ABSTRACT

Various difficulties and constraints arise as a result of foreign aid. The most serious of these problems is the heavy and continuing dependence of India on other countries, especially the U.S.A. There have been times when India has not been able to resist the pressure these donor countries have been exerting on the economic policies of India, not to speak of her foreign policy. American influence is seen in the shift emphasis from capital goods to consumer goods industries, much greater reliance on private enterprise for industrial expansion, non-availability of foreign aid for public sector projects in manufacturing industry, greater resort to foreign private capital as the only means for securing foreign exchange for the rapid expansion of industries like the chemical fertilisers to which high priority is attached in India’s development programme.

Keywords: Foreign Exchange, Disbursement, Economy etc

INTRODUCTION

The U.S. Government used stoppage of aid as a threat to the Indian Government in the Indo-Pakistan conflict in December 1971. More recently the U.S. Government decided in 1978 not to honour its agreement to supply nuclear fuel to Tarapur Atomic power plant. Forcing India to accepts Dinkal proposals in the most recent onslaught of USA on the Indian government.

Gross and Net Inflow of External Aid By deducting debt servicing from gross disbursement of external aid during a certain period we derive net inflow of external aid. If the cumulative effect of debt servicing increases, a relatively smaller at proportion of gross aid will be available for the benefit of the economy.

Data given in table 1.1 reveals that during the Seventh Plan (1985-86 to 1989-90), gross aid utilised was of the order of Rs. 22,699 crores, but out of it Rs. 12,652 (i.e. net aid available for development was only Rs. 10,047 cross (44.3 per cent of total). During 1990-91 to 1995-96, the situation worsened still further and about 77 per cent of total aid utilised was made available for debt servicing and only 23 per cent of net aid was available for development. The cumulative effect of borrowing more and more become manifest during 1995-96 when net aid received became negative to the extent of about 15 per cent. During 1996-97, nearly the entire aid was utilised for debt servicing. During 1997-98 and 2000-2001, net aid received became negative. It has further worsened during 2002-03 and 2003-04. The situation is a cause for serious concern for the country.

The traditional definition of a debt trap underlines the stage in which the country has to seek external aid to meet debt service obligations, India, it appears, has reached that stage.

Uncertainty. Another difficulty is the uncertainty of the magnitude and character of foreign aid which is likely to become available over a period of time. Such an element of uncertainty stands in the way of perspective planning. Thus, an advance knowledge of the resources that are likely to become available
through aid becomes important. If the donors could indicate the magnitude and character of aid on the basis of five-year periods, the planning programmes could be greatly facilitated.

**REVIEW OF LITERATURE**

Capacity to absorb Foreign Aid, The absorptive capacity of a country depends on a number of factors. For the optimum utilization of aid, the projects must be efficiently executed. It is not basically a shortage of capital which retards the rate of industrial development in many countries but the shortage of good, well-developed projects is, in many cases, the limiting factor on economic growth. The most important factor which limits the absorptive capacity is the country's capacity to repay in future the loans currently contracted. The easy terms of repayment of loans may temporarily widen the limit of our absorptive capacity but that is no solution to the problem. Till the country reaches the stage of 'self-sustaining growth', its needs for larger volume of imports will ever grow. The problem becomes more serious in view of the fact that the country has not built large exportable potential. So the burden of repayment obligations becomes more acute.

To reduce the burden of repayment of foreign aid, a two-pronged drive may have to be made. Firstly, while seeking aid, India should make agreements for external aid with those nations and agencies which charge lower rates of interest and are prepared to liberalise their terms of trade so as to facilitate repayment; and secondly, the quantum of foreign aid should be progressively reduced.

**Suggestions for the Use of Foreign Aid**

The following suggestions will go a long way in this direction:-

1. In order to introduce flexibility and to ensure the optimum utilization of foreign aid, it is necessary that aid should be linked with programmes rather than projects. If the programme is approved for aid, then it should be unnecessary toanalyse in detail individual projects or enter into separate agreement for each individual project. If aid is given project-wise, foreign exchange resources economised in one use are not free to be diverted to other uses; it leads to a less effective use of aid resources. Indian situation calls for 'uncommitted' aid because of the large need for maintenance imports like industrial raw materials and components. If these were available on a large scale, the existing industrial capacity in the country could be more fully utilized. Aid should neither be committed to specific projects nor purchases from the countries giving aid. Thus, aid should increasingly take the form of 'untied' rather than 'tied' aid.

2. Aid should increasingly take the form of long-period commitments. Year-to-year negotiations not only introduce an element of uncertainty, but create difficulties in the way of advance planning.

3. As far as possible, technical assistance should take the form of establishment of technical institutions in India rather than technical training offered in the donor countries.

**Dimensions of Aid**

We can look at the aid from two angles, viz., (a) authorisation of aid, and (b) utilisation of aid. The data relating to the authorisation and utilisation of aid indicate the extent to which aid has been utilised, thereby indicating the absorption capacity of the economy. In view of the above explanation regarding foreign aid, it would be appropriate to explain the term of 'economic development along with some characteristics of India' for crystallising the proposed study, 'The Role of Institutional Foreign Aid in the Economic Development of India. This would justify the need of accentuating foreign aid in a developing country like India.

**Concept of Economic Development**

In view of the above considerations economic development, now, is being defined "as the process of increasing the degree of utilisation and improving the productivity of the available resources of a
country which leads to an increase of the economic welfare of the community by stimulating the growth of national income."

Economic Growth = Size of Output (A Quantitative aspect)

Economic Development = Size of output + Economic welfare (A Qualitative aspect)

It follows from this definition that the progress of development has to be assessed by reference to two separate indicators, namely, the indices of ‘production’ or ‘national income’, and of the ‘economic welfare’ of the community.

The former covers what may be designed as the ‘growth’ aspect of development.

CONCLUSION

The economic welfare indicator, on the other hand, brings to light the pattern of allocation of resources and of the distribution of income among different groups and classes of the community; in a sense, it combines the ‘equity’ and the ‘growth’ aspects of development.

So defined, the concept of economic development emphasis the achievement of following three objectives:

1. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter and protection. This, however, would be possible with a fast increase in real per capita income.
2. To raise levels of living including, in addition to higher incomes, the provision of more goods, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but also to generate individual and national self-esteem.
3. To expand the range of economic and social choice to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states, but also to the forces of ignorance and human misery. Economic development is to be assessed ultimately by the enhancement of the ‘positive freedom’.

In view of the above three objectives, the quality of life is regarded as an important index of development. It is contended that such quality is not adequately reflected in the index of per capita income growth. Several factors are involved in the measurement of such ‘quality’: such as education and literacy rates; life expectancy; the level of nutrition, consumption of energy per head etc. Some of these factors are ‘non-monetary’, while others can be measured as ‘monetary’. There is a need to set up a synthetic index of these different factors to measure economic development and the quality of life.

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