14-2: Railway Survey:

Birganj on the Indo-Nepal border is a major point of entry and exit for traffic to and from the Kathmandu Valley. It is linked with Kathmandu by a metalled road and is also connected with the Indian Railway system. The Birganj-Amlekhganj railway line is linked with Samastipur - Razaul Section of the metre gauge railway line in India.

The Government of India have decided to convert this existing metre gauge line into broad gauge. To do away with the undesirable break of gauge and break of mode transhipment which would be inevitable when the Raxaul Samastipur Section is converted into broad gauge, His Majesty's Government propose to carry out necessary changes in their rail system in this section as well. The basic objective is to organise fast, safe and economic transport services needed in the growing and changing economy of Nepal.

In November 1968, the Prime Minister of Nepal in a meeting with the Indian Railways Minister expressed Nepal's desire to seek Indian assistance in constructing a broad gauge railway line in Nepal from Raxaul to the foot of the hills in the north upto Hitauda. His Majesty's Government desired that the proposed line in Nepal be synchronised with the Indian plan for conversion of the existing metre gauge railway line to broad gauge and requested that in the mean time the necessary techno-economic survey of the project be undertaken. A team of senior officials of the North Eastern Railway, India visited Nepal in 1970 and conducted a techno-economic survey. The Report of the team has been presented to His Majesty's Government. The cost of survey is Rs.8.69 lakhs I.C.

3.14-3: Survey And Triangulation:

In 1952, at the instance of His Majesty's Government, the Government of India undertook the aerial survey of Nepal. The survey was to assist His Majesty's Government in the formulation of national developments plans. This survey was also meant to provide the basis for forest mapping, agricultural surveys, transport system planning, hydro-electric development, irrigation, geological and mining surveys, and soil conservation.

When the survey was over, it was further agreed, to undertake the work of triangulation and mapping. The whole of Nepal has been covered by topographical map sheets on scale 1 inch = 1 mile. 193 sheets have been published by the Survey of India and supplied to His Majesty's Government.

The total expenditure on the aerial survey and triangulation so far is Rs. 206.21 lakhs I.C.

3.15: Technical Assistance And Training:

Technical Assistance: Besides executing various development projects and providing assistance for execution of programmes by His Majesty's Government, India has been providing the services of experts in various fields.

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
2. Ibid.
The experts came in the fields of civil and police administration, finance, local development, horticulture and veterinary, irrigation and power, road construction, audit and accounts, education, archaeology, panchayats, law, etc. Since then, many of them have been withdrawn as more and more trained Nepalese have become available. Indian experts now attached to His Majesty's Government in a very limited number of fields. The fields in which Indian Advisers are still attached are: road construction, irrigation and power, posts and telegraphs, national accounting, horticulture and education.

The aid so far in regard to technical assistance is 1 Rs. 150 lakhs I.C.

Technical Training: In 1951, when planned economic development began in Nepal, there were not many trained personnel to take up various development projects. A number of people had to come from other countries, including India, to assist in the various development schemes in Nepal. This could only be a short-term solution. Ultimately, it is the people of Nepal themselves who have to execute the development programmes of their country. With this end in view, and pending the development of facilities for training within

1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
Nepal, facilities were provided to Nepalese for training in India under the Colombo Plan Technical Training Scheme. About 250 Nepalese Scholars go to India every year for advanced studies and training in various subjects like medicine and health, education, engineering, food, agriculture, forestry, transport and communications, administration, social services, statistics, co-operatives, banking, finance, accountancy etc. Since the beginning of the programme in 1952, a total number of 2,824 Nepalese Scholars have been sent to India till the end of 1971-72 under the Colombo Plan Technical Co-operation Scheme. The year-wise deputation of Scholars to India and the subjects in which they were deputed are given in the ensuing Table 5.6.

Under the scheme, besides offering free tuition fee, the Scholars are paid stipends in three categories, i.e. Rs. 300, 600 and Rs. 800 per month, depending on the course and the status of the individual concerned. In addition, medical facilities are provided free and lump sum payments for the purchase of books and outfit allowance are made.

With the object of building up training institutions within the country, assistance was extended to His Majesty's Government in setting up and maintaining three training institutions, viz., the Rural Institute, Patan; Engineering School, Kathmandu, and Forest Research Institute, Hithaura. The services of survey training officers are being provided to the Survey Training School, Kathmandu, to train Nepalese in survey and mapping work.

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### Table 6.6: Scholars Sent to India Under Colombo Plan Technical Co-operation Scheme

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<tr>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agriculture</td>
<td>194</td>
<td>18</td>
<td>15</td>
<td>21</td>
<td>6</td>
<td>17</td>
<td>8</td>
<td>10</td>
<td>14</td>
<td>20</td>
<td>323</td>
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<tr>
<td>2.</td>
<td>Communication</td>
<td>89</td>
<td>30</td>
<td>8</td>
<td>3</td>
<td>15</td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>20</td>
<td>7</td>
<td>190</td>
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<tr>
<td>3.</td>
<td>Education (Humanities &amp; Science)</td>
<td>290</td>
<td>20</td>
<td>29</td>
<td>16</td>
<td>12</td>
<td>17</td>
<td>16</td>
<td>23</td>
<td>24</td>
<td>29</td>
<td>476</td>
</tr>
<tr>
<td>4.</td>
<td>Engineering</td>
<td>472</td>
<td>51</td>
<td>22</td>
<td>50</td>
<td>30</td>
<td>47</td>
<td>34</td>
<td>37</td>
<td>33</td>
<td>26</td>
<td>802</td>
</tr>
<tr>
<td>5.</td>
<td>Medicine and Allied Subjects</td>
<td>282</td>
<td>16</td>
<td>13</td>
<td>20</td>
<td>12</td>
<td>22</td>
<td>20</td>
<td>16</td>
<td>29</td>
<td>19</td>
<td>449</td>
</tr>
<tr>
<td>6.</td>
<td>Miscellaneous</td>
<td>324</td>
<td>29</td>
<td>29</td>
<td>26</td>
<td>6</td>
<td>64</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>38</td>
<td>584</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>1,651</td>
<td>164</td>
<td>116</td>
<td>135</td>
<td>81</td>
<td>173</td>
<td>109</td>
<td>113</td>
<td>143</td>
<td>139</td>
<td>2,824</td>
</tr>
</tbody>
</table>

Source: Supplied by Indian Cooperation Mission, Kathmandu.
3.16 : Committed Schemes And Future Trends:

The allotment of Indian aid to Nepal has been given on five year basis. Indian aid during the previous four quinquennium started in 1951 ending in 1971 was to the extent of Rs. 4.42, Rs. 5.22, Rs. 20.56, Rs. 49.94 crores I.C. The allotment of aid during the present quinquennium is Rs. 45 crores. An aid expenditure of Rs. 16.75 crores I.C. has already been incurred from 1st April, 1971 to March, 1973 leaving a balance of Rs. 28.25 crores. An expenditure of about Rs. 22 crores is expected on the projects like Mahendra Rajmarg, Chatra Canal Irrigation project, Health Schemes and Industrial Estates at Nepalgunj and Dharan. The major portion of balance of Rs. 6.25 crores is expected to be utilised on the following main projects under implementation:

1. Central Sector of Mahendra Rajmarg, (Butwal to Nepalgunj)
2. Kamla Bridge Project,
3. Distribution of iodised salt central goitre in Nepal,
4. Kosi Area Roads (Improvement)
5. Extension of the hospital building of Shri Panch Lhaba Rajya Luxmi Devi Maternity and Child Welfare Centre
6. Continuation of Horticulture and allied schemes.

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1. Indo Nepal Cooperation (1952-72), Indian Cooperation Mission, Kathmandu.
Keeping in view the importance of our relations with Nepal, Prime Minister Shrimati Indira Gandhi during her visit to Nepal in February 1973 offered India's assistance in the economic development of Nepal. As a result of discussions held the two Governments have agreed to take a number of concrete steps in these areas, the principal ones being as follows:

1. The Government of India will purchase Karnali power that may be surplus to the needs of Nepal. Since India will be the purchaser of the bulk of this power it will be fully associated with the formulation of this project.

2. The two sides agreed to cooperate in the accelerated development of Nepalese design and construction capabilities for the utilisation of water and power resources of Nepal. The Government of India will assist His Majesty's Government in this and would be prepared to offer facilities for training Nepalese Engineers in India.

3. The Government of India will undertake, in association with experts of His Majesty's Government, survey and construction of the Kathmandu (Dulalghat)-Dhankuta Road. The survey and detailed project report will be completed by the end of 1975 and construction work will start soon thereafter.

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His Majesty's Government and the Government of India have agreed to cooperate in a wide range of agricultural research and development activities designed to lead to improvement of cash crops and food crops.

The Government of India will provide assistance to His Majesty's Government in the consolidation of present efforts in horticulture development in Nepal giving priority to accessible areas.

The Government of India will, in association with experts of His Majesty's Government undertake a comprehensive study of the development of cement industry in Nepal.

His Majesty's Government and the Government of India will exchange ideas, experiences and information pertaining to development planning and project formulation. The Government of India will also make available such technical advice as may be desired by His Majesty's Government in the field of management of public enterprises.

<table>
<thead>
<tr>
<th>Committed Schemes (To be taken up)</th>
<th>Approx. cost in crores IC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Devighat hydro electric project.</td>
<td>23.00</td>
</tr>
<tr>
<td>2. Kosi Soil Conservation Scheme.</td>
<td>10.50</td>
</tr>
<tr>
<td>3. Kathmandu-Dhankuta Road.</td>
<td>To be estimated</td>
</tr>
<tr>
<td>4. Horticultural Scheme.</td>
<td>0.70</td>
</tr>
<tr>
<td>5. Renovation of Chandra Canal and the Pumped Canal Scheme.</td>
<td>11.89</td>
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1. Indo Nepal Cooperation(1952-72), Indian Cooperation Mission, Kathmandu.

At present Nepal is receiving considerable benefit from the Mutual Benefit Schemes undertaken by India. The water power potential of Nepal is her greatest asset. Next to Brazil, Nepal has largest power potential in the world. A planned scheme of utilisation of Nepal's river system would open new prospects for the peoples of both India and Nepal. It is estimated that power harnessed from Karnali could end the electricity shortage in Bihar. A beginning has been made by the two countries by agreeing to co-operate in two multipurpose river valley projects Kosi and Gandak. They have been undertaken with a view to make the peasants and farmers of both the countries free from miseries and suffering of the joint rivers and it will also improve communication, roads, employment opportunities for the peoples.

The Kosi Project:

It is a multipurpose scheme of irrigation, power and flood control. It would open new prospects for both the countries. It was not India alone which suffered from unruly Kosi floods but it devasted some 300 to 500 square miles of Nepalese territory too. In Bihar the devasted area is five to six times larger. An agreement for this project was concluded with Nepal in April 1964. The scheme consists of levelling on both sides of the following channels, barrage across the rivers, canal system and a hydel station. The
estimated cost is Rs. 54.6 crores. The real problem of this river is its constantly shifting course.

The first, the construction of the two lines of embankments, each of 75 miles long, was taken up in 1955 and completed by the year 1969.

The barrage across the river is located near Bimnagar, a few miles below the foot-hills of the Himalayas. The purpose of the barrage is to divert water to feed the eastern and western canal system. The length of the barrage with 56 gates is 3,770 feet.

The Kosi Canal system on the eastern and western sides of the river has been designed to provide annual irrigation to an area of about 26 lakh acres in the districts of Saharsa, Purnea and Darbhanga of Bihar and Saptari of Nepal. Besides irrigation, the eastern canals would help in the reclamation of about 3.5 lakhs acres of waste land in the district of Purnea and Saharsa.

A power house, with an installed capacity of 20,000 kw, has been located in the main eastern canal. The power house would have four units of 5,000 kw each. This power house happens to be the first of its kind in India and one of the few in world. Remarkably as much as 50 percent of the power generated has been earmarked for use in Nepal.
Benefits to Nepal.

There are two schemes to provide irrigation facilities to Nepal. The Chatra Canal Project calculated to irrigate 2.12 lakh acres of land in the Morong and Septari districts of Nepal, is being executed by the Kosi Project, Administration on behalf of the Union Government under the Indian Aid Programme. This scheme would yield an additional produce of 9 lakh maunds per year valued at Rs. 8.5 millions. According to the latest proposals of the western Kosi Canal, about 70,000 acres of land would be irrigated in Saptari district.

The flood protection embankments in Nepal have saved about 1.5 lakh acres of land from the ravages of Kosi.

Besides earmarking 50 percent of the installed capacity of the power house for Nepal, it has been decided to construct high power tension lines right upto Biratnagar and Rajbiraj under the Indian Aid Programme. Apart from the roads for the use of Project in Nepal, it was decided to construct two more roads exclusively for the benefit of Nepalese people - Hanumannahar - Rajbiraj Road (8 miles) and Fatehpur-Kanauli (24 miles) all weather roads with 6 major bridges.

Besides these benefits, Nepalese nationals are having new opportunities for employment, incentives to trade and commerce which will finally accelerate their standards of living.

A few Nepalese papers like 'Naya Samaj' have criticised the Kosi Project on the ground that Nepalese fertile land has been utilised with no substantial gain to then. But there is no truthness in it. It can be observed easily that India sought to promote the welfare of both the countries.

The Gandak Project:

The Project aims to provide large irrigation and water potential of the Gandak river for the benefit of the both the peoples of India and Nepal. In Nepal the river is known as 'Sapta Gandaki' and in India it is known as 'Narayani' or 'Gandak', the river debouches into the plains at a place called Tribeni, just near the Indo-Nepal border in Champaran district. The Gandak Valley is one of the most fertile agricultural tracts in north Bihar and Nepal, and produces almost every crop grown in Indian plains.

The agreement with Nepal was signed on 4 December 1959 for this Project and the work started. The Project envisages: (a) Construction of a barrage across the river near Valmikinagar (Bhaisalotan), (b) Excavation of the main western canal system, (c) Main eastern canal system and (d) construction of a power house in Nepal.

The estimated cost of the project was Rs. 52.03 crores including the cost of irrigation works and power house in Nepal. But the revised estimate is Rs. 94.92 crores due to the rise in the cost of material and labour and further new additions to the scheme. Out of it Bihar's share would be Rs. 36.56 crores. The project is being financed by Indian loan.

The barrage, located about 2,500 feet below the existing Tribeni Canal head regulator, has a total length of 2,425 feet about half of which would be in the Indian territory and the other half in Nepal.

The western Canal is designed to irrigate 11.35 lakh acres of land in the Saran district of Bihar and about 3.03 lakh acres in Uttar Pradesh. A separate canal would also take off from the western bank to command about 40,600 acres of land in the Bhairwa district of Nepal. The total length of the main canal is 120 miles, out of which 11.5 miles will fall in Nepal territory, 68 miles in the districts of Gorakhpur
and Deoria in U.P. and the rest in the Saran district of Bihar. The Nepal western canal wholly for her benefit would be 18 miles long.

The Eastern Canal would irrigate 14.12 lakh acres in the Champaran, Mazaffarpur and Darbhanga districts of Bihar plus 1.85 lakh acres to be irrigated from the two extension schemes for the Dhanaka and Ghorasaharan areas in the Champaran district, and 1.3 lakh acres in the Parsa, Bara and Maulihat districts of Nepal. The total length of the canal is 185 miles.

According to the plan, a power house with an installed capacity of 15,000 kw has been constructed on the ninth mile of the Main Western Canal in the territory of Nepal. This power house will be handed over to Nepal, when the connected load from it would be developed to the firm potential of 10,000 kw at 60 percent load factor. In order to facilitate the utilisation of power in Nepal, India have agreed to lay transmission line from the power house to the Bihar border near Valmikinagar and from Sigauli to Raxaul in Bihar so that power could be carried to a point from which Nepal can easily take out transmission lines for use in her industrial area like Hitauda.

Benefits to Nepal:

The two Governments have agreed in raising the capacity of the eastern canal, as a result the irrigated land on Nepalese side would be increased from 1.3 lakh acres to 1.15 lakh acres. Similarly, the western canal would be extended to provide irrigation facilities for another 66,000 acres of land. Thus the total area to be irrigated in Nepal from the project works out to be about 1.8 lakh acres. Besides these, there would be large employment opportunities for the Nepalese people, it would help in better communication, better marketing, growth of industries and in diversification of the Nepalese economy.

Benefits to India (Specially Bihar):

The area to be irrigated by these canals would 27.32 lakh acres, out of which 11.35 lakh acres will be in Saran, 7.60 lakh acres in Champaran and the rest in Muzaffarpur and Darbhanga areas. There will be numerous indirect benefits also to the people living in the Gandak Valley. The irrigation will facilitate the growth of industries based mostly on agriculture. It is expected that sugar, rice, jute paper and chemical fertilizer factories would be established in this region. The Government of Bihar will save large amounts now being spent on relief operations every year.
Some Nepalese view on this projects agreement with suspicion and feel that it has compromised nations sovereignty. The criticism persists despite the fact that the entire project is being financed by India, and Nepal would receive free of cost, power supply and irrigation facilities. Certainly, Nepal's sovereignty is not infringed and Indian intentions have been misrepresented.

Some recent developments regarding mutual benefits of India and Nepal are given in Appendix V.


India laid the foundation of her industrial collaboration by opening Biratnagar Jute Mill with an initial investment of Rs. 1.6 million in 1936. Since then most of the Nepalese trade and commerce had been in her hands. It was only with the special sanction of Nepal Government that Indians were allowed to start industries and business who worked in close partnership of wealthy Ranas. Both countries thus developed a close financial tie.

An agreement was signed between Indian industrialist Birlas and the Government of Nepal to establish Indo-Nepal Industrial Corporation in February 1962. It had to establish

cotton textile mill and other business in the field of agriculture and industry. Nepal provided special facilities to them by allowing 12 years tax exemption and 8 years of excise exemptions. She guaranteed that there would be no nationalisation for 41 years and full compensation would be paid on such event. Indian technicians were given income tax concession on their earnings. An agreement was signed with Beha Brothers for construction of a textile mill at Hitauda. This biggest mill of Nepal would cost Rs. 2.7 crores and would be having 15,000 spindles and 400 automatic looms. It would employ 3,000 persons for producing 25 million yards of cloth per year and would meet about one-third of the existing cloth demand of Nepal.

Golcha has established woollen factory with 4800 spindles involving an investment of Rs. 20 million. It has already commenced production since 1964 in Kathmandu. They are also running a catechu mill with a capacity of twenty ton per day at Nepalgunj.

The Prabhat General Agencies have taken on lease Nepalese forests for a period of 20 years to manufacture 5000 tons of rosin and 1000 tons of turpentine each year. The capital of the company would be Rs. 5 lakhs to start with to be increased to Rs. 50 lakhs in five years. The products would be used by paper, soap, textile, paints and chemical industries and in the absence of Nepalese demand
would be exported to India.

Sahu Jain Group received the permission to open a Sugar Mill near Krishnanagar with daily capacity of crushing 1000 tons of sugarcane.

Suman Industries are planning to establish a plastic goods factory with a capital of Rs. 5 lakhs. It would produce 26,000 pieces of combs and other materials per month.

H/s Dhirajlal Brijlal of Calcutta have been permitted for installation of a starch and glucose factory in Nepal with the capital of Rs. 5 crores to produce 1270 tons of starch and glucose.

6. Foreign Exchange Relations.

The currency relations also forms an important part of economic relations. It is a base for all trade and commercial transactions. No systematic account of the currency system in Nepal is available. It was in 1945 that for the first time Nepal issued paper currency in the form of one rupee notes through H.M.O. Treasury known as Mulki Khana. In 1960 Nepalsese coins were replaced by the new Nepal Rastra Bank notes. At present banking and public

finances of Nepal are regulated by the Nepal Rastra Bank which corresponds, with certain variations, to the Reserve Bank of India.

6.1: The Dual Currency System

There was dual currency system in Nepal under which both Indian and Nepalese currency notes circulated freely and were converted into each other without any difficulty. Nepal Bank too was keeping its accounts in both the currencies. Nepal Government was also framing her budgets in terms of both the currencies. The prevalence of this system has been mainly due to the intimate trade and commercial relations between India and Nepal. Most of the organised monetary areas and her industries are located in the eastern Tarai region and in the Tarai areas where the Indian currency freely circulated as the main currency. The means of transport and communication between her various districts have been lacking and more perilous and uncertain than those which connect it to India. All these factors are responsible for the circulation of Indian currency in most parts of Nepal. The Indian currency circulating in Nepal was estimated to be 1 Rs. 150 to 200 millions.

In these circumstances, it was almost impossible for the Government of Nepal to exercise monetary control on Indian currency circulating in Nepal. It made it difficult to stabilise the Nepalese currency and the exchange ratio with other foreign currencies. The exchange rate between Indian currency (I.C.) and Nepalese currency (N.C.) in each region of Nepal varied according to its economic conditions, largest position, import situation, geographical proximity to India and Government action. From the economic point of view Indian rupee played a very strategic role in the country, it accounted for almost all the major economic activities of Nepal. From the social point of view persons who received income in Indian currency were mostly exporters and house owners, while persons who received income in Nepalese currency were Government employees. Depreciation of NC in terms of IC kept the IC income group in a relatively favourable position, since their income could be easily converted into NC and thus their money income in NC could be increased. The dual currency system in Nepal created additional risks in long term business activities by encouraging speculative activities on the cost of genuine investors. As a result the big businessmen invested their savings in India in the form of shares or bank deposits, creating scarcity of development capital in Nepal. The small producers too, discouraged by the seasonal uncertainty of exchange rate.
6.2: **Exchange Rate:**

No systematic account of the currency in Nepal is available. The exchange rate between Indian and Nepalese currencies may be divided, for the purpose of our study into two major periods: Pre-independence period and Post-independence period of India. Before independence of India the exchange rate was favourable for India and the rate ranged between 145 to 150 Nepalese Rupees (NR) to 100 Indian 1 Rupees (IR). During the second World War, throughout the war period value of Nepalese currency appreciated considerably and reached 65 NR to 100 IR. This was due to the difficulties of imports from India due to shortage of supplies, currency expansion and prevailing high prices. Another reason for this state of affairs was the steep rise in the prices of silver during the war and post war period in India, since the Nepalese rupee contained 100 percent silver a substantial quantity was melted or exported to India thus causing a shortage of Nepalese currency at Nepalese markets.

The post independence period is marked by a favourable rate of exchange for India. In 1946, after the war was over it went down to 71 NR to 100 IR due to the increased

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demand for Indian goods in Nepal. After 1947 due to the heavy exports of commodities to Nepal the exchange rate turned more favourable to India. Heavy imports from India and substantial outflow of private capital from Nepal resulted in an unfavourable situation for Nepal and the rate of exchange went against her. In July 1955 it was 186 NR for 100 IR. In 1966 the rate further decreased to 190 NR to 100 IR which had no relation with Government rate of 128 NR to 100 IR. The Rastra Bank of Nepal improved the situation to some extent by supplying Indian currency at reduced rate for the import of some essential goods. However, ever since 1952 the value of Nepalese currency had been falling steadily until it was stabilized at Re. 1.60 in April 1960 by the Government of Nepal.

During Rana regime in Nepal, no attention was paid to proper monetary management and the exchange rate was fixed by the private money changers. After the political change in 1951 the Nepal Government took a number of measures to stabilise the exchange rate between India and Nepal and also to unify her national currency. It was decided to collect Government revenue in Nepalese currency and the official rate was fixed at Rs. 128 NR to 100 IR. In the later half of 1954, the Nepalese Government announced the official rate 150 NR : 100 IR for the import of essential commodities in reasonable quantities into Kathmandu, while
the market rate was fluctuating between 148 NR and Rs. 180 NR.
From April 13, 1960 Nepalese Government declared Nepalese
currency fully convertible into Indian currency at the rate
of Rs. 160 NC almost at par with the market rate and
authorised the Bank to fix the rate of exchange with
in the range of one percent on either side of NR 160 and
carry out selling and buying transactions in IC freely.
With the signing of the Treaty of Trade and Transit in 1960,
the Reserve Bank of India stopped supplying any foreign
exchange to Nepal. She now maintains her own account and a
standing "Foreign Exchange Committee" has been formed since
April 26, 1961 which prepares annual foreign exchange budget.
The circulation of Nepalese currency too has considerably
increased. Despite these gains the 1960 Act of Nepal's
Foreign Exchange Control proved inadequate to control the
foreign exchange dealings and substitute Indian currency
for the single monetary unit throughout Nepal. Immediately,
a new Foreign Exchange Regulation Act was passed in April
1962 and was brought into force from September 1963. As a
result, the rate of exchange remained stable and confidence
in Nepalese currency was restored. By the new Foreign
Exchange Regulation issued on March 22, 1963, Nepal banned
the import by individuals or travellers of Indian currency
notes of the denomination of Rs. 100 and above and the amount

1. Report of the Board of Directors, Nepal Rastra Bank,
Annual Report, Research Department, Kathmandu.
of Indian currency that could be carried by a person leaving Nepal was restricted to Rs. 75. Thus, Nepal internally and externally tried to stop the circulation of Indian currency in the kingdom.

It had been the policy of Nepal Government to replace the Indian currency as soon as possible. In pursuance of this, the Rastra Bank of Nepal openly purchased and sold Indian currency to private as well as Government sector at the fixed rate of 160 NR : 100 INR. Between the fiscal year 1960-61 and 1964-65 the sales of Indian currency by Rastra Bank of Nepal were estimated to have increased from Rs. 69.4 million to Rs. 161.6 million i.e., by 133 percent and purchases from Rs. 88 million to Rs. 182.6 million i.e., by 108 percent. These activities were affected adversely by the devaluation of Indian Rupee in 1966.

6.3: Effect of Devaluation of Indian Rupee:

India devalued her rupee by 36.5 percent in the year 1966, resulting in a new turn in the monetary relations between India and Nepal. After the devaluation of Indian rupee


Nepal Government, in pursuance of the so called 'independent monetary policy', refused to devalue the Nepalese rupee. As a result both the currencies were almost at par, hundred Indian rupees being equivalent to 101.6 Nepalese rupees. The Government of Nepal considered that it would increase the purchasing power of Nepalese currency, decrease the high prices of essential commodities and ensure greater economic stability and prosperity.

Nepal took several steps for safeguarding her economy from the effect of the devaluation of Indian rupee. The new exchange rate had increased the imports from India as they became cheaper and thereby reduction of her exports. As the cheap imports would harm the Nepalese industries and trade, Nepal adopted a new tariff policy. According to the new policy customs duty on the import of luxury goods and semi-luxury goods was increased by 25 to 40 percent. But industrial raw materials and a few essential consumer goods were exempted from additional surcharge. She also gave protection to import substituting industries by levying additional protective tariff and encouraged such industries and trade which may increase exports. Excise duties on export items like edible oil, stainless steel utensils, synthetic fabrics etc. had been withdrawn and were replaced by normal export duties. Exemption of excise duties for the first three years to newly established industries was also declared in the budget. Measures for the improvement
of agricultural production were also adopted. The dual currency system was put to an end by cancelling the licences of the private money changers dealing in Indian currency. She followed easy loan policy for industrial development, the facilities were given even in remote areas.

These measures did not make any change in the monetary and financial situation of Nepal, her export trade too was affected, she also suffered loss of revenue. It not only disturbed her economy but also made India spend nearly 45 percent more on her aid programmes. Nepal pressed businessmen to reduce the prices of Indian goods by 36 percent but it created the problem of two prices for the same commodity in Kathmandu and elsewhere. It greatly affected Birganj market situated near the Indo-Nepal border. There was a strange practice that prices of the articles in terai were determined in terms of Indian currency even though payment was acceptable in Nepalese currency. Due to Indian devaluation, it had ceased to come into circulation and went underground in view of the fact that the holders were losing 36.5 percent in relation to Nepalese currency. According to the sources close to business quarters, the private rate of Indian money went up to 110 NR for 100 IR due to the great demand of Indian goods and lack of Nepalese exports to India. Consumers were hard hit specially those who were getting payments in (IC) Indian Currency. During the seven months following devaluation, prices began to rise sharply inspite
of the several measures of Nepalese Government and good
harvest in Nepal. The Agriculturists also suffered, because,
they got less for their produce in terms of Nepalese currency.
Also, the new policy discouraged those Indian industrialists
who had started mill in Nepal. They had to retrench the
employees because the local cost had increased by 58 percent.
Biratnagar Jute Mill was closed down as goods worth Rs. 7.5
million were lying unsold, the timber trade also suffered.

6.4: Devaluation of Nepalese Rupee:

Nepal's revaluation policy benefited neither herself
nor India. In fact, any increase in the 'prestige' of Nepal's
currency should have largely been related to Indian currency
because her trade with the rest of the world was too insigni-
ficant to give the Nepalese Rupee any world status. So, it
was, obviously, difficult to sustain this artificial rate of
exchange between the Indian and Nepal currencies. In the
process, agriculture, industry and trade in Nepal suffered
in a substantial measure. In due course, the world Bank drew
the pointed attention of Nepal Government to this unrealistic
monetary policy. Consequently, the Nepal Government devalued
their rupee towards the end of 1967, and addition to the
Nepal Rastra Bank, Nepal Government started a Rastra Commer-
cial Bank, corresponding to the State Bank of India.

1. Nepal Rastra Bank, Annual Report, Research Department,
Kathmandu, Nepal.
6.6: Present Position:

About the devaluation of Nepalese rupee, the Nepalese Finance Secretary, Mr. B.B. Thapa said its main aim was to encourage trade and industry in order to step up the development. Nepal readjusted her fiscal policies by abolishing the tariff wall raised in 1966 against the cheaper Indian exports to her. She reduced the percentage of the bonus granted on earnings of foreign exchange to the exporters of jute and jute goods from 40 percent to 20 percent and from 50 percent to 40 percent respectively. Traders who wanted to import industrial raw materials, granted a maximum bonus of 45 percent remains the same. The licensing system for importing all kinds of cotton, woollen and silken goods, cement, rayon and plastic goods from India had been abolished. Due to this liberal policy, the overall Nepalese economy is now on an upward swing and a more balanced currency relationship has re-established.

Nepal currency has now been made the sole legal tender in different parts of Nepal, although it is difficult to enforce the new regulations strictly in the interior and remote areas. Indian currency in Nepal like other foreign currencies has been banned as medium of exchange since September 1966 and Nepal Government now treats it only as foreign exchange reserve for issuing the local currency. The tarai people still maintain a large part of their cash holdings in Indian rupee. Indian currency has served as a strong base for issuing Nepalese currency.
7. Concluding Remarks.

We have tried to emphasize in the preceding pages the nature of Indian aid and cooperation in various fields of development of Nepal. Despite many economic problems of her own, India has assisted Nepal with brain, brawn and bullion to make her economically strong and self-sufficient. Indian aid and economic cooperation to Nepal came into existence especially in post-independence era. It was only 1951 when Nepal was given a proper encouragement by the Government of India. Since then India is playing a significant role in the economic development of Nepal.

Though, India herself amongst the less developed countries and getting aid from other friendly countries, she cooperated with Nepal with feelings of friendship and fraternity. She has given financial and technical help in several projects of Nepal in the fields of transport, communication, irrigation, power, education, health etc. It is increasing in volume and extent.

It is interesting to observe that Nepal has vast hydro-electric potentiality of the order of 83 million K.W., a joint exploitation of this potentiality would accelerate the economic development of their own. On these lines Government of India is working on the Kosi and Gandak projects of Nepal. Efforts can also be made jointly for the measures
of flood control and development of water resources.

There seems to be ample evidence of the fact that India has provided her cooperation in the economic development of Nepal in a variety of projects and programmes and tends to increase in future.