

USAID Nepal Action Plan

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NEPAL ACTION PLAN: FYs 1987-90  
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## I. INTRODUCTION

### A. Executive Summary

The Nepal Action Plan (FY 1987-90) has been written and organized to speak directly to the issues and interests the ANE Bureau and the Mission together have identified for review during Program Week in March. These are:

- Noteworthy occurrences in Nepal's development environment, with specific reference to the Structural Adjustment Program and USAID's role therein;
- Concern for program focus, including the management, budget and staff implications of the Action Plan program;
- An assessment of program performance which sets out actual and anticipated achievements of strategic importance over the Action Plan period, and USAID's agenda for analysis; and
- Other donor aid "leveraging" prospects, specifically with the Japanese.

Accelerating the attack on poverty is a central theme for Nepal. In Part I, following this executive summary, the Mission advances some proposals for ensuring that the least developed, lowest profile and most vulnerable ANE countries are not unfairly treated in the intense competition for resources, and that AID's "unprotected" poverty-oriented programs are not gutted to the point of virtual demise.

Part II relates the "major events" in the development context. Broadly, these are the Structural Adjustment Program, the GON's "Basic Needs by the Year 2000" commitment, and the remarkable climate of donor dialogue. Structural adjustment is now poised to enter its second phase, though this cannot occur until remaining first phase conditions pertaining to fertilizer pricing, provision of a privatization action plan, and forest products legislation are fully met. The royal mandate that Nepal ensure basic needs of its poorest people by the turn of the century has, over the past year, become the primary driving force in the development bureaucracy. In late 1987 the GON put itself squarely behind closer donor cooperation.

Part III takes up the program focus theme with a discussion of options and their management and budgetary ramifications. USAID has, in fact, been streamlining its program and organization for some time. Actions taken are noted, and a phase-out of direct bilateral project assistance in one of our three sectors, Education and Human Resources, is discussed.

Part IV describes the outcome of intensive work to further define our agriculture strategy, pursuant to last year's program review. USAID's health and family planning project has just been evaluated, and the outcome including recommendations for concentrating activities in that sector, is discussed. Progress and plans for implementation of AID's principal "special concerns", the private sector strategy and women in development, is reviewed. Each of these sectoral commentaries features Mission accomplishments in the arenas of policy dialogue, donor relationships and project implementation. Among the highlights are:

- Deep involvement in deliberations on the content of the initial phase of the Structural Adjustment Program and the expectation, through consultations now in process, of an even greater part in the next phase;
- Energetic and steady reinforcement through policy dialogue of the introduction in the GON of program budgeting and systematic project monitoring; this process is fundamental to more efficient resource allocation in Nepal;
- A formative role in new arrangements, approved and announced by the Nepalese Government, to promote regular donor interchange;
- GON agreement to agriculture sector policy reform by progressively opening fertilizer marketing to private retailers, exemplified by the Rapit Zone Fertilizer Distribution Plan;
- Achievement through dialogue and project assistance of a fundamental reorganization and consolidation of the national structure for agriculture research;
- Collaboration with the GON and other donors in completion of a "Master Plan" for the forest sector which, inter alia, charts a course toward the transformation of forest management based on community and private control;
- Sweeping organizational reforms in the health services in directions long advocated by USAID (the sector's lead donor), including integrated service delivery in the field and decentralization of program authorities;
- Initial steps by the GON to begin privatization of state-owned companies; and
- Signs of success from early efforts to bring the Japanese into full partnership in the donor group.

The outlook for further gains on these and other fronts is promising. The Mission is concentrating its program and organization to take full advantage of these circumstances. We make a difference in Nepal, and it is vital that we have the means to move ahead.

**B. Accelerating the ANE Attack on Poverty: Proposals for Nepal**

The accelerated attack on poverty is on in Nepal. After thirty years of planned economic development the Government of Nepal (GON) can point to significant improvements in physical, social and economic infrastructure. It admits, however, that it has had only limited success in increasing national income and in solving problems of poverty. This is the outcome of low growth rates during the GON's first four five year plan periods (1956-1975). The increased real GDP growth rates in the Fifth and, particularly, the 4.3% annual average over the Sixth Five Year Plan (1980-85) periods indicate that the socio-economic structures created earlier are now enabling contributions to further expansion and diversification of the economy.

With this framework in place, His Majesty King Birendra has called upon the nation to undertake a pledge to achieve for the nation an acceptable standard of basic needs fulfillment by the Year 2000. Section II. D. of the Action Plan furnishes background on this program. This clear call for direct action against poverty in Nepal provides the ANE Bureau and USAID with a real opportunity to demonstrate direct support for the principles and objectives set forth in the foreign assistance legislation, the AID Blueprint for Development, "The Tidewater Paper", and the ANE Bureau's "Accelerated Attack on Poverty" theme presented in Lisbon.

In concert with the GON Basic Needs initiative, USAID/Nepal is applying its experience and skills in ways which will have a significant and durable impact on poverty. Support for the free market oriented elements of the Structural Adjustment Program, encouraging entrepreneurship in agricultural inputs and marketing, exploring methods for local-level resource management (e.g., for forests and irrigation water) and playing a leading role in family planning and basic health services programs are examples of activities in which USAID/Nepal's leadership is being felt.

We could effectively use additional funds to these ends. A restoration of the \$15 million levels proposed in our CDSS for FY 89 and 90, for example, would allow us to join with the IBRD in operational support for the revamped agricultural research organization, enlarge the agricultural marketing dimension of our strategy, expand our efforts to improve efficiency of irrigation, or even further promote rural education and

literacy. We have proposed that the Bureau develop a "Poverty in Asia" earmark to deal with the 70% of the developing world's poor who live in Asia and to compete with the budget claims placed for every other conceivable reason by special interest groups. Notwithstanding the budget cuts both the Bureau and our program have suffered for two consecutive years, we believe we can work together with the Bureau to persuade Agency and Congressional principals that an accelerated attack on poverty in Nepal is timely, worthwhile, and not expensive.

In Nepal, we do not believe that restricting our development investment to only "productive sectors" provides an adequate basis for the most effective attack on poverty. Complementary investments and efforts in health/population and basic education to reduce key constraints of illiteracy, poor health and uncontrolled population growth are essential to promoting economic growth in the poorest elements of the society. We believe the synergistic effects of multi-sector efforts are critical to the development equation, even at our current minimal levels of programming. We believe USAID should use some of AID's resources to stay involved in policy reform and to encourage effective investments by other donor in these sectors.

An ANE Bureau "Attack on Poverty" theme, which would involve Burma, Bangladesh, Yemen and Nepal (and perhaps allow later inclusion of Afghanistan, Bhutan or others), could engender Congressional support, and allow the Bureau to preserve a capability for effective poverty programming. While (as noted in Lisbon) there are many reasons for wanting to reduce "earmarks" as a budget process, so long as they continue to dominate foreign assistance appropriations, it may be a necessary tactic for the future.

Nepal is a difficult but appropriate battleground for demonstrating that an attack on poverty can be successful. All the manifestations of poverty are present; but the size of the problem is manageable, there is a stable political context, the national will is being increasingly mobilized, and cooperation with and among international donors is excellent. As demonstrated in this Action Plan, we believe sustained U.S. support can be crucial to major development and success in a small, but important, friendly country.

## II. THE DEVELOPMENT CONTEXT

### A. Policy Environment

Several themes dominate the Nepalese development context in 1988. Since late 1985 much attention has been directed to policy reform and putting the economy on a sounder footing for improved performance. The Structural Adjustment Program has been the principal modality for charting measures to this end. Through the Program Budgeting and Project Monitoring project, one component of the SAP, the GON is attempting to rationalize allocation of investment resources and install a system to much more effectively monitor and manage implementation of its development portfolio. The "Basic Needs by the Year 2000" commitment announced by the King in December, 1985, seeks to achieve stipulated targets in food, clothing, housing, education, health, and security by the end of this century. This mandate promises to exert powerful influence on the course of development over the next twelve years. The Development Context section opens with an assessment of the policy environment generally, and concludes with an account of further advances in donor coordination.

During the first half of the 1980s, Nepal's economy indicated trends which, if not reversed, could culminate in severe economic problems in the foreseeable future. The Nepalese Government deserves credit for acting decisively at the end of 1985 to implement a first round of economic policy reforms. The "second round" policy environment, from negotiation of the Structural Adjustment Program in the spring of 1986 to the present, has been characterized in part by tensions between reform and status quo interests. Structural adjustment remains necessary to avert mid and longer-term problems, but Nepal is not now in the throes of a crisis which compels reform, whatever the political costs.

Recognition of the need for change in Nepal has been forthcoming in the past two years. Public pronouncements of the need for policy reform are well-articulated and frequent. It is in the implementation of change where pitfalls are encountered and progress seems slow or absent. Political will sometimes appears to dissipate and personal, institutional and managerial shortcomings take their toll on the momentum and continuity of policy reform. Nepal is nevertheless deeply engaged in a multi-sector policy reform effort, the scope of which would be difficult even for vastly more sophisticated and experienced governments. Civil service capacity strains to administer numerous development programs in addition to normal functions of government. Reforms are not simply a matter of legislation and

compliance. Implementation involves daunting cultural, administrative, and political challenges, compounded by the sheer difficulty of "getting around" within the country.

What then is the present climate for reform in Nepal? Is it simply a matter of time before reforms become reality or, alternatively, are rejected or ignored? There is as yet no basis for concluding there has been a high-level or widespread rejection of reform, or a decisive failure of "political will" in Nepal. Rather, what we see is a policy environment apparently conducive to slow, patiently nurtured change. Change is slowly occurring in very influential ways in areas such as trade liberalization, industrial policy, agriculture, forestry, irrigation and expanding local authorities for resource generation and management. The gestation of the Forestry Master Plan over more than two years is a good example. It is an environment different from that in countries where economic crisis compels quick and dramatic change, but one perhaps susceptible to more deliberate and enduring reform.

#### B. The Structural Adjustment Program

In late 1985 the GON initiated an Economic Recovery Program, supported by an IMF Standby, to resolve immediate economic problems. They were successful - their balance of payments position improved from a 50 million SDR deficit to a positive balance by mid-1987. The GON subsequently adopted a Structural Adjustment Program supported by a tranching IDA \$50 million credit (technically a "SAC", but commonly referred to as "the SAL"), and an IMF Structural Adjustment Facility. The SAL is directed toward longer-term economic reforms in five areas: macroeconomic performance; industry and trade; investment efficiency; agriculture and forestry; and public enterprises.

Macroeconomic performance under the SAL appears reasonably good. Although GDP growth dropped from about 4% in 1985/86 to 2.5% in 1986/87 because of the effects of a limited drought, non-agricultural production exceeded recent annual averages. Inflation in 1986/87, by official accounts, fell to about 13% from 16% a year earlier. International reserves rose 8% in 1986/87. The balance of payments remains in surplus although exports fell short of expectations and continue significantly lower than imports. The debt service and debt to GDP ratios remain almost unchanged over the last two years, but USAID continues to be concerned about Nepal's ability to generate sufficient hard currency if debt service requirements triple over the next three years as projected. Fiscal performance is mixed. Revenue targets have been exceeded, though questions remain as to whether recent increases flow from sound and sustainable sources. Tax reforms may be called for in SAL II. IMF limits on credit to the public sector have been exceeded

largely because of interest due on loans to pay the debts of public enterprises. But, some trends in public finance are positive. According to Ministry of Finance figures, regular expenditure grew by only 14% compared to 23% a year ago. Development expenditures grew 37% against a drop of 1% in 1985/86.

The Nepal CDSS (January, 1987), in the chapter on macroeconomic strategy and in the policy agenda (Appendix A), documents USAID's considerable involvement in development of SAL conditionality. The Mission had an important role in formulation of policy measures concerning agricultural inputs (fertilizer, improved seed), forest legislation, agricultural research, privatization, and liberalization of industrial and trade regulations. USAID continues to view structural adjustment as a highly significant process for Nepalese development, and intends to remain fully and constructively engaged.

In November, 1987 a World Bank Mission appraised performance under SAL phase I and initiated discussions with the GON, donors and private sector representatives on the scope of a planned sequel (SAL II) in 1988. At that time the IBRD team concluded that there had been good compliance overall with SAL conditionality, but signalled three areas remaining to be addressed before release of the second SAL I tranche of \$25 million. These were upward adjustment of fertilizer prices to approximate parity with border prices; provision of a list of state enterprises designated for privatization (submitted in February, 1988); and establishment of legal authority for forest user groups to retain full revenues from sale of forest products.

At the time of this Action Plan's preparation the IBRD has a mission in Nepal to further assess SAL I performance and consider measures for inclusion in SAL II. From USAID's perspective the first order of business is, indeed, a clear determination of compliance with SAL I. Many of its policy measures call for initiating actions which are progressive in nature and require follow-through implementation if they are to have impact. On one hand, evidence of compliance is obviously basic to the very credibility of the structural adjustment process. On the other hand, since many SAL conditions are inherently longer-term in their implementation and monitoring, specific information on the extent of compliance furnishes a logical basis for the SAL II agenda.

We have registered our concerns with the Bank regarding full performance by the GON meeting key conditionality in SAL I. We have noted that important components of SAL I should not be interpreted as having been "completed" shy of their intended impact. We have also discussed with the Bank the possibility

that the wide range of the numerous SAL I reforms may have been overly ambitious, complicating performance monitoring and demanding more of the GON than could reasonably be expected in a two year interval. There is some basis for narrowing the scope of SAL II. It is at variance, however, with consideration also being given by the Bank to incorporation of provisions to address issues of environmental management, basic needs and financial sector reform. Should SAL II narrow its purview, USAID will press for continued inclusion of measures supportive of our policy objectives for agriculture and forestry, and divestiture of public enterprises. In particular, there is no basis for abandonment now of efforts to promote the deregulation of agricultural inputs (fertilizer, seed) and the liberalization of pricing, supply and subsidy practices.

Fertilizer licensing policies have been liberalized, and "dealer margins" have been raised, but only marginally. The number of licensed private dealers has increased from about 400 to about 1000, but we are some way from ascertaining whether and how these measures will affect fertilizer availability. For primarily political reasons, some fertilizer prices have not yet been raised to full parity with Indian border prices. A Seed Act has been drafted, but not passed this year as scheduled. This prevented formal establishment of a National Seed Board, and seed pricing/subsidy concerns persist.

Notable progress, confirmed by the recent evaluation of the Agriculture Research and Production project, has occurred in agricultural research, where reorganization to consolidate authorities and improve coordination has been formalized and is quite advanced. Satisfaction of SAL I conditionality requiring regulatory changes to permit local user groups to retain full revenues from sale of forest products now appears imminent. Similar conditionality on irrigation policy was not part of the SAL I agriculture package, and needs to be incorporated in SAL II. The CDSS points to inadequate budget allocation to irrigation, and operation and maintenance in particular, as a major constraint to agricultural production.

Public enterprise policy reform is also a SAL I component of special interest to USAID. The Government is committed to privatization in principle and is beginning to act. The GON has requested and begun to receive IFC advisory assistance in how to proceed. The GON has just produced a written list, as agreed in the SAL, of all state-owned enterprises, designating each for: (a) retention and management improvement; (b) divestiture; or (c) closure. A handful of SOE managers have been rewarded or bypassed for salary increases and some even dismissed in the name of SOE management reform. The Government has announced its readiness to permit private purchases, including block amounts, of controlling equity in SOEs, and has

given assurances that profitable public enterprises, not just "losers", will be put up for purchase. This has already been implemented in one case with the GON offering its textile mill, a potentially profitable plant, for sale. The Nepal Industrial Development Corp. (a state-owned industrial finance institution) also has offered to sell out its majority holding in the profit-making Himal Cement Company, but political and press opposition has put these plans on hold for the time being. It is unclear whether the NIDC action to sell its holdings is principally motivated by a need for capital, or is part of the GON privatization program.

### C. GON Resource Allocation

The Policy Framework Paper for the Structural Adjustment Program states that poor project performance has undermined growth and resulted in an aid pipeline exceeding \$1 billion. Proliferation of projects, absence of sound criteria for investment decisions, and weaknesses in project monitoring and management were cited as underlying causes.

In response, the GON introduced program budgeting and project monitoring, and after extensive analysis designated about 300 active projects in five sectors\* as "core projects" based on application of priority investment criteria. The core projects have been scrutinized on the basis of the criteria (including economic viability) and will receive priority for allocation of development budget resources. A computerized management information system for financial and implementation monitoring is being pilot tested on 79 key projects, ultimately for application to all core projects. The Ministry of Finance, institutional home of program budgeting and project monitoring, is now working to install and encourage commitment to the process in the line ministries. One concern is that the number of core projects may expand beyond the ability of the GON to assure priority funding or exceed capacity of the nascent project monitoring process.

Program budgeting criteria must also be rigorously applied to new project selection, and USAID has raised this issue in a number of fora. Several recently approved MDB irrigation projects have raised questions about whether the GON (and donors) have the discipline and political will to reject unsound projects, at the risk of loss of aid funds.

\*Agriculture, Irrigation, Forestry, Transportation, Power; Education and Health are being added to the core sectors in 1988

It is premature to look for an overall impact of program budgeting, presently in its second year. However, the process receives broad GON attention and has strong donor support. The degree to which program budgeting takes hold should be reflected in accelerated rates of disbursement and implementation with core projects, and more effective resource allocation.

Although we do not fund it, USAID is energetic and outspoken in its efforts to reinforce GON adoption of program budgeting and improved project monitoring systems, and adherence to the increased discipline required. Moreover, through the Irrigation Management Project, USAID does directly focus attention on one of the main problems of development administration identified in the SAL, insufficient resource allocations for operation and maintenance. Through the program budgeting process, O&M has been recognized and highlighted by the Ministry of Finance as a high priority for development expenditure. Further, USAID's proposed Forestry Development Project aims, as a primary objective, to improve program planning, resource allocation and monitoring in the Forest Ministry. Our health and education (IEES) projects work to the same ends. USAID is squarely involved in five of the seven sectors (excluding power and transport) for which program budgeting is required, and shares the view that the Government has seriously committed itself to a positive budgeting process which will bring more efficient allocations to and implementation of projects.

#### D. Basic Needs by 2000

"In less than fifteen years from now, we shall have stepped into the twenty-first century. For us here in Nepal, this is an appropriate occasion to set before us the goal of providing all our people with the basic necessities of life. Let us pledge that we, in the remaining years of this century, will be able to shake off the poverty imposed on us by our least developed economy and that by the year 2000 A.D. we will be able to achieve a standard of living which is adequate to lead a life with human dignity from Asian standards."

H.M. King Birendra  
Dec. 16, 1985

Since King Birendra's announcement of the national goal of providing for basic needs by the year 2000, the Government has struggled to give more precise definition to this goal and to focus development efforts on the task. It quickly became apparent that achieving "Asian standards", even South Asian standards, in fifteen years was impossible, and the comparative references have since been dropped. Under continued pressure to address the challenge, a year after the King's speech the GON

defined certain basic needs (food, shelter, clothing, education, health, security), and in mid-1987 published a "Program for Fulfillment of Basic Needs (1985-2000)". For each of the six areas this mandate sets a programmatic framework, establishes quantified targets, and discusses policy reform and investment implications.\*

What is not yet clear is how the GON will fund the program, what the role of the private sector will be, and how the Government proposes to integrate and reconcile it with ongoing economic programs (structural adjustment, the program budgeting investment criteria) and other ambitious development plans, such as the Arun River hydropower development scheme (which could cost over \$500 million in the next ten years). The GON calculates the total cost of the basic needs effort at about \$13 billion (1984/85 prices), with the public sector share (including foreign aid) roughly half of this. Key program targets, such as doubling foodgrain production, quadrupling land under irrigation, universal primary education and population growth reduced to below 2%, assume levels of economic dynamism, popular response, foreign aid and debt servicing capacity that are implausible.

Nevertheless, the Government and the donors have been impelled to take the King's mandate seriously, and it will be a major focus of attention over the next twelve years. It is a statement of national intent, conceived entirely by Nepal, at a time when the GON is asking for greater consistency between its priorities and those of the donors. From the donor perspective, a fundamental and natural concern is that basic needs initiative be complementary to the task of development. This will require the Government to adjust stated targets and reconcile this program with other commitments. Donors will have to be alert to ways to influence the GON to discourage a preoccupation with annual numerical targets in lieu of longer-term, sustainable accomplishment.

The King's initiative does rededicate the nation to addressing the important and fundamental manifestations of poverty in Nepal, and in this respect is congruent with the aims of many donors, including USAID. There should be ample opportunity to mobilize and direct GON energies toward improved performance in existing poverty-oriented donor programs under the "basic needs" banner.

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\* An Embassy reporting cable (87 Kathmandu 4884) furnishes an excellent account of the basic needs initiative, and some of the comments in this section paraphrase that message.

### E. Donor Coordination

Significant progress continues to occur in donor coordination. Probably the most notable event in 1987 was the OECD/DAC Donor Coordination Study. USAID, the Japanese and the Swiss participated on the three person team. The study remarked on the extensive use of means, both formal and more casual, for coordination in virtually all development sectors. It noted, however, that much of the process tends to be ad hoc and spontaneous, and recommended more structure.

A related "benchmark" event, representing great perseverance especially by the UNDP, has been GON agreement to a "three tier coordination system" (its conceptual harmony with Nepalese pagoda architectural motifs no doubt striking this responsive chord). The arrangement provides for (1) GON meetings with the donors collectively three times yearly in addition to the annual Consultative Group Meeting; (2) bi-monthly "donor only" meetings chaired alternately by UNDP and IBRD; and (3) periodic sectoral donor meetings. To illustrate the range and pace of current activity, sectoral meetings scheduled during the first four months of CY 1988 include vocational education, irrigation, Forestry Master Plan presentation, energy, small enterprise, roads, and fertilizer policies.

The payoff of these efforts is thus becoming apparent in a new richness of information exchange and debate among an expanding cadre of donors, and an earnest desire not just to avoid counterproductive actions but to reinforce important initiatives collectively. This situation is not a product of spontaneous generation. USAID and a very small group of dedicated other donors have worked intensely over some three years to raise donor community interest and participation to this point. This presents USAID with opportunities for influence beyond what our budget levels would suggest. We propose to continue to use our experience and capability to promote a wide range of "leading edge" initiatives in concert with other donors. Some specific new opportunities appear to be emerging in USAID discussions with local representatives of the Japanese government. These are discussed in Section IV. F.

### III. PROGRAM FOCUS AND MANAGEMENT

#### A. Program Focus

The issue of program focus in USAID/Nepal is an important one, but is neither new nor permanently resolvable. The issue revolves around a number of factors, including the trend to reductions in budget levels (overall OYB and particular functional accounts) and staffing levels, the continued availability of central and regional funds to the Mission, key Agency and USAID policy concerns, other donor program foci and Nepal's development priorities. A particular program involvement should be based on a careful calculation of the benefits versus the costs of such involvement in financial and human terms.

The Mission has been in an ongoing discussion of program focus issues with AID/W since the conclusion of the Mission Management Assessment (MMA) in October 1986. In a special section on "Program Focus", that report noted that it was "generally agreed by the Mission...that the previously designed program was overly ambitious and that the future program should be more focused...." The report further cited the pressures on AID budget and staff resources as the principal constraints.

The Mission Management Assessment Team concluded that in the context of Nepal:

"We cannot responsibly abdicate our role in continuing to address the compelling long-term development requirements in family planning and child survival, human resource development, improved agricultural production and natural resource conservation. There is a strong case for building on the base AID helped create and maintaining a consistency in our program."

The Mission moved forward with the preparation of its CDSS with the conclusions of the Management Assessment firmly in mind. It attempted to concentrate its program in those fundamental long-term areas specified in the MMA, and made special efforts to effectively link interventions in those sectors to the larger program of policy and institutional reform being undertaken through the Structural Adjustment Program. The result was a CDSS, approved by AID/W approximately one year ago, that set forth a three-sector strategy (Agriculture/Rural Development, Basic Health/Family Planning and Education/Human Resource Development) and a selective and carefully integrated policy dialogue agenda in those sectors. As noted in the CDSS's Executive Summary:

"The USAID strategy does not call for radical adjustments in the present Mission program.... The strategy will continue to focus on longer-term institutional, technical and human resource constraints to development. There are, however, important changes in the Mission's strategy, perhaps best described as a shift in the emphases among strategic means. The strategy reflects a far greater policy dialogue than did previous USAID efforts in Nepal. It also recognizes, to a much greater extent than previously, the need to rely upon the private sector as the "engine for growth."

This Action Plan conforms to the basic directions of the program strategy set forth in that document in January 1987, with one significant alteration. The CDSS strategy was predicated on a projected resource level which averaged \$15 million of DA over the five-year period, i.e., nominal "straightlining," but with an actual (though gradual) decline in real levels over the period. It has become apparent that even this very modest budget proposal was optimistic, and the Mission is being required to plan and program at a level 20% below the CDSS level. The Mission cannot adequately support a full-fledged three-sector strategy under these circumstances, and this document proposes, regrettably and reluctantly, the revision of that strategy through the phasing out of Education/Human Resource Development as a primary sector of program focus and bilateral project expenditure.

The regret and reluctance with which this proposal is made can be understood by a brief review of the Nepal CDSS section on Human Resource Development (pp. 53-62). The needs are enormous. Adult literacy levels remain near 30% (though up from 2% in 1951), with female literacy estimated at no more than 16%. USAID has historically dedicated a large part of its program effort to creating (not simply "strengthening") an accessible primary education system in Nepal, with substantial effect. Primary school enrollment in Nepal has risen from an unmeasurable amount (less than 1%) in 1951 to more than 80% in 1986. But great problems persist (e.g., poor quality instruction, high drop-out rates).

The high return on investment in basic education across all sectors has been well-established in recent studies, and is highlighted in the ANE Bureau "Working Paper on Human Resources Development". However, unless additional EHR account and appropriate staff resources can be made available to the Mission, the present intent is to end bilaterally-financed education project assistance in FY 89, and focus bilateral program resources into the two remaining sectors. No follow-on project is planned to replace Radio Education Teacher Training (367-0146). The Development Training Project (367-0152) will also be phased-down to well below its planned annual funding figure to a minimum

sustainable annual level. As a result of this phase-down, the Mission's project development officer position charged with Human Resources Development will be eliminated in FY 89.

Program focus, of course, does not stop with the reduction of the number of "sectors" encompassed by the project portfolio. The Mission has understood for some time the need to concentrate its resources and activities within primary sectors, especially where functional account appropriations are being reduced Agency-wide (e.g., ARDN). The process of program concentration within our Agriculture/Rural Development portfolio began intensively after the 1985 evaluation of the Rapti Integrated Rural Development Project. That evaluation concluded that this area development effort was "overly complex and disparate," resulting in an inability to meet unrealistic production targets. In spite of this problem, the project was found to have "established a sound foundation for future growth in agricultural output" through its substantial success in strengthening the local (district and village) level capacity to plan and manage productive resources. The follow-on project, as a result, was carefully designed to concentrate resources in fewer and strictly productive areas (crop and livestock production and forestry), and an emphasis was placed on further local institutional and private enterprise development. The new Rapti Development Project now serves as a primary field locus for implementing USAID's refined agriculture strategy.

The CDSS agriculture strategy, like the new Rapti project design, attempted to target resources more directly on productive activities and to move toward a more market-oriented approach, based on the relative comparative advantages of Nepal's varying regions, ecologies and resource bases. The analytical gaps in the strategy submitted one year ago were recently reviewed in Nepal in collaboration with ANE Bureau principals, and this review further clarified and defined the Mission's sector strategy. The sector "model" was developed more completely, and its assumptions and analytic agenda for the future were made explicit. Here again, the result was a more clearly focused strategy for agriculture, rural development, and natural resource management in Nepal.

The initial programming impact of this process is evidenced in the current reorientation of the Agriculture Research and Production Project. A project evaluation, carried out in the wake of the Mission/Bureau agriculture strategy review, concluded that the project's original design was too broad, and its resources (human and financial) dispersed among too many divisions of the Ministry of Agriculture. The evaluation recommended that all project resources be targeted on the strengthening of a single institution, the recently established National Agricultural Research Services Center (NARSC). We will be encouraging, in ARPP, greater attention in agriculture research to cash crops.

Similarly, the new Winrock OPG, "Policy Analysis in Agriculture and Resource Management" and the second-phase Rapti Development Project will narrow in on marketing dynamics, opportunities, and constraints in agriculture. Beyond ARPP, the Mission's agriculture portfolio will be further concentrated over the next few years by the pending phase-out of the RCUP Project and the termination of bilateral project assistance to the Institute of Agricultural and Animal Sciences (PACD 1991).

This continuous process of streamlining the sector program and concentrating resources to achieve greater impact is also ongoing in the health/family planning sector. Unlike agriculture, USAID's efforts in this sector are already consolidated into a single "sector project", which acts as an administratively unifying umbrella for multiple activities. As of this writing, the Mission is in the process of reviewing the draft of an extensive final evaluation of this sector project, an analytical exercise similar if not identical to the strategy review carried out in agriculture. While the conclusions and recommendations of the independent evaluation team remain to be fully explored by USAID and the GON, it clearly recommends a strong continued USAID presence in the sector. The evaluation also advocates a focusing of USAID efforts on fewer high priority objectives, and a concentration of future project resources on the strengthening of service delivery (e.g. at the health post and district level) for family planning and child survival, as well as support for managerial capacities. It also calls for attention to selected critical central and regional level interventions, such as the establishment of an effective management information system. The follow-on sector project will be designed to encompass a smaller number of activities than the present project, and will exclude or curtail, inter alia, the substantial construction and central-level logistics components found in the present project.

What then with respect to the "secondary activities" in which USAID/Nepal is now involved? In this era of declining OYBs, the Mission has actively and successfully sought (as advocated in the ANE Bureau's budget strategy) to complement its bilateral OYB with resources from centrally and regionally-funded projects/programs. For example, USAID's Strengthening Legal Services Project, recently accorded high marks by the ANE Bureau's Human Rights Evaluation Team, is funded exclusively from the Bureau's Section 116(e) allocation. The Mission's Biodiversity Strategy, submitted as an annex to the CDSS, received strong support from the Bureau's Environmental Officers (and the editors of Front Lines!), and Section 118/119 funds have been made available to the Mission to carry it out. USAID/Nepal now facilitates more research grants from the Office of the AID Science Advisor than any other Mission in the Bureau. The PRE Bureau's resources have provided the Mission and the GON with the services of a substantial number of consultants on aspects of private sector development, including

housing finance, investment banking, financial markets/securities exchange and privatization. The S&T Bureau's project for "Increasing the Efficiency of Education" (IEES) has permitted the Mission to obtain an extremely valuable entree into the data collection/analysis and planning unit of the GON's Ministry of Education (including placement of a long-term advisor therein) and, perhaps more importantly, has provided the first full-fledged Sector Assessment of Nepal's Education and Human Resource Sector. Finally, and most recently, STATE 33505 from AA/ANE has informed us that Nepal has been selected as one of seven target Missions to participate in the Bureau's effort to creatively implement the Agency's Women in Development policy, and offered the use of PPC/WID resources for that program. In sum, the Mission has been highly successful in responding to AID/W priorities and obtaining central funds to support its work.

The issue, then, is whether the Mission should now choose not to accept these resources as potential distractions from its concentration on a two-sector strategy in agriculture/rural development and basic health/family planning. The Mission proposes to analyze each of the following secondary activities with the Bureau and interested AID/W offices to compare the costs and benefits of "staying in" with those of "getting out," and during Program Week to arrive at a list of mutually agreed-upon secondary activities for Mission attention in the future. The following is the Mission's list of these secondary activities in rough order of priority (unanimity in the Mission was, naturally, beyond reach):

(1) Basic Education: Notwithstanding the difficult decision to leave the sector as a primary area of Mission strategy and bilateral program, the Mission places high priority on retaining its link to the Ministry of Education planning unit, through the mechanism of the S&T IEES contract. The IEES advisor has been highly effective to date, working with minimal USAID monitoring and supervision, and her work is becoming even more critical as the Ministry enters into the program budgeting/financial monitoring component of the Structural Adjustment Program. Further, policy and program decisions will be made in the near future regarding implementation of the recommendations in the IEES-financed sector assessment. This continued linkage would also permit USAID to remain well-informed on developments across the sector and "pre-positioned" to reenter human resource development programming should future budget levels permit it. Estimated costs: (a) \$150,000-\$200,000/year to match a similar or larger sum from the S&T Bureau's budget; (b) 25% of one FSN's work time and 15% of one USDH staff member's work time to monitor.

(2) Private Sector/Privatization: As explained in a separate communication to AID/W, the Mission cannot undertake (under present circumstances) to establish and staff a separate program

and office for private sector development, per se. The Mission intends, rather, to pursue private sector development through its project portfolio (e.g., Rapti Zone small agricultural enterprises, private sector family planning and child survival initiatives) and to concentrate on an active policy dialogue, (through SAL and with the Government) on privatization of Nepal's many and varied public enterprises. The Mission's PD&S-funded consultant on privatization has completed the authoritative work on the "Potential for Privatization in Nepal". As opportunities arise to become more directly involved in the actual divestiture process in particular cases, the Mission will seek resource support from the PRE Bureau's Center for Privatization.

Opportunities may also arise to support other specific private sector activities such as a private housing finance company (see No. 7 below) or an IESC program. Estimated (non-project) costs: (a) \$100,000/year of PD&S (SDA account) funds plus PRE Bureau and Regional Private Enterprise Project funding for special initiatives; (b) 15% of one FSN professional's work time and 25% of the Mission Economist's work time to prepare and supervise analytical work; (c) up to 15% of the Project Development Officer's work time, depending on future developments.

(3) Biological Diversity: Though it is difficult to separate this "special concern" from the Mission's broader agriculture/natural resource management strategy, certain biodiversity activities which the Mission has proposed for central funding can be seen as distinct, and could conceivably be eliminated without seriously inhibiting Mission efforts in forestry planning, research, management and education. The issue is, rather, whether the Smithsonian-sponsored efforts in the preservation and management of the overall Tarai ecology and "megafauna" (primarily the Asian one-horned rhinoceros)--and other similar special biodiversity projects--should continue to receive Mission and Bureau support under FAA Sections 118/119. These biodiversity projects, unlike the bilateral forestry efforts, are executed through the King Mahendra Trust for Nature Conservation and/or the Department of National Parks and Wildlife Conservation. To date they have received a great deal of attention and positive publicity as an element of the bilateral political relationship between the U.S. and Nepal, and as part of the Agency's initiatives to carry out the Congressional mandate on biodiversity. Estimated costs: (a) \$250,000/year from the Bureau's Section 118/119 allocation plus a comparable amount from the Mission's bilateral ARDN account (in support of the National Conservation Strategy); (b) 30% of one FSN's work time and an average of 10% of the work time of two USDH staff members on monitoring, site visits and reporting.

(4) Strengthening Legal Services/Human Rights: The extent of human rights problems in Nepal has recently been highly publicized (both in Nepal and internationally) via the release of the Amnesty International Report ("Nepal: A Pattern of Human Rights Violations," November, 1987). While this report focuses principally on areas not directly within the scope of USAID activities (e.g., political imprisonment, religious persecution, ill-treatment of prisoners), over the past four years USAID has carried out a successful and well-regarded project, "Strengthening the Legal System of Nepal," in support of AID Policy Determination No. 12. This project has been entirely financed by the Agency's Section 116(e) allocation. The ANE Bureau's Human Rights Team found that "Project implementation and performance has been exemplary" and project activities were regarded by the team as "...a good investment of time, money and effort". The team specifically recommended "continued support," particularly to the growing Women's Legal Services Project, which receives strong support from the highest levels of Nepal's Government. A follow-on proposal from the Women's Legal Services Project has been submitted to the Bureau for FY 88 funding. Estimated costs: (a) \$75,000- \$100,000/year of the Bureau's Section 116(e) allocation; (b) 25% of one FSN staff member's work time and 5-10% of one USDH staff member's work time for monitoring and reporting.

(5) Women in Development (WID): This is another special concern that does not constitute a separate or special project or program, but has been an "across-the-portfolio" effort to raise consciousness of gender issues in project design and implementation. The Mission has used a small amount of PD&S funds in the past for this purpose and has now been targeted for PPC/WID funding to expand and pursue its efforts. Women's issues and problems in Nepal are legion and deeply-rooted in virtually all aspects of life. They are worthy of continued, special attention. Estimated costs: (a) \$50,000/year of PPC/WID and/or Bureau resources; and (b) one FSN's work time plus 10-15% of the time of one USDH for planning, monitoring and reporting.

(6) AID/SCI Grants: USAID/Nepal has been the most active Mission in the Bureau in facilitating individual scientific research through the Agency's Program in Science and Technology Cooperation (PSTC), and has also made efforts to support the U.S.-Israel Cooperative Development Research (CDR) Program. Both programs are implemented directly by the Office of the AID Science Advisor in AID/W, but require Mission assistance and monitoring. At present, there are seven active PSTC projects being monitored. Some twenty-five additional "pre-proposals" are being submitted to AID/SCI for review. The Mission estimates that with existing staff, by clearly limiting its support services, it could facilitate a total of ten such grants at any one time. Currently, the research is carried out primarily in agriculture-related topics by Nepali Ph.D.'s (often U.S.-trained or ex-USAID

participants) in collaboration with U.S. principal investigators. Estimated costs: (a) \$150,000-\$200,000 of central AID/SCI funds/year; and (b) 60%-80% of the work time of one FSN employee plus 5% of the work time of one USDH supervisor for monitoring and reporting.

(7) Housing Guaranty (HG) Program: USAID/Nepal has maintained a "back-burner" interest in urban development, and private sector housing finance in particular, since the completion of an outstanding PRE/H sponsored Urban Development Assessment in 1984. The Mission has collaborated with RHUDO/Bangkok in sponsoring and coordinating the advisory services of an urban planning expert and visits of several consultants to assess the potential for a private sector housing finance corporation. This has been coordinated closely with complementary analytical work being done by the UNDP and the IBRD/IFC. A recent UNDP/IFC Aide Memoire on "Establishing a Housing Finance Institution in Nepal" noted the potential for the future utilization of AID's Housing Guaranty Program as a financial resource. The Mission's view is that the establishment of such an institution, if more than 50% owned and controlled by private investors and entities, would be not only a step toward meeting the GON's objectives in providing low-income housing under Nepal's Basic Needs initiative, but a major advance in the development of Nepal's private financial markets. The Mission would therefore be ready to provide further facilitative support to PRE/H and RHUDO/Bangkok in the development of such a financial institution. Estimated Costs: Unknown, but would largely consist of Mission support to PRE/H and RHUDO Bangkok advisors.

(8) Food Aid: USAID/Nepal has often discussed (in-house and with AID/W) the possibility of further supplements to its OYB with food aid, through a carefully crafted Title II program. In 1984, the Mission financed a "Food Aid Assessment" which concluded at that time that the conditions and opportunities required for the successful initiation of a PL 480 Title I or Title II program did not exist in Nepal. However, the Mission, in collaboration with WFP, is presently sponsoring a food-for-work penetration road rehabilitation/construction effort in a Rapti Zone hill area, using available WFP stocks. The Mission has also recently facilitated a shipment of 1,000 metric tons of NFDM to Nepal's Dairy Development Corporation. The Mission has prepared and submitted to AID/W the terms of reference for a new "Food Aid Assessment" in FY 88, to again consider whether to propose a PL 480 program in Nepal. Estimated Costs: \$50,000 of PD&S for the Assessment; unknown thereafter. If a food aid program were begun, it would probably require one full-time FSN and 20% of the time of a USDH to monitor.

## B. Organizational Restructuring

Since the completion of the Mission Management Assessment (MMA) in October of 1986, USAID/Nepal has undertaken a series of organizational measures to carry out its general recommendations. The MMA Report directed Mission management attention to problems in the "horizontal communications" between the relatively large number of Mission offices, and called for a more effective integration of the Mission's "considerable interdisciplinary skills," which appeared underutilized. Following the MMA, Mission management undertook a restructuring process to address these problems and to concentrate declining numbers of staff into fewer offices. Restructuring was also necessary to reflect the progressive concentration of program resources as described above. The initial and perhaps most difficult step in the process was the full merger of separate and independent offices for Agriculture and Rural Development Offices. The combined ARD office has now been consolidated under new leadership, and the cross-fertilization and cooperation between ARD projects and staff has increased markedly. The merger also resulted in the elimination of one USDH position and one FSN position.

The second major step in the Mission's reorganization is presently in the stage of advanced planning, and will be implemented in FY 88 with the merger of the Mission's Program Office and the Office for Project Development and Implementation Support. This merger will eliminate one additional USDH position and at least two FSN positions. It will also reflect Mission efforts to more fully integrate the Mission Economist into program planning and support functions (by moving that position from the Deputy Director's Office into the merged office), and the phasing-out of Basic Education as a primary sector in the Mission's program.

These office mergers will reduce the number of separate offices from seven to five, and address directly the principal points made in the MMA. Apart from this formal restructuring of the Mission, several other management measures have been taken to improve Mission operations and address MMA concerns. A special evaluation of the Mission's contracting and procurement procedures was carried out in early 1987, which elaborated significant deficiencies (the lack of regional support pointed out in the MMA). The Mission responded by eliminating a USDH position in Project Development and adding a USDH contracting officer to quickly address this management weakness. This position is intended to be "temporary" (e.g., 3-4 years), until the Mission's FSN capability is adequately strengthened or regional assistance can be made more reliable than in the past.

The Mission also engaged the services of the Agency's records management experts to undertake a full Mission-wide assessment of records management. Enormous stores of unnecessary documents were

disposed of, and file plans have been prepared and are being implemented in all offices. A full review of all FSN DH and PSC position classifications was also conducted in FY 88. The Mission is in the process of implementing the recommendations of these reviews. USAID has also contracted a part-time librarian to reorder and improve management and use of our information resources. Ideas are being developed and discussed for possible changes in the structure of the Office of Financial Management, to further increase its orientation toward facilitating project implementation. In this regard, the Mission has made notable progress over the past two years. During that time, the Mission has installed MACS, held orientation and operational discussions with each project office on use of the MACS data base and reports, and effectively accessing that information for project monitoring. We have also increased our financial analysis and monitoring capability with the addition of an additional analyst.

These steps toward the concentration of management resources and the streamlining of procedures have been taken in parallel with the overall program focus efforts described above, and are expected to result in significant efficiencies and economies in the administration of the Mission.

#### C. Budget and Workforce Requirements

USAID/Nepal requires a minimum of \$13 million in Development Assistance for both FY 89 and FY 90 to sustain project implementation, taking account of portfolio focus and phase-down of project activities in the education sector. Funding below these levels will force the Mission to consider complete termination of its Development Training Project, and an extension of the PACD for the Agriculture Research and Production Project, thus inhibiting reduction of our portfolio mortgage. The FY 88 and FY 89 levels cut our OYB some 17% from the \$15 million floor levels for FY 85-89 set by Presidential commitment to Nepal in FY 84. The \$12 million for FY 88 is 20% below FY 87, 26% below FY 86, and 37% below FY 85. This ominous trend obviously is bound to affect our stature as a serious, important donor in Nepal.

USAID/Nepal does not have an infinitely elastic budget. We are making several adjustments in our program to accommodate the \$12 million level established for FY 88, and to live within the proposed \$13 million levels during the Action Plan period. We propose the following initial steps:

- Terminating all bilateral project assistance to education in FY 89, and a substantial reduction of annual funding for the Development Training Project (DTP) (367-0152). DTP is actually a multi-sector resource more than a sectoral project and has, in fact, been partially funded from the ARDN account. DTP is one portfolio component that does have an

elastic budget (i.e., the number of participants sent each year can be adjusted), and can be implemented at a pace reflective of overall OYB trends.

- Starting no new projects in FY 90. In FY 88, the only new project is Forestry Development. Only one follow-on project, Child Survival and Family Planning Services, is planned for FY 89. Even with these "new starts", and despite the modest levels we are proposing, the mortgage drops 24% from \$50 million at the end of FY 87 to \$38 at the end of FY 90.

Through portfolio consolidation, the number of projects receiving funding will be reduced from 9 in FY 88 to 7 in FY 90. The number of active projects will drop from 14 in FY 88 to 10 in FY 90.

What is most discomfoting about tumbling OYBs is the awareness of complete loss of opportunity to pursue the logical paths our agriculture strategy and education sector achievements have opened to this Mission. Even at \$13 million we will be forced to abandon badly needed agricultural research, just as the institutional capacity to manage research investments efficiently coalesces. Additional funds for a follow-on project are extremely important. Virtually as vital is the need for funds to develop and escalate the processing and marketing elements of our agriculture strategy. Project possibilities include marketing information and market development, and/or building on agro-enterprise experience in Rapti and ARPP. In education, \$1 to 2 million of EHR funds per year would permit a return to normal funding levels for DTP, with its key training opportunity "earmarks" for women and the private sector, at the authorized level. The Mission could also capitalize on the IEES sector assessment with support for action on agreed policy reform and program recommendations. Also, by FY 89 USAID foresees potential for broadening use of distance education facilities to employ radio broadcasts, for example, in adult education, and in-class primary/secondary education.

USAID/Nepal manages its FY 88 OYB of \$12 million and pipeline of \$23.8 million (as of December 31, 1987) with 19 USDH, 2 USPSCs, and 35 FSNDH. There are also both OE and program-financed contract employees, virtually all of whom are Nepalis. The limitations of GON implementation, monitoring, and logistical capabilities, coupled with Nepal's extremely difficult terrain, require a higher proportion of staff to budget than is the case in many other countries. The Mission's staff size is close to what is essential to meet Agency standards for project monitoring, evaluation, and accountability for funds.

However, we are concentrating our portfolio and reducing our direct-hire staff in response to the Agency's budget constraints. We have reduced our USDH staff from 21 in FY 85 to 19 in FY 88, and plan to operate with 18 USDH by the end of FY 1989. This last

reduction can be accomplished through the merger of our Program and Project Development and Implementation Support Offices. The number of full-time USPSCs is also being reduced from two to one in FY 88 as well.

We also plan to reduce FSNDH levels to 34 by the end of FY 90 (down from 38 in FY 87). The FSNDH reduction is being carried out through attrition and utilization of PSCs. Contracting gives us much more flexibility in personnel management, and allows for short-term contracts for specific tasks. To maintain "presence" while reducing direct-hire staff, we are also involving more Peace Corps Volunteers in the program, with a planned increase from 37 volunteers assigned to USAID projects in FY 86 to about 50 by FY 89.

BUDGET AND WORKFORCE REQUIREMENTS  
FY 1988 - FY 1990  
 (\$000)

Development Assistance

Number/Project	FY 88	FY 89	FY 90
<b>FN</b>			
0148 Institute of Ag. & Animal Science II	1,045	0	0
0149 Agricultural Research	2,450	1,949	0
0153 Irrigation Management	1,700	1,630	1,950
0154 Institute of Forestry	900	800	1,000
0155 Rapti Development	1,500	2,500	3,475
0158 Forestry Development	400	850	1,300
0159 PVO Co-Financing II	655	771	1,050
Subtotal	<u>8,650</u>	<u>8,500</u>	<u>8,775</u>
<b>PN</b>			
0135 IRH/F.P. Services	1,000	0	0
0157 Child Survival/ F.P. Services	0	1,900	1,750
0159 PVO Co-Financing II	0	100	
Subtotal	<u>1,000</u>	<u>2,000</u>	<u>1,750</u>
<b>HE</b>			
0135 IRH/F.P. Services	1,350	0	0
0157 Child Survival/ F.P. Services	0	2,000	1,750
0159 PVO Co-Financing II	235	0	225
Subtotal	<u>1,585</u>	<u>2,000</u>	<u>1,975</u>
<b>EH</b>			
0152 Development Training	500	500	500
0159 PVO Co-Financing II	265	0	0
Subtotal	<u>765</u>	<u>500</u>	<u>500</u>
<b>TOTAL DA</b>	<b>12,000</b>	<b>13,000</b>	<b>13,000</b>

Workforce

<u>USDH</u>	19	18	18
<u>FNDH</u>	35	34	34

#### IV. PROGRAM PERFORMANCE AND AGENDA

The Mission is able to report, in the sectoral commentaries which follow, a number of strategically important accomplishments, recent and imminent, in our policy dialogue with the GON, our donor dialogue and in our project portfolio. Annex A presents select country trend and program performance targets and indicators by sector, in matrix format. The portfolio, and the bilateral and central resources it brings to bear, provides the means and capacity to achieve these impacts. USAID's relationship to the Structural Adjustment Program, described in part II above, illustrates the weight our portfolio can have, even indirectly, in policy reform and on donor perspectives in Nepal. In some instances we can virtually take sole and direct credit; in others (and increasingly) USAID's effectiveness derives from close association with other donor initiatives and is of a more attributional nature. The awareness of our broad influence here and the fundamental importance of our in-country expertise and project involvements to this strength, make it most difficult to consider further retrenchment and reduction.

##### A. Agriculture

###### Growth Model and Strategy

USAID/Nepal's agricultural strategy revolves around a market-led, cash-crop based and private sector-driven sectoral growth model. It seeks to exploit opportunities in areas where the country has comparative advantages in order to increase rural employment, incomes and productivity. At the same time, it supports policies, programs and activities required to sustain the productive capacity of the country's fragile natural resource base. The strategy provides a sharp, growth-oriented focus to the broad concerns outlined in the CDSS and establishes a conceptual framework within which scarce development resources can be concentrated to achieve maximum sustainable benefits for rural Nepalis and the economy. The agricultural growth model and strategy were summarized by cable in November, 1987 (87 Kathmandu 8758) are presented in additional detail in Annex B.

###### Portfolio Implications

Opportunities exist within the Rapti Development Project, the Winrock OPG, and the Agriculture Research and Production Project, to further test and refine the approach suggested in the strategy.

- Rapti already has a production focus, specifically its vegetable and fruit crop production (cashcrop) component, livestock development component, forestry component, and small business

promotion component. With a stronger and clearly articulated market emphasis, these can provide invaluable grassroots insights into the factors (technical, institutional and policy) needed to implement the cash crop "export" approach embodied in the strategy. Furthermore, the explicit private sector role in fertilizer sales, seed production, nursery establishments and enterprise development offer an exceptional opportunity to understand and expand private sector participation. Simultaneously, the factors influencing the movement of foodcrops to hill consumers can be closely observed and analyzed. The lessons and measurement of impact which Rapti will provide, make it the centerpiece for field application of the strategy.

To help bring a stronger market orientation to Rapti, USAID will use the zone as a focal point for carrying out field studies associated with the analytical agenda described below. We will also draw upon marketing and small enterprise expertise within the project, supplemented by S&T project assistance.

- The second phase of the USAID, German (GTZ), and Ford Foundation co-financed Winrock OPG will support local research into economic and natural resources policy issues and related participant training. The research agenda has been adjusted to more directly address USAID interest in marketing issues and systems, as well as at related natural resource management and land use implications.

- The mid-term evaluation of the Agricultural Research and Production Project (ARPP), completed on January 1988, recommended reducing the number of activities to concentrate resources on helping the newly created national research system become operational. The project is uniquely positioned to do this and thus build the institutional base needed to effectively do adaptive research throughout Nepal. In addition, the program for expanding the availability of improved seeds through private producers and sellers in hill areas has been judged very effective, sustainable and replicable. Expansion of this activity is consistent with and supportive of the strategy's private sector marketing and productivity increasing elements. It also demonstrates a private alternative to the subsidized government approach for supplying inputs and services to the hills.

- The other projects in the ARD portfolio indirectly support the strategy. In addition to access to improved technology (seed, fertilizer), irrigation is a critical input which, if well managed, can be a major determinant of whether production and cropping decisions respond to market opportunities. The Irrigation Management Project aims at better water management for agriculture. The CDSS identified trained manpower as a pre-requisite for sectoral development and growth. The Institute of Agricultural and Animal Sciences Project assists the country's only university-level agricultural training program, as does the

Institute of Forestry Project in the natural resources field. The proposed Forestry Development Project is a key component in a broader GON and multidonor forestry initiative, which will increase community and private responsibility for, and benefits from, forest management and utilization. It ties the concerns for better management of critical resources to the interests of the rural dwellers to improve and sustain their incomes and welfare. The productivity of community forestry investments is the concern of the Nepal Coppice Reforestation Project.

Through shifts in emphasis within the current portfolio, elements of the strategy can be highlighted, tested and analyzed. Rapti provides the most depth and breadth of opportunity to do this over the next several years. The analytical agenda discussed below, and the resources brought to bear on it, will allow for a sharpening of approaches for furthering the strategy through Rapti and other existing activities. However, the pace and perceived commitment with which USAID implements the strategy is contingent on ARDN account funding levels. As elaborated in the Budget and Workforce section above, if held at the FY 88 level (below \$10 million) in future years we are clearly constrained in our ability to accelerate implementation of the strategy.

#### Implications for the Analytic Agenda

The priority assumptions implicit in the new focus on the agricultural strategy constitute the basis for a significant analytical exercise. These assumptions and sources of information (existing or to be generated) are outlined in Annex B. USAID is now in, or expects to assume a lead role in, analysis of marketing systems and food and cash crop movements, internal and external demand trends for Nepalese cash crops, and agro-enterprise opportunities. The Mission will draw on project, PD&S, and central resources to carry out selected portions of the analytic agenda. Field studies will be done directly through the Rapti Project and the Winrock OPG. Other analytic work can be performed through local contracts and S&T support projects (Ag. Marketing, Ag. Policy, Small Enterprise Development). A listing of proposed studies and discussion of management modalities for this work is also outlined in Annex B.

#### Implications for the Policy Agenda

The CDSS policy objectives remain valid for the more focused strategy. These are:

1. Increased reliance on market forces in the sale and distribution of agricultural inputs and outputs
2. Devolution of greater community and private participation in forest resource management

3. A rationalized institutional structure for more effective coordination and resource allocation for agricultural research
4. Increased mobilization of local resources by user groups to assure the operation and maintenance of capital investments

What may be added to the existing CDSS Policy Agenda are specific steps in support of private agro-marketing and processing enterprise development. These could include pricing and foreign exchange actions which stimulate export production and marketing, the creation of export-related infrastructure, financial facilities, standards, communications and information systems, and the simplification of business and export licensing procedures.

However, the analytical exercise described earlier is needed in order to clearly and accurately define the critical policy-level decisions or performance gaps which hinder investment and growth along the lines indicated in the revised sector paradigm. It is premature and speculative to make significant changes in the policy agenda now. But, refinements will, in all likelihood, be forthcoming as our understanding of the issues and opportunities are sharpened through the analytical exercises. What further leverage and resources we can bring to bear on such matters is also quite uncertain at this time.

#### Agriculture Program Highlights

Major policy and donor dialogue currently flows from many ARD project and program concerns and this kind of communication is increasing. The strongest vehicles for addressing policy issues are the Rapti Project, the Agricultural Research and Production Project (ARPP), the Irrigation Management Project (IMP), the co-financed Winrock OPG, and the new Forestry Development Project, now in design. These provide us with considerable field-level and/or operational insight and credibility regarding policy and institutional problems and opportunities affecting not only our projects, but the sector. It is principally this experience and knowledge, bolstered by the financial leverage of the portfolio, which allows us to engage and interact in the policy realm.

Recent monitoring of Mission contacts with other donors shows several meetings per week. There is a similar stepped-up trend in our dialogue with the GON. While implementation issues require intensive attention and discussion, the amount of time regularly directed at fundamental policy and institutional concerns is increasing. The external mid-term evaluation of the ARPP Project and the joint (GON, Contractor, USAID) internal review of IMP, plus the discussions around the Forestry Development Project design process, have focused and sustained the dialogue being undertaken on key issues and policies. With the sharpening of functional roles within the ARD Office, and the execution of the

analytical agenda, policy dialogue will be strengthened and sustained.

Policy Dialogue with GON. A discussion of activities and accomplishments within each priority policy area established in the Policy Agenda Annex of the CDSS is presented in Annex B. As noted there, substantive progress has been made in the areas of:.

- Increased reliance on market forces in the sale and distribution of agricultural inputs and outputs;
- Devolution of greater community control and private participation in forest resource management;
- Rationalized institutional structure for more effective coordination and resource allocation for agricultural research; and
- Local resource mobilization and user group participation to help provide adequate O&M and achieve maximum production from capital investments.

Donor Dialogue. A high degree of donor dialogue and coordinated action has helped precipitate the above policy accomplishments. The most conspicuous interaction has been in the forestry and irrigation areas, but close and regular cooperation with other donors occurs in all areas:

- In Forestry, USAID made major inputs into the conditionality under SAL I, most notably that pertaining to the private ownership and utilization of trees on private lands. USAID collaborated with UNDP in the benchmark Concept Paper which suggests the next generation of Forestry programs; with ADB, Pinnida, UNDP, ODA, IBRD and FAO in the Forestry Master Plan which sets the framework for forestry sector development; and with UNDP/FAO and IBRD in design of a forestry implementation program which includes the USAID Forestry Development Project.

- One of the most encouraging and productive achievements is the increasingly close interaction in irrigation between USAID, UNDP and the major external funding agencies, namely the IBRD and the ADB. Both Banks now seek more beneficiary involvement in system operations and management as conditions for sector lending. They view IMP's work in water user organization, training, research and monitoring as critical. (Discussions are now underway with IBRD to directly involve IMP water user organisers in their next project, perhaps in exchange for IBRD funding for some of the construction elements in the USAID project.)

- A major GON/Donor meeting on irrigation is scheduled for late February, 1988, in which the mutual concerns of the donors will be thoroughly discussed with the GON. Later in the year, IMP is sponsoring a national workshop on farmer participation in agency managed systems and strategies for agency and donor assistance to farmer-managed systems.

- Consideration is being given to inclusion in SAL II of conditionability requiring passage of the water user legislation developed with IMP support.

- The IBRD, in particular, is following the reorganization of agricultural research supported by USAID with a view to a loan for research once the new organization is fully operational.

- The Rapti program for private dealership in fertilizer and the analysis of fertilizer pricing under the co-financed Winrock OPG provides USAID with a highly visible role among the donors concerned with this critical agricultural input. There is great promise, through united donor initiative, of altering policies and improving access to and optimal use of this key agricultural input over the next few years.

- Based on fieldwork done by the IAAS and IIMI, USAID raised strong objections to the ADB's proposed East Rapti Irrigation project. The U.S. board representative, along with the Australians, voted against the project. Changes in essential elements of the project have been accepted in principle by the ADB and GON.

- In FY 87 USAID and the World Food Program (WFP) developed a Food For Work (FFW) road building activity in Rapti which holds promise as a model for GON-Donor-WFP collaboration elsewhere in the country. It incorporates the professional and technical resources which have been critically absent in many FFW programs to date.

## B. Health and Family Planning

"Modern" public sector health services began in Nepal in the 1950s, and family planning services were initiated in the late 1960's. Until the early 1970s, the organization of these services can be best described as a series of functionally independent, often parallel, narrowly defined, vertical programs, e.g., malaria; smallpox; TB; leprosy; hospitals; and the newest, family planning. The health sector in the 1970s was characterized principally by an expansion of the categorical vertical programs and growing physical infrastructure, but with the important introduction of experimentation in an organizational alternative, an integrated management and service structure. USAID supported this integration experiment in two of Nepal's 75 districts. Both the GON and USAID considered it successful enough to commit to supporting a phased shift to an integrated national system over a decade. However, the GON and all major donors in the sector also continued to support growth of the vertical programs in order to achieve maximum service coverage before integration occurred and/or to "hedge bets" on whether the integrated system would, in fact, come to be.

The integration process received a policy level commitment within GON, and USAID's support was provided through the 1980 IRH/FPS Project (0135). This "sector project" has constituted USAID's major sectoral commitment and vehicle since that date. But problems arose quickly within the integration process and within the categorical, "problem-specific", vertical programs that were to be the foundation stones for the new integrated system. The integration process, ironically, was transformed into yet another "vertical project". And for several reasons it was poorly competitive with the well-entrenched, historical, vertical projects. It floundered, achieving an expansion to only six districts by 1985 and, in the process, sacrificing coverage levels achieved by vertical projects in most areas that became "integrated". This vertical integration project earned a negative image for the concept of integrated health services in general.

The remaining vertical projects, meanwhile, although still commanding the large majority of GON and donor resources, compiled a mixed record. The Expanded Immunization Project (EIP), the program successor to smallpox, accomplished a solid start in the 1970s but by 1985 was leveling off at extremely low coverage levels. The FP/MCH Project belied its name by ignoring MCH and concentrating its FP program nearly totally on VSC. The VSC program saw encouraging increases in numbers of procedures (up to 67,000 one year) early on, but its inflexible organization and "annual campaign" mentality eroded its own performance and the numbers began to decline. The malaria program achieved impressive results in the 1950-60s, but effectiveness declined due to a constellation of organizational, funding, entomologic and epidemiologic reasons.

By 1985, ten years into the initial integration experiment and five years into the IRH/FP Project, USAID completed a major project evaluation and undertook a deliberate effort to shift its strategy and program. IRH/FPS was neither achieving its major project objectives nor disbursing rapidly. It was evident that the GON environment had evolved and change was needed.

In formulating our options, we noted many strong positives in the sector, creditable to the GON as well as to past efforts by USAID and other donors. The GON's stated health/population policy framework was progressive and offered few clear obstacles. A basic physical and personnel infrastructure had been established. Ministry of Health (MOH) commitment to "public health and population" concerns was expressed by the relatively high proportion of resources allocated to these programs as contrasted with allocations for curative services and facilities. The MOH had proved through its successes in malaria and smallpox that when truly committed to programs, it could establish the capacity to carry them out. USAID and the MOH had demonstrated a capability to work together over many years and during times of change and uncertainties.

Within that positive framework, then, and fully cognizant of the confusion and complexities inherent in the integration-vertical program morass, the Mission elected to marshal its resources to challenge the GON to make its sector programs as progressive as its stated policies and to assist the MOH to make its performance match its rhetoric. The Mission had been granted project extensions through July, 1988, and provided additional basic IRH/FPS Project funding to carry out that agenda. In late FY 1986, the Mission also received its first allocation, \$1.0 million, of Child Survival Funds, in response to its Child Survival Strategy and designation as an "emphasis country".

The basic observations behind of USAID's efforts over the past few years are that GON's health/population goals and policies are excellent and merit support; that the most important and feasible child survival program opportunities (immunization, ORT, ARI control, and birth spacing) require greater emphasis and program modification to achieve acceptable coverage and quality; that integration is a logical medium-term objective but that the uniquely vertical-integration project was the wrong way to go; that the FP/MCH program was being skewed by an almost exclusive focus on VSC and was causing negative ripples throughout the MOH system; that more attention must be devoted to FP/MCH services directed at and delivered by women; and that the malaria control program required rejuvenation if a major resurgence of malaria was to be averted.

The IRH/FPS Project's overall structure and mechanics of operation were adequate to allow the Mission to pursue most of our objectives in collaboration with other donors in the sector, among

whom a strong consensus was developing. However, modifications in project management were required to more sharply pursue desired achievements, eg, to hold MOH accountable for performance against objectives; tighten financial controls that were not proving adequate; highlight and focus on key child survival and family planning objectives and disengage from unproductive ventures; and minimize large contributions to "general operating expenses". These project adjustments have been accomplished over the past two years.

The infusion of the \$1 million of Child Survival funds into MOH and NGO programs on a highly selective basis, permitted USAID to become involved in the national immunization and diarrheal disease control (CDD) programs for the first time. It also allowed USAID to team with NGOs to define ARI mortality and control issues. These modest CS supplements have produced remarkable payoffs in revitalizing the MOH's EPI program, intensifying MOH's focus on diarrheal disease issues, in obtaining broad recognition of ARI as a national health priority, and in field testing alternative systems for EIP, ORT and ARI service organization and delivery (including a world-class ARI control trial covering the remote Jumla District).

Many difficulties remain in reaching the IRH/FPS Project's ambitious sectoral objectives, yet there is little doubt that, building upon the foundations laid prior to 1980 and the IRH/FPS Project's early years, progress has accelerated greatly. We note the following additional achievements:

- a new and concrete commitment by GON to real progress in integration of health/family planning (HFP) services (discussed below);
- a renewed commitment by GON to FP and MCH services under the Royal banner of satisfying "Basic Needs" in health and population by the year 2000 (discussed below);
- a recommitment by GON to an earlier-stated, but lately ignored, balanced family planning services policy;
- unprecedented sectoral donor cooperation/coordination;
- acceptance by GON of the need to provide more services for and by women;
- initiation of rural marketing efforts for FP and ORT products through the Contraceptive Retail Sales Company (CRS);
- deepening involvement of NGOs to complement GON efforts toward project objectives.

Over the past year, two extraordinary events have occurred affecting the sector: (1) His Majesty has firmly committed the GON to major progress in health/family planning by highlighting the sector in his "Basic Needs" initiative; (2) The MOH has declared a total structural reorganization to a nationally integrated system of health service delivery. The Basic Needs objectives in this sector focus on the program aspects most emphasized by AID, the reduction of infant and child mortality and population growth rates. While the formally enunciated targets are overambitious, they will be a positive focus of MOH attention in coming years, and are causing the GON to examine current activities in order to find means to accelerate progress in child survival and family planning. This examination is long overdue and is highly welcomed; it is a new environment wherein the GON itself is looking for change, rather than simply reacting to donor initiatives.

The declaration of intent to integrate the HFP system totally by 1990 is by far the largest step in the process originally begun in the early 1970s. The declaration alone does not guarantee, of course, that the integration will be done well and on schedule, or that it will guarantee better quantity or quality of services. But at least the process can proceed from theory to reality. Although the recent integration initiative was motivated in part by donor pressure, once the MOH decided to take the plunge, the new organization, procedures and objectives of the reorganization have been decided totally by the Nepalese - it is their show, with minimal donor involvement in its early planning and implementation. The MOH clearly feels a healthy "ownership" of the new organization.

The Mission believes that 35 years of AID assistance/collaboration in the sector as the major donor entitles it to claim at least some credit for the evolution of the maturing systems and in the selection of the foci of the sectoral Basic Needs objectives. The Basic Needs objectives, the declaration for an integrated system, the rededication to balanced FP/MCH services, the improved "CS" service system (EIP, ORT, ARI, FP), all are consistent with AID objectives as stated in our contemporary CDSS, our "Child Survival Strategy", this and recent Action Plans and the focus of our proposed follow-on project, the "Child Survival and FP Services Project".

While we are pleased by recent events, they are not really a culmination but just a beginning; although the MOH's programs and policies appear finally to be moving towards some harmony, service coverage remains at miserable levels, systems management mechanisms are weak, skill levels are low, and decentralization is in its infancy. Through the remainder of the IRH/FPS Project we will seek to maintain the recent gains through the tumultuous reorganization process, and when we feel confidence in how the revised organization will actually function (as opposed to the often deceptive appearances on paper), we will elaborate the

details of a new project that will focus the next level of AID's historical support in the sector, developing delivery systems which are capable of providing sustainable, reliable coverage for selected FP and MCH services to a increasing percentage of target populations.

### Program Evaluation

During January and February, 1988, the IRH/FPS Project underwent an extensive "end-of-project" evaluation by a team of Nepalese and expatriate experts. They were assigned an ambitious agenda, to assess project performance against written objectives and today's realities, to look in depth at the most important issues that have evolved during the project's eight years, and to recommend whether AID should remain active in the sector and, if so, how. From the draft report completed by the team before leaving Nepal, the evaluation's major findings are summarized as follows:

- AID assistance has been and is pervasive in the sector. It is fundamental to the execution of MOH programs in Nepal.
- Current HMG policies for delivering priority health and family planning services to the rural poor are very progressive, and technically correct. The Basic Needs initiative announced by the King addresses the most critical health needs including family planning (with birth spacing), immunizations, diarrheal disease control, maternal health, acute respiratory infection (ARI) and nutrition. These priorities are also those of AID's Child Survival initiative.
- There remains a need for balance in the overall national health services program among (a) child spacing, (b) VSC, (c) diarrheal disease control, (d) communicable disease (EPI, ARI, malaria) control and (e) nutritional improvement.
- The increasing attention given since 1985/86 to child survival services, balanced family planning services, increasing the participation of women from both provider and client perspectives, and making integration and decentralization work is appropriate.
- The shifting of resources and attention away from project activities found to be unproductive (e.g., general operating expenses, drug procurement and logistics functions) is evident and appropriate.

- The health services are undergoing fundamental and sweeping organization changes which furnish the opportunity for and underscore the necessity of upgrading personnel and management capability and performance.
- Continued AID assistance in the sector is desirable.

The evaluation recommendations with regard to the current project (IRH/FPS) are:

- That USAID continue to support current GON initiatives to deliver the priority services included in the Basic Needs package through the integrated, decentralized health system now being developed.
- The current USAID project should be continued until 1990 to provide a bridge to the new project. Maintenance of consistent USAID support through the current critical transition period; from centralized/vertical projects to decentralized/integrated programs, will be important.

Evaluation recommendations for future AID support to the health and family planning sector have yet to be adequately explored internally, let alone with our GON and donor colleagues:

- A new USAID project should assist the GON in implementing the policies which are already in place. The evaluation recommends that this be done, inter alia, intensively in one Region with focus on the village and District levels by strengthening the delivery and supervisory practices of the District Health Offices, Health Posts and community outreach workers and volunteers.
- Focus on common GON Basic Needs and AID Child Survival objectives. Priority services should include child spacing methods, immunizations, diarrheal disease and acute respiratory infection control, VSC referral, and maternal health.
- Upgrade technical and managerial skills, and improve management practices at the District and health post echelons. Some such management assistance may also be required at the regional and central levels.
- A new USAID Project should also continue to support some of the national-level activities which have made positive contributions in the past, including CRS, contraceptive supplies, small-scale operational research on priority services delivery issues, VSC camps in the hills and mountains, public health skills training and expanded NGO activity.

- A new USAID project should also continue to pursue certain specific aims: establishment of static family planning facilities (temporary methods and VSC) in the Tarai, and establishment of private sector family planning clinics in urban areas.

The evaluation suggests, as part of the process of concentrating its resources, that the Mission also resist involvement in commodity procurement (particularly drug supply, rather than contraceptives), further construction components, and excessive preoccupation with those central level issues which are not of direct import to effective and expanded service delivery in the field. The next part of this narrative discusses Mission intentions with respect to reducing its traditional role in malaria control through insecticide grants.

The evaluation findings appear to validate the Mission's sectoral strategy as articulated in the CDSS (and subsequent program documentation), and as evidenced by modifications in IRH/FPS Project emphases since 1985, described above. The "strategic objectives" of (1) reducing child mortality and severe morbidity, and (2) meeting Nepal's demographic and development needs by creating demand for fertility limiting services are in full consonance with GON Basic Needs objectives for the health sector and remain valid in the environment of accelerated integration of the MOH. Once the process of integrating the MOH organization surmounts the expected transitional barriers, USAID can focus intensively on the issues most directly related to reliable delivery of FP, EPI, ORT and ARI services and move into full project design.

The Mission has been engaging the GON in an intense dialogue on decentralization of authorities and responsibilities to regional and local levels in the HFP sector for several years now, and already has initiated new decentralization support activities with one of the five administrative regions; we strongly agree that this avenue should be followed as far as it can be, which ultimately depends on the practical expression of GON commitment to the decentralization of real authority/responsibility.

Policy Dialogue: Malaria. The Mission has engaged many levels of GON and many donors in an intense dialogue on contemporary and future malaria control issues. Briefly, after a highly successful GON/WHO/USAID effort in the '50-60s to bring malaria under control and open up the Tarai for human settlement, in the late '70s and the '80s the control program has slipped. The slippage is due to a number of entomologic, organizational, ecologic, political and epidemiologic reasons. What is most important is that almost half Nepal's population now resides in the Tarai; they are largely non-immune and the malaria problem will worsen. A major epidemic in the Far West two years ago was a symptom of the underlying problems.

To address the problem, we have advocated GON attention and action to the following priorities:

- a) institutional arrangements to maintain malaria control under the new, reorganized, integrated MOH structure;
- b) how the MOH can restudy the current malaria entomological situation in all malarious areas, given that most entomologic information is 1950-60s data, and the mosquito-man-animal ecology in the Tarai, has changed drastically since that time.
- c) training an entire new generation of malaria control workers;
- d) the need to assure adequate availability of appropriate insecticides and develop alternative approaches to malaria control.

The Mission has been attempting to address a, b and c with local cost support project resources and with central VBC project assistance. Also, an international review of the malaria program is scheduled for March '88, and Mission will support the participation of Larry Cowper of USAID/Rangoon as part of the review team.

The short, the medium and long-term insecticide situation has been raised for discussion with National Planning Commission, Ministry of Finance and all levels of Ministry of Health. Also, the Mission has raised the issue frequently with IBRD, ADB and other donors. It is our impression that banks are not interested, and that no other donor is prepared to become involved in other than a piecemeal, ad-hoc drop of a few consultants and an unreliable supply of "their favorite insecticide" (fenitrothion by the Japanese; Ficam and Actellic by the British).

Given AID's resource limitations, we have notified all parties that it remains unlikely that we will be able to provide adequate malaria insecticides after 1988. While insecticides still will be required, grant donors are unlikely to be able or interested to provide reliable supplies of the most technically appropriate insecticides. We have suggested that the GON consider agreements for Indian assistance (malaria is a shared problem; also, India produces the DDT and malathion Nepal requires), and/or that they make a strong case for soft-loan financing from IBRD or ADB.

We believe the GON remains reluctant to borrow, even on soft terms, for insecticide and that they have not been active in pursuing bank financing. Also, they are very reluctant to request such assistance from India. This is an area in which the Japanese government may play an important "transitional" role but we are concerned that the type and terms of their insecticide assistance may not be optimal.

Donor Dialogue. Recent years have seen extraordinary collaboration and cooperation among the three major sectoral donors, UNICEF, UNFPA and USAID. This unity has been a key to progress on integration, "child survival" activities, and family planning reform. Recently there has been a high turnover of leadership in UNFPA and UNICEF here, but we hope to maintain the frequent meetings and unified action. UNICEF has been extremely easy to work with on child survival issues, and although they don't program in FP they have been vocally supportive of USAID and UNFPA's FP initiatives on child spacing. UNFPA is programming to a limited extent in MCH, but the bulk of its program remains population/FP. Although there is overlap in the interests of these donors, we each recognize that no one donor has the resources to deal with the whole spectrum of problems and we endeavor to assign each organization responsibility for program components best suited to our resources and mechanisms of operation.

At present Nepal is fortunate to have IBRD representatives in Kathmandu and Washington with outstanding experience and judgment on health/population sectoral issues. Hence, our collaboration has been close, consistent and productive. IBRD is close to initiating a 2-year "operations research" activity looking at management issues in the MOH, with special emphasis on one region. This is an approach we have been advocating, it is consistent with IRH/FP evaluation findings, and we believe the Bank can contribute to management capacity in the sector. The Bank has profited from the extensive local knowledge and experience of USAID/Nepal's technical staff in defining their sectoral objectives and resource allocations.

The other potential important bilateral donors are the U.K.'s ODA and the Japanese. ODA has provided modest amounts of malaria insecticides for a few years and small health system inputs into one zone as part of an IRD program. They currently are assessing and revising this program. Japanese assistance in the past has been largely hardware and construction-oriented and only a minor factor in the overall system. The Mission has suggested that they consider cooperative investments in technically appropriate malaria insecticides (malathion from the US would be ideal); collaboration with USAID in developing an adequate national malaria (vector-borne disease) training and research center(s); the provision of contraceptives (US-produced OCs, for example); and selective construction of staff housing for MOH staff in the field.

Underlying Key Assumptions. The following are Mission assumptions and concerns regarding the level of GON commitment forthcoming in the present reorganization. The extent to which these assumptions turn out to be valid will be a critical factor in design of the follow-on project.

- MOH proceeds with full implementation of functional reorganization. Vertical projects will be abolished. (The MOH says that this can be completed within 3 years.)
- GON will devolve real authorities and resources in the name of decentralization. The most important authorities will be those of personnel administration and budget control. These must be delegated to a significant degree to the Regional and District levels if real decentralization is to occur.
- The Basic Needs commitment will bring new momentum to and ensure at least present resource levels for health and family planning.
- MOH will pursue provision of services for and by women. This has only recently begun, with vigorous USAID encouragement.
- MOH will implement improvements in its FP/MCH program requiring a more "balanced approach" and greater efforts in child spacing.
- CRS can be further privatized. It is not clear to what degree further privatization will be encouraged.
- Major current sectoral donors will continue close coordination and unified requests for progress. UNFPA, UNICEF and USAID acting together have been a major factor in recent progress. This unity must hold, and should be strengthened by IBRD, Japanese and U.K. involvement in the sector.

Analytic Agenda. In recent years, USAID has commissioned an ambitious spectrum of assessments, surveys, reviews and evaluations of specific aspects of the sector. Most of these studies have been completed and provide rich material on the current state of sectoral programs and the environment they operate in; this material will be invaluable in designing a follow-on project. Annex C lists studies underway and proposed. There are a number of additional analytic efforts we would particularly like to have before design of a follow-on project. Four such studies are either in progress or in preparation:

- detailed marketing survey, feasibility study and business plans for private sector initiatives in family planning.

Preliminary work already has identified opportunities for private sector women's clinics and for industrial workers' FP services. The next steps will be carried out during FY 88 through the central Enterprise Project.

- further analysis of the Jumla ARI control project experience. We have completed one year of intervention and need to verify results during a second year. No additional funding is required for this further analysis.
- assessment of personnel administration issues and opportunities at regional and local levels. For decentralization to work in Nepal, regional/local managers must have major authorities over personnel administration which they do not now have. Mission has commissioned an assessment on these issues through our TA contractor.
- repackaging of FP IEC messages. Existing studies have identified the predominant expressed reasons for current non-use among never-users, ever-users, potential limiters and spacers. Among the potential "market", there are many fears, misconceptions and biases that may be responsive to better IEC messages, as well as to better FP worker knowledge and performance. We want assistance to devise new IEC vehicles. PD&S funding has been reserved.

The Mission, using project and other means, is hoping to broker several other analytic efforts of sectoral importance, for example, (1) Vitamin A mortality reduction study, (2) neonatal tetanus prevalence related to altitude, and (3) spectrum of diarrheal disease syndromes in Nepal (acute vs chronic, dehydrating vs dysenteric, etc) and etiologies of diarrheal diseases in children. Although these studies are not critical to the development of a new project, the project should be designed to permit adjustment and response to the results of key technical studies such as these.

### C. Education and Human Resources

Policy Dialogue. The significant event of this Action Plan period, the Education Sector Assessment, conducted under the S&T Improving Efficiency of Education Systems (IEES) project, will shape education plans in Nepal for the next decade. The draft was completed in late FY 87. Review with the GON is underway, and the Assessment will be formally released this summer. The Assessment has already influenced policy dialogue through participation of high level Nepalese experts in this very substantial endeavor. Preparation involved Nepalese and U.S. technical experts, and extensive discussions with other donors. At the same time the Assessment was underway, the Ministry of Education and Culture (MOEC) was examining its own programs and setting objectives for the Government's Basic Needs by the year 2000 initiative.

The result was to focus GON priorities exactly on the areas the last Action Plan identified as the main constraints: the poor quality of basic education programs in primary level schooling, and very low adult literacy rates. Sectoral policies are being scrutinized as they relate to the GON's Basic Needs objectives for education and adult literacy.

Donor Dialogue. In 1987, USAID and the IEES resident technical advisor held several informal meetings among the various donors in education. During preparation of the Sector Assessment in July and August, the IEES technical team conferred with other donors. The draft Sector Assessment has been circulated to a limited group of other donors (IBRD, ADB, ODA, and UNDP), pending formal GON approval. The Assessment has provided the information base and the process through which USAID has been able to increase dialogue with other donors. In the last few months, ADB has drawn on the Assessment in planning its new teacher training projects, and has conferred regularly with the IEES advisor, with the IEES team finalizing the Assessment, and with USAID. As a result, ADB is planning to coordinate its teacher training activities with USAID's RETT project. The World Bank will use the Assessment in planning its own future projects; both the UNDP and British Council have requested copies of the Assessment for reference and have provided comments.

IEES country implementation plans for 1988 and 1989 call for a series of seminars with the GON and other donors to discuss key education problems and policies. By focussing on the management information system and planning functions in the Ministry of Education, USAID will continue to play a key role in stimulating, maintaining and leading dialogue among donors and the Ministry of Education.

Education Portfolio Highlights. The CDSS identified three key problems: the low literacy rate; an inefficient primary school

system; and the shortage of skilled manpower. USAID's objectives are to assist expansion of literacy efforts; to support radio teacher training to improve the quality of primary education; to upgrade GON capability to collect and use data for better planning; and to support both the public and private sectors in strengthening managerial and technical skills in development.

In the past year, significant progress has been made toward each of these sub-objectives.

In FY 87, under the PVO Co-Financing II project, a grant was made to World Education Incorporated (WEI) to expand proven functional literacy programs. An impact evaluation of previous literacy classes for women showed that participants not only achieved literacy and numeracy, but also changed their attitudes towards health, family planning, agriculture, and resource conservation. In 1987/88, classes began for 76,000 participants, and will expand to 100,000 participants per year in 1988/89. WEI will also help develop post-literacy materials. By 1989, programs will operate in all of Nepal's 75 districts. The GON's target is 65% literacy by the year 2000, which would require reaching 400,000 people per year. The necessary base in materials and experience now exists, and this target is attainable sufficient donor support.

The Radio Education Teacher Training II project has institutionalized Ministry of Education capacity to develop, implement, and evaluate effective radio programming. Trained staff members are in place, and the GON is funding operating costs, including broadcast time. Preliminary evaluation results for 1987-1988 revised English tuition broadcasts showed that teachers' scores improved over 25% from pre-test to post-test. Through the use of instructional radio, Nepal is now able to use modern communications technology to surmount enormous topographical barriers, and effectively and affordably upgrade subject matter skills of the teacher cadre. The principal USAID action agendas for FY 88 and FY 89 are to assist in extension of a proven approach to new subject matter areas, while phasing out bilateral project support.

The Development Training Project is making a steady contribution to meeting managerial and technical skill needs. By reserving 10% of training slots for the private sector, and 25% for women, USAID is promoting GON attention and "affirmative action" in these mandate areas. The Annual Training Plan for 1988, negotiated with the Ministry of Finance, exceeds these CDSS targets with 17% of person months for the private sector and 28% for women.

The program has a long record of accomplishments in the Education Sector. Nevertheless, we have decided to end bilateral project activities in FY 90, with the exception of a reduced level of

funding for the Development Training Project. This project will continue at about \$500,000 per year, well below the level necessary to fully fund it within its present PACD.

As described in Section III, Program Focus and Management, we plan to continue some assistance for planning and policy dialogue on basic education through centrally funded resources. In view of the Ministry of Education's new emphasis on literacy and primary education as part of the Basic Needs Program, we feel that AID has a unique opportunity to contribute. As Agency budget and staff resources permit, we would urge support to basic education in Nepal. Nepal's needs particularly fit the new Congressional earmark of funds for basic education.

D. Implementation of USAID'S Private Sector Strategy

The USAID strategy for private sector development and related policy reform set out in the CDSS, now viewed from the perspective of another year's experience, can be reaffirmed. Consistent with the CDSS review, USAID has conducted additional analytic work needed to better understand the context of privatization on one hand, and is moving ahead with implementation of small enterprise promotion, on the other. There are some exciting, ground-breaking opportunities over the next year or two, from possible establishment of an IESC office in Kathmandu to the private sector impacts of fertilizer policy adjustments and structural adjustment.

The dual track strategy aims, on one side, at direct promotion of rural and agriculture - based small enterprise . The districts of the Agriculture Research and Production and the Rapti Projects are the field sites for this activity. The best present potential appears to exist in the programs for private improved seed production/sales and vegetable seed marketing programs. Other small enterprise endeavors are new. The Private Enterprise Unit of the Agriculture Development Bank is enlisting private entrepreneurs in production and marketing of appropriate technology already developed and tested by the public sector in Rapti. The National Cooperative Business Association is commencing a Rapti-funded OPG to organize farmers into business associations along cooperative lines. Fertilizer policy reform is crucial to attainment of national food production objectives, and the GON's recent agreement to the vanguard Rapti Fertilizer Plan is an important step toward opening the system for sale of fertilizer to private dealers. Agro-forestry, community forestry and private forestry are key evolving elements of our forestry strategy which also round out the small business side of USAID's private sector program.

Analysis prior to the CDSS concluded that the dominance of the government in industry, directly through state owned enterprises and indirectly through excessive regulation and "red tape", inhibit investment in medium and large private enterprise. Thus, the other track of the strategy seeks a reduction in government ownership and control in the economy through privatization and liberalization of the policy and regulatory framework. USAID does not contemplate bilateral project involvement in larger-scale enterprise promotion. Mission impact here has derived from analytic work which enables us to shape the views of influential donors and GON leadership. USAID studies over the past two years have probed the legal and regulatory context for private and public enterprise; public forest products industries; and the government's Dairy Development Corporation.

The important opportunities for dialogue and leveraging are the Structural Adjustment Program process, the MDB Early Alert system, and contacts with the GON. USAID advocacy of privatization has helped keep feet to the fire on this part of the SAL package and perhaps given the IBRD its best tactical sounding board. USAID is pleased to report the first outright sale of a viable public enterprise, and the offering to private investors of publicly-held shares in other state enterprises. The Mission has put much effort into trying to steer the MDBs away from recourse to SOEs in their lending proposals (e.g. ADB's Paper Mill and proposed Tea Development Projects). The Forestry Master Plan incorporates policy reforms to reduce government control of forests and forest products triggered by a USAID PD&S funded Forest Products Study.

Good progress in reform of trade policy, business licensing, and other areas of importance to private entrepreneurs has occurred through the programs of the IMF and IDA in support of the GON's structural adjustment program. The climate of receptivity to this change has resulted in real measure from the over-all American approach, i.e. USAID's policy dialogue, the Ambassador's active presentation of the private sector alternative to excessive government involvement in the economy, USIS funding of opportunities for travel abroad by private sector entrepreneurs, and fellowships to bring American scholars to Nepal.

#### Agenda

The cash crop and marketing orientation of USAID's agriculture strategy and accompanying program of analysis can be expected to point to additional opportunities for private enterprise promotion in production, processing and service functions beginning in the FY 88/89 period. Some opportunities may be pursued through our portfolio (e.g. marketing of inputs), or even by technical and market research on specific crops. Ultimately, much of the utility of this analytic work will depend on the extent we can use it to influence non-AID resources.

In privatization, the Mission had foreseen its next involvement at the "operational level", with short-term highly specialized technical assistance to help the GON implement specific divestitures. USAID is aware, however, that the GON has apparently sought the assistance of the IPC to implement privatization. As privatization gains momentum, USAID may still be of direct assistance to the process in cases where we already have prior association, e.g. forest and dairy products. Further research and assistance could be applied to reconciling and simplifying the legal framework for private enterprise. USAID will also continue its advocacy of privatization more generally, in appropriate fora.

USAID is preparing its views on the trade and investment theme as applied to Nepal for the March Private Sector Conference. On the immediate horizon is a country visit by IESC to explore establishing an office in Nepal. IESC presence in Kathmandu could become a useful arm in identifying and shepherding trade and investment possibilities and linkages to the U.S.

### E. Women in Development

Last year's CDSS/Action Plan Guidance from AID/W urged the Mission "to put even more effort into integrating women into their portfolio". To do so, USAID contracted with a WID Intern and a WID Specialist. The WID Intern is concentrating her attention on gender factors in forestry as USAID designs the Forestry Development Project.

The WID Specialist, who began in January, 1988, is a former PCV chosen for her rich experience in rural Nepal and outstanding Nepali language skills. She is charged, inter alia, with reviewing the full portfolio and developing a practical "strategic plan" to increase project impact on women's economic opportunities, and their access to resources and basic services. In formulating the strategy the WID Specialist will be working with Mission staff to review project targets affecting women, help make them more explicit, and if necessary clarify the main sequential actions for their accomplishment. This review and resulting proposals for the portfolio will be presented to the Mission in May or June. It will cover active projects and should also offer suggestions for incorporating gender considerations in design of the Child Survival and Family Planning Services Project.

For several years USAID has been behind special efforts to recruit women students at the Institute of Agriculture and Animal Sciences, with good results (from three women students in 1983 to thirty enrolled presently). The Institute of Forestry is also engaged in this "targetted recruitment". USAID is also pleased with the way women's concerns are addressed by our Strengthening Legal Systems Project. The 1987 evaluation of the project was particularly positive with respect to the Women's Legal Services component. This program works directly with poor and illiterate women to help them understand and exercise their legal rights, and has enabled successful representation of an impressive number of disadvantaged women in court. Two new WID proposals from Nepalese NGOs are under consideration for Section 116(e) or other funding.

F. Donor Dialogue: Japan

The emergence of Japan as the predominant bilateral donor in Nepal merits special comment. This has been accomplished by an apparent heightened Japanese interest in the development impacts of its program. The Mission recently cabled a review of Japanese aid to Nepal, pursuant to the Lisbon agenda and in view of imminent high level bilateral talks on aid with Japan. The cable pointed to some fields of common interest and possibilities for collaboration surfaced by informal Mission overtures in Nepal.

USAID attempts to establish a working rapport with Japan go back at least to the early 1980s. Repeated contacts in 1982-83, during an earlier period of Agency dialogue with Tokyo, ended in frustration after many months of concerted effort. Again during the past two years the Mission has been encouraging closer coordination by the Japanese with USG and other donors in Nepal. Commencing with introductory meetings with the former Japanese ambassador to Nepal in 1985, followed by discussions with international cooperation specialists in Tokyo in early 1986, then periodic contacts in Kathmandu both bilaterally and through the local donor group up until the present, there has been a marked increase in the level of interest in aid matters by Japanese embassy officials here. They now regularly attend the local donor group meetings, and are quite open to bilateral talks with individual donors and the development banks. However, there is still no regular effort we know of by Japanese development missions to contact members of the donor community. The implementation arm for Japanese projects, JICA, initiates little contact with other donors here, although there seems to be more recent interest in technical group meetings in sectors such as agriculture (most recently, fertilizer) and education.

Trends and Opportunities. Japanese official development assistance to Nepal during the 1980's has varied between 6.5 billion yen (\$27.45 million) and 21.1 billion yen (\$143 million) per year with no clear trend. The level of assistance jumped in 1981 and 1982 with large loans for a hydro power project and again in 1987 with a large loan for a cement plant. Grant and technical assistance has also varied somewhat, but has averaged about 1.1 billion yen (\$ 5.3 million) per year during this period. Local representatives of the Japanese aid program have indicated that grant assistance for the next few years is likely to remain at about the same level, but primarily restricted by absorptive capacity, not availability. With the strengthened yen, Japanese bilateral assistance to Nepal will remain substantial, probably greater than \$50 million per year.

On a continuing basis since FY 1977, Japan has granted about \$85 million worth of agricultural commodities as aid for increased

food production. The mix is determined by an annual request from the GON and most of the funds have been for fertilizer. The GON and GOJ recently signed the 1988 commodity agreement for \$16.4 million worth of fertilizer.

Terms and Conditionality. The terms under which Japanese assistance has been offered essentially implement what a Japanese official at one local donor meeting recently referred to as "the old style Japanese aid", namely assistance tied to importation of Japanese source/origin goods. Development or policy conditionality has not figured prominently, and little concern is apparent regarding the programming or use of local currency generated through the sale of Japanese-supplied commodities.

Agenda for Cooperation. Our talks with local Embassy officials have suggested some areas of mutual interest. Given the centralized administration of Japanese aid, these ideas must be passed on to Tokyo for follow-up and guidance. One of the most interesting and useful areas for possible close collaboration is with regard to Asian Development Bank lending in Nepal. If we could establish a joint early review process where the two leading members of the Bank could greatly shape common positions, it could benefit the content and effectiveness of ADB assistance to Nepal. Since the ADB is not presently represented in Kathmandu, this collaboration is even more necessary.

In the health/family planning sector a donor/supplier is needed to help meet annual insecticide requirements for the malaria control program. Provision by the Japanese of moderate amounts of insecticide, possibly even of U.S. manufacture, on concessional loan terms would be an important step toward establishing eventual GON budget responsibility. Other points for possible joint activity with the GOJ in the sector include establishment of a vector borne diseases training and research center; contraceptive supply (from Japanese or, possibly, U.S. sources); and construction of staff quarters for rural health facilities.

In agriculture, necessary but politically difficult reforms in fertilizer pricing and distribution policies can be stimulated by coordination of fertilizer conditionality among the few major donors, of which Japan is one (and the ADB another). Japanese commodity-generated local currency funds could support implementation of agriculture and forestry policies agreed to under SAL and the Forestry Master Plan. Farm-to-market road and trail improvement and maintenance is another possibility.

In sum, Japan's attitude of detachment from the broader arena of donor activity and interests may be changing. Prospects for bringing Japan into the donor fold are favored by Japanese

concern about the nature and image of their aid. We believe that at the top of the agenda is high level AID initiatives with Tokyo to encourage deeper involvement of its local official representatives in donor coordination activities in Nepal. The appeal to Japanese interests is, quite simply, that closer relationships offer visible and very useful arrangements for bringing about the shift the GOJ seeks from "the old style aid" toward greater emphasis on development strategy and impact.

## COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX

## SECTOR: AGRICULTURE

Note: Country targets, where not otherwise attributed, represent USAID's estimate.

COUNTRY TREND INDICATORS	BASELINE STATUS DATA	PERIOD	PERFORMANCE/ BENCHMARKS		TARGET	COMMENT
			Crop Year	(000 MT)		
1. Production and yields of food grains (paddy, wheat, maize, millet)	<u>a/</u> 4.2 million MT 1.7 MT/HA weighted national ave. yield	84/85	85/86	4475	<u>b/</u> 5.3 million MT by 1989/90 (27% increase)	<u>a/</u> GON Economic Survey Bulletin
		86/87	4762			
		88/89	5049			
2. Cash crop production (MT)	<u>a/</u> 951,000	1984/85	<u>b/</u> 1989/90	1.5 M	Not available	<u>a/</u> GON Economic Survey Bulletin
		1984/85	<u>b/</u> 1989/90	18.9		
		1984/85	<u>b/</u> 1989/90	18.9		
3. ADB/N loan disbursements for agro-enterprises and marketing purposes.	<u>a/</u> \$14.2 million	1984/85	1989/90	50%	100% increase by 1994/95 (in constant terms)	<u>a/</u> ADB/N Statistics.
		1984/85	1989/90	50%		
		1984/85	1989/90	50%		

c/ Weighted national ave. yield increased to 2.9 MT/HA by 2000

b/ 7th Development Plan Production and Yields Targets.

c/ Basic Needs Program Target.

a/ GON Economic Survey Bulletin  
b/ 7th Development Plan Cash Crops: sugar cane, oil seeds, tobacco, potatoes, jute.

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX

SECTOR: AGRICULTURE

<u>COUNTRY TREND INDICATORS</u>	<u>BASELINE STATUS</u>		<u>PERFORMANCE/ BENCHMARKS</u>	<u>TARGET</u>	<u>COMMENT</u>
	<u>DATA</u>	<u>PERIOD</u>			
4. Increased sales of chemical fertilizers in Tarai and Hills	a/ 62,765 MT Tarai 36,072 MT Hills	1985/86	b/ 10% per annum increase.	b/ 50% increase by 1990/91	a/ A.I.C. Data b/ Consistent with 7th Development Plan
5. Transfer of forest land to local communities.	a/ 36,787 HA transferred	1987	b/ See comment	600,000 HA transferred by 1995/96	a/ CRDP Data b/ Benchmarks will be developed during the design of the IBRD Forestry III and USAID Forestry Development Projects.
6. Formation of forest user-groups	a/ 612 target Panchayats	1987	b/ See comments	4,200 user-groups formed by 1995/96	a/ CRDP Data. b/ Same as (b) above. SAL-I forest user group conditionalality currently in cabinet.
7. Water user contribution to O&M of GON irrigation systems as a % of total O&M expenditures.	3%	1986	a/ See comment	a/ See comment	a/ GON is in the process of determining a policy and legislation for user O&M contributions.

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX

SECTOR: AGRICULTURE

PROGRAM PERFORMANCE INDICATORS	BASELINE STATUS		PERFORMANCE/ BENCHMARKS		TARGET	COMMENT
	DATA	PERIOD				
1. Increased reliance on marketing forces in the sale and distribution of agricultural inputs and outputs.	a. Fertilizer dealerships operating in Rapti Zone resulting in expanded supply.	842 MT No private dealers	1986/87	1987/88 1,500 MT 1988/89 2,300 MT 1987/88 50 Private dealers 1988/89 75 Private dealers	8,310 MT by 1995 150 Private dealers operating by 1995.	
	b. Private producers-sellers providing improved cereal seed in 9 Districts (4 ARPP, 5 RAPTII)	a/ 200 MT	1985/86	b/ 1987/88 400 MT	c/ 1200 MT by 1989/90 (600% increase)	

a/ Source A. I. C.  
b/ From RAPTII

Monitoring Plan and STIP/ARPP study on Hill seed Supply through Private Producer Sellers.

c/ Roughly 75% of the annual replacement needs for the 9 Districts.

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX

SECTOR: AGRICULTURE

<u>PROGRAM PERFORMANCE INDICATORS</u>	<u>BASELINE STATUS</u>		<u>PERFORMANCE/ BENCHMARKS</u>	<u>TARGET</u>	<u>COMMENT</u>
	<u>DATA</u>	<u>PERIOD</u>			
c. Small private agro-processing/service enterprises started in RAPTI	Approx. 25 enterprises established by Aprorate Technology Unit under Phase I Rapiti Project.	1987/88	a/ 10 new enterprises	a/ 125 Micro and small enterprises established in market towns by 1995.	a Benchmarks and targets are tentative and will be refined during 1988 as implementation begins.
2. Expanded utilization of production increasing technologies and improve practices for management of productive resources.	a. Cereal crops production increased in RAPTI Zone.	a/ Paddy 164,000 MT Wheat 243,000 MT Maize 360,000 MT Total 767,000 MT	b/ 1987 28 1989 38 1991 48 1993 58	Increase basic cereal production by 20% by 1995.	a/ Technical Analysis for RDP. b/ RAPTI Monitoring Plan.
b. Percent of Rapiti area panchayat involved in RDP forestry program	30%	NA	NA	80% by 1995	
Forest land brought under active local management	200 HAs. active local management	1986/87		21,000 HAs. active local management by 1995	

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX

SECTOR: AGRICULTURE

<u>PROGRAM PERFORMANCE INDICATORS</u>	<u>BASELINE STATUS</u>		<u>PERFORMANCE/ BENCHMARKS</u>		<u>TARGET</u>	<u>COMMENT</u>
	<u>DATA</u>	<u>PERIOD</u>				
c. Increased per capita incomes in RAPTI Zone.	a/ \$75 per capita	1979/80	b/ 1990 \$90 per capita (In real terms)		No basis at present for longer-term projections	a/ Rapti Baseline Study b/ Rapti Baseline Study update (1990) will provide actual figure for 1989/90
3. Local resource mobilization and user-group participation to help provide adequate O&M and achieve maximum production from capital investments.						
a. Increased water user contribution to O&M in agency managed systems included under IMP	18	1985/86	1987/88 1989/90 1991/92	208 408 708	a/ 1008 1994/95	a/ Excludes major emergency or main system repair costs.

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX  
SECTOR: HEALTH AND FAMILY PLANNING

ODSS OBJECTIVES: To reduce child mortality and severe morbidity  
To meet Nepal's demographic and development needs by creating demand for fertility limiting services.

<u>COUNTRY TREND INDICATORS</u>	<u>BASELINE STATUS</u>		<u>PERFORMANCE BENCHMARKS</u>	<u>TARGET</u>	<u>COMMENT</u>
	<u>DATA</u>	<u>PERIOD</u>			
ARL mortality reduction activities integrated into services of all major child health programs				a/ FY 89	a/ to be reflected in 8th Five Year Plan (1990-95)
National Diarrheal Disease Control (DD) Secretariat constituted and functioning. GON and donors reach agreement on national CDD objectives and on mutual responsibilities				a/ FY 89	a/ See above
Full agreement among GON, UNICEF, WHO, and USAID on National EPI Plan, and mutual responsibilities				a/	a/ See above
Eligible cohort coverage sustained for two consecutive years	DPT III 42% Polio III 40% BCG 79% Measles 50% TT2 40%	FY 87 First Year Coverage	FY 88	DPT III 42% Polio III 40% BCG 79% Measles 50% TT2 40%	
Net population growth rate	2.66%	FY 88	NA	Less than 2%	BN/2000 target
<u>PROGRAM PERFORMANCE INDICATORS</u>					
Diarrhea-associated dehydration deaths reduced	45,000 deaths among under age 5	FY 87	a/	20% reduction 1992	a/ Benchmarks to be developed
Agreement with National Commission on Population (NCP) for renewed direct USAID assistance for priority research, training, population education, and policy analysis.			FY 88-90	RAPID/IMPACT developed and program applied	NCP using multiple venues to deepen awareness of population dynamics, implications of demographic scenarios, and policy options for addressing population concerns (FY 90)
Contraceptive prevalence	Contraceptive Prevalence of 15%	FY 86	FY 88-89	Total Contraceptive prevalence of 30% (FY 90)	

COUNTRY TREND AND PROGRAM PERFORMANCE MATRIX  
SECTOR: EDUCATION AND HUMAN RESOURCES

GOSS OBJECTIVE: Increase Literacy, Improve Primary Education, and Expand Pool of Skilled Manpower

COUNTRY TREND INDICATORS	BASELINE STATUS		PERIOD	PERFORMANCE/ BENCHMARKS	TARGET	COMMENT
	DATA	PERIOD				
Literate adults, as % of total population (female)	2%	1951	1990	40% <u>b/</u>	2000	65% <u>c/</u>
	15%	1970				
	21% (12%)	1980				
	32% (16%) (ESA) <u>a/</u>	1986				<u>a/</u> IEES Education Sector Assessment <u>b/</u> 7th Plan, <u>c/</u> GON <u>BN/2000</u> Target. Constrained by population growth.
Primary school enrollment as % of age group (female)	1%	1951	1990	87% <u>a/</u>	2000	100% <u>a/</u>
	26% (8)	1970	1995	95%		
	69% (42)	1980				
	82% (50%) (ESA)	1985				<u>a/</u> <u>BN/2000</u> Targets. Constrained by low quality and inefficiency (50% dropout).
Primary school teachers qualified and trained, as % of total teachers	21% (ESA)	1986	<u>a/</u>		2000	100%
PROGRAM PERFORMANCE INDICATORS						
MOE access to accurate information for policy reform and improved planning	Education Sector Assessment showed very limited planning capacity	1987	1989: Education Sector Assessment and Program Budgeting used to guide GON and Donor policy and programs	1990 Management Information, Policy Planning & Program Budgeting Systems fully implemented		IEES (936-5853) EHR Sector Assessment being finalized, and IEES 88-89 plans prepared February 1988.
Extension of literacy and post-literacy programs and materials	75 Districts with 32% literacy	1988	FY 89 <u>  </u> & literacy 75 districts FY 90 <u>  </u> & literacy 75 districts	BY FY 92, all 75 district with <u>  </u> & literacy achieved		PWO - Literacy Education Project/World Education Inc. (367-0159) will assist in projecting literacy rate targets.
Radio Education Teacher Training Program for SLC pass primary school teachers implemented	RETT I began; RETT II under-SLC teacher programs RETT II SLC-pass teacher programs	1978 1984 1988	FY 89 SLC-pass teacher training 1000 teachers	FY 90, radio teacher training, capability dev'd., expanding to 1500 teachers per year, cost effective		Radio Education Teacher Training II (367-0146). (9/89 PACD). Capacity now institutionalized. With limited TA could produce wide variety of education programming.

## ANNEX B: AGRICULTURE PORTFOLIO HIGHLIGHTS

### Agriculture Growth Model and Strategy

USAID/Nepal's Agricultural strategy revolves around a market-led, cash crop based and private sector driven sectoral growth model. It seeks to exploit opportunities in areas where the country has comparative advantages in order to increase rural employment, incomes and productivity. At the same time, it supports policies, programs and activities required to sustain the productive capacity of the country's fragile natural resource base. The strategy provides a sharp, growth-oriented focus to the broad concerns outlined in the CDSS and establishes a conceptual framework within which scarce development resources can be concentrated to achieve maximum sustainable benefits for rural Nepalis and the economy.

The agricultural growth model posits that:

- a. the major source of growth for Nepali agricultural livestock and forestry products exists in the adjacent markets of India, and secondarily in domestic and third-country markets.
- b. the sub-tropical and temperate growing conditions, characterizing the hills of Nepal, provide the basis for expanded production of higher-value, lower-volume cash commodities and out-of-season fruits and vegetables for which a significant and growing demand exists in India and other regional markets. The impact of hill exports on farmer incomes and purchasing power could be of several orders of magnitude.
- c. food crop production in the hills is unlikely to keep pace with hill area demand, but the lower-lying Tarai grain belt can satisfy these needs, assuming that hill consumers have the income to buy the food.
- d. Tarai food and cash crops do not appear to enjoy a strong long-term comparative advantage (based on agro-ecological or cost factors) vis a vis the Indian market. Still, Tarai zones are linked across the porous border with supply networks of adjacent Indian market centers, and a regular, if not strong, demand for Tarai food and cash crops will continue to support significant cross-border trade, at least in the medium term.
- e. the articulation of domestic and Indian marketing systems with hill production systems and consumption centers is stimulating growth in strategic market towns along the Tarai and lower hills. This generates off-farm employment (e.g. product collection, sorting, processing, packing, shipping) and stimulates service activities (e.g. finance, input sales, communications). This "multiplier effect" can over time, have a major impact on the economy.

The strategy which emerges from the agricultural growth paradigm outlined above sharpens the CDSS strategy by emphasizing:

- a market-led versus a production led approach.
- market opportunities in India as well as for import substitution
- income and employment generation more than national economic integration and food production per se.
- an expanded role for private sector participation at all levels and less reliance on public interventions
- greater cash crop orientation to research, extension and production activities.
- the emergence of the Tarai and lower hills as an agro-marketing based growth corridor running parallel to the long border with India.

Portfolio Implications. Opportunities exist within the Rapti Development Project, the Winrock OPG, and the Agriculture Research and Production Project, to further test and refine the approach suggested in the strategy.

- Rapti already has a production focus, specifically its vegetable and fruit crop production (cashcrop) component, livestock development component, forestry component, and small business promotion component. Given a stronger and clearly articulated market emphasis, these can provide invaluable grassroots insights into the factors (technical, institutional and policy) needed to implement the cash crop "export" approach. Furthermore, the explicit private sector role in fertilizer sales, seed production, nursery establishments and enterprise development offer an exceptional opportunity to understand and expand private sector participation. Simultaneously, the factors influencing the movement of foodcrops to hill consumers can be closely observed and analyzed. The lessons and measurement of impact which Rapti will provide, make it the centerpiece for moving the strategy forward.

To give Rapti a stronger market orientation, USAID will use the zone as a focal point for carrying out field studies associated with its analytical agenda. We will draw upon marketing and small enterprise expertise within the project, supplemented by S&T project assistance, to further develop and implemented the strategy within the Rapti Zone.

- The second phase of the USAID, GTZ, Ford Foundation co-financed Winrock OPG will support local research into economic and natural resources policy issues and related participant training. The

research agenda has been adjusted to more directly address USAID interest in marketing issues and systems, as well as at related natural resource management and land use implications.

- The mid-term evaluation of the Agricultural Research and Production Project (ARPP), completed in January, 1988, recommended reducing the number of activities, cutting back the production component, and concentrating resources to help the newly created national research system become operational. The project is uniquely positioned to do this and help build the institutional base needed to effectively do adaptive research throughout Nepal. In addition, the private producer-seller seed program for expanding the availability of improved seeds in hill areas has been judged to be effective, sustainable and replicable. Expansion of this activity is consistent with and supportive of the strategy's private sector marketing and productivity increasing elements. It also demonstrates a private alternative to the subsidized government approach for supplying inputs and services to hill areas.

- The other projects in the ARD portfolio indirectly support the strategy. In addition to access to improved technology (seed, fertilizer) irrigation is a critical input which if well managed can be a major determinant of whether production and cropping decisions respond to market opportunities. The Irrigation Management Project is aimed at more efficient supply of water for agriculture. The Institute of Agricultural and Animal Sciences Project assists the country's only university level agricultural training program, as does the Institute of Forestry Project in the natural resources field. The proposed Forestry Development Project is a key component in a broader GON and multidonor Forestry initiative, which will increase community and private responsibility for, and benefits from, forest management and utilization. It ties the concerns for better management of critical resources to the interests of the rural dwellers to improve and sustain their incomes and welfare. The productivity of community forestry investments is the concern of the Nepal Coppice Reforestation Project.

Through shifts in emphasis within the current portfolio, elements of the strategy can be highlighted, tested and analyzed. Rapti provides the most depth and breadth of opportunity to do this over the next several years. The analytical agenda discussed below, and the resources brought to bear on it, will allow for a sharpening of approaches for furthering the strategy through Rapti and other existing activities. However, the pace and perceived commitment with which USAID implements the strategy is contingent on ARDN account funding levels. If held at the FY88 level, below \$10 million, in future years we are clearly constrained in our ability to carry the strategy forward.

The Analytic Agenda. The priority assumptions implicit in the new focus on the agricultural strategy constitute the basis for a significant analytical exercise. To date inquiries have been made with an array of GON, public and private research and consulting entities and other donors to a) obtain feedback on the validity of the growth model and b) assess their past, present and future work in areas related to the priority assumptions behind it. In brief, the growth model was generally supported and deemed to be innovative thinking. No fundamental issues were raised which would, a priori, undermine the conceptual model. It strongly parallels the approach simultaneously being conceptualized at ICIMOD. However, there appears to be only scattered data and empirical work available with which to adequately test some of the model's key assumptions, especially regarding the market structure and dynamics for moving hill production into Indian markets.

The principal assumptions and sources of information (existing or to be generated) related to these are outlined in the chart on the following page. The analytical agenda flows from the chart and involves work to be done directly by the Mission and work done by GON or others which the Mission will follow. The estimated availability of results from various on-going or planned activities are indicated in parentheses.

Assumption

Source

- |                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. Transportation development will occur at a sufficient pace and scale to justify the agricultural paradigm                                          | - GON 7th Plan<br>- Donor Group - Transport Sector Profile (1989)<br>- ADB - transport study<br>- Swiss - Trail Map of Nepal                                                                                                                                                                                                             |
| B. GON can and will meet the recurrent costs associated with maintaining essential services and infrastructure or supplementary sources can be found. | - GON 7th Plan and 8th Plan (1990 - 1995)<br>- Structural Adjustment Program<br>- Program Budgeting System<br>- GON Annual Budgets<br>- Beneficiary participation (e.g. Irrigation Program)                                                                                                                                              |
| C. Food Production in the Tarai can and will expand to meet hill and urban demand.                                                                    | - GON Agricultural Annual<br>- National Planning Commission Inter and Intra Regional Flow Study of Nepal (late 1988)<br>- USAID/Winrock study of cross-border trade (1988)<br>- USAID study on foodcrop movement in the Rapti Zone (1988)<br>- USAID study on production trends and indices of foodgrain production in the Tarai (1988). |

D. Internal and external markets for existing and potential hill commodities (crops, livestock, forest) can be economically accessed and will absorb increasing amounts of such products.

- ADB Hill Fruit Crop Production and Marketing Project-analytical studies and progress reports
- Rapti vegetable and fruit crop production program-analysis and progress reports (1989).
- Horticulture Marketing Study for Lumle Outreach Area (1988)
- USAID/Winrock survey of Demand trends for Nepal Cash Crops in Nepal, In India, and Third Countries (1989).
- ICIMOD Marketing Systems Study for the Bagmati area (1989)
- USAID Market Systems Study in the Rapti Zone (1989).
- USAID/Winrock Survey of Cross-Border Trade (1988)

E. Market intermediation, institution development and investment will occur through private initiatives in strategic market towns.

- Small enterprise development component of Rapti (ADB/N & NCBA).
- Performance of ADB/N small agro-enterprise lending portfolio.
- Ministry of Industry licenses for agro-enterprises
- USAID survey of agro-enterprises and entrepreneurs (1988).
- USAID sponsored Workshop on Agri-business in Nepal (1989)
- USAID Forest Products Marketing Study (1988).

F. Hill Farmers can profitably grow and market cash commodities.

- Household Production Systems Study in the Rapti Zone.
- USAID study of vegetable seed production and marketing in Nepal (1988).
- Private Seed Producer-Seller Activity under ARPP (1989)
- Rapti livestock and livestock product production and marketing study (1989).
- USAID medicinal plants and herbs production and marketing survey (1990)
- ADB Hill Fruit Crop Production and Marketing Project-analyses and reports.

G. The trade regime and relations with India will remain open and favorable to Nepali agricultural exports.

- USAID economic studies on dairy production. (1990)
- IBRD and IMF monitoring of the performance of Nepal's export development and related macro-economic management.
- Monitoring of GON/GOI trade treaty developments.
- USAID/Winrock review of trade policies and practices affecting agro exports to India (1989).

USAID is in or expects to assume a lead role in analysis of marketing systems and food and cash crop movements, internal and external demand trends for Nepalese cashcrops, and agro-enterprise opportunities. As noted below, the Mission will draw on project and PD&S and central resources to carry out the analytical agenda. Field studies will be done directly through the Rapti Project and the Winrock OPG. Other analytic work can be performed through local contracts and S&T support projects (Ag. Marketing, Ag. Policy, Small Enterprise Development).

Rapti Funded:

- Food Crop Movement in the Rapti Zone (1989)
- Vegetable and Fruit Crop Production-reports and analyses
- Enterprise Development-progress reports and analyses
- Rapti livestock and livestock product production and Marketing Study (1988)
- Marketing systems study in the Rapti Zone (1989)

Winrock OPG Funded:

- Study of Cross-border Trade (1988)
- Survey of Demand Trends for Nepal Cash Crops in Nepal, India and Third Countries (1989)
- Review of Trade Policies and Practices Affecting Agro Exports to India (1989).

PD & S Funded:

- Production Trends and Indices of Foodgrain Production in the Tarai (1988).
- Survey of Agro-Enterprises and Entrepreneurs (1988)
- Workshop on Agri-Business in Nepal (1989)
- Vegetable Seed Production and Marketing in Nepal (1989)
- Medicinal Plants and Herbs Production and Marketing Survey (1990)
- Economic Studies on Dairy Production (1990).

In addition to directing this analytical program, the USAID will monitor various studies and reports prepared by the GON and other donors, some of which have been identified in the preceding chart.

To execute this ambitious agenda, the USAID will contract an expatriate PSC with significant marketing experience who will oversee, coordinate, and substantively guide the process for a two-year period. Furthermore, a local firm will be contracted to provide three Nepali professionals (Economist, Marketing Specialist, Agro-Enterprise Specialist) on a full-time or part-time basis, plus field survey staff and data processing support.

Implications for the Policy Agenda: The current set of CDSS policy objectives listed below remain valid for the more focused and growth-oriented agricultural development approach. This reflects the fact that the underlying strategic sectoral objectives remain valid, i.e.

- increased agricultural productivity and rural incomes through better management of productive resources and stimulation of private sector involvement in all sectors.
- increased agricultural production through strengthened adaptive research capability and performance.

CDSS Policy Priorities:

1. Increased reliance on market forces in the sale and distribution of agricultural inputs and outputs.
2. Devolution of greater community and private participation in forest resource management.
3. A rationalized institutional structure for more effective coordination and resource allocation for agricultural research.
4. Increased mobilization of local resources by user groups to assure the operation and maintenance of capital investments.

Significant headway is being made in all of the above. Our continued participation in the dialogue (GON and Donor) and in policy implementation through components of the existing portfolio (Rapti fertilizer distribution, ARP research support and seeds program, Irrigation Management and Forestry Development Projects in community and private organization for forest and irrigation management) remain important to the ultimate success of the reform processes. These institutional and policy improvements clearly support the revised strategy approach.

What may be added to the existing CDSS Policy Agenda are specific steps in support of private agro-marketing and processing enterprise development. These could include pricing and foreign exchange actions which stimulate export production and marketing, the creation of export-related infrastructure, financial facilities, standards, communications and information systems, and the simplification of business and export licensing procedures. However, the analytical exercise described earlier is needed in order to clearly and accurately define the critical policy-level decisions or performance gaps which hinder investment and growth along the lines indicated in the revised sector paradigm. It is premature and speculative to make significant changes in the policy agenda now. But, refinements will, in all likelihood, be forthcoming as our understanding of the issues and opportunities are sharpened through the analytical exercises. What further leverage and resources we can bring to bear on such matters is also quite uncertain at this time.

Agriculture Program Performance. Major policy and donor dialogue currently flows from many ARD project and program concerns and this is increasing. The strongest vehicles for addressing policy issues are the Rapti Project, the Agricultural Research and Production Project (ARPP) the Irrigation Management Project (IMP), the co-financed Winrock OPG, and the new Forestry Development Project, now in design. These provide us with considerable field-level and/or operational insight and credibility regarding policy and institutional problems and opportunities affecting not only our projects, but the sector. It is principally this experience and knowledge, bolstered secondarily by the financial leverage of the portfolio, which allows us to engage and interact in the policy realm.

Recent monitoring of Mission contacts with other donors shows several meetings each week. There has been a similar trend in our dialogue with the GON. While implementation issues require intensive attention and discussion, the amount of time regularly directed at fundamental policy and institutional concerns is increasing. The external mid-term evaluation of the ARPP Project and the joint (GON, Contractor, USAID) internal review of IMP, plus the discussions around the Forestry Development Project design process, have focused and sustained the dialogue being undertaken on key issues and policies. With the sharpening of functional roles within the ARD Office, presented below, and the execution of the analytical agenda, policy dialogue will be strengthened and sustained.

Policy Dialogue with GON. Below is a short discussion of activities and accomplishments within each priority policy area established in the Policy Agenda Annex of the CDSS.

a. Increased reliance on market forces in the sale and distribution of agricultural inputs and outputs.

- Private seed producer/seller programs have been established in four districts under ARPP and in five districts under Rapti. Some (500) farmers are now engaged in this activity. The Ministry of Agriculture has asked that this model be extended, and ARD's chief FSN Agronomist has accepted a position with the ODA supported research station in eastern Nepal to expand the program in that region. By 1989, more than 4000 metric tons of privately produced vegetable and grain seed will be available to farmers (versus 2000 m/t in 1985).

- Until now the public sector virtually monopolized distribution and sale of highly subsidized fertilizer under a controlled, uniform price regime. The Rapti private fertilizer dealership pilot program received GON approval in November 1987, and 50 private dealers will be established in FY 88. (Interestingly, the 10% dealer margin negotiated by the USAID, exceeds the 2% margin negotiated by the World Bank under SAL I.) Some 1,000 new dealers have been licensed country-wide since the government liberalized the rules for private sector participation. Intensified multi-donor dialogue will continue through 1989 guided by the results of this year's experience.

- In Rapti, 19 private fruit tree nurseries have been established since 1986 and more small private nurseries are planned for 1989. This is a complete departure from prior policy which has kept nurseries in the public domain.

- The Dairy Development Corporation has agreed to raise the purchase price for whole milk and the selling price to consumers under the terms of the transfer agreement for the importation of U.S. donated powdered milk and butter oil. The program will stimulate supply from 20,000 small farmers, allow the DDC to reach its break-even point, and narrow the sizeable gap between demand and supply. Proceeds from the sales will be combined with proceeds from commodities donated by WFP, and reinvested to increase the productivity of small farmer milk animals and the milk collection system. This is a test case on whether the GON will actually meet its commitments on privatization and reform of pricing policies. Depending on the success of this initial effort, USAID may extend the program and/or work closely with the World Food Program to strengthen and expand the capacity and the role of small producers within the dairy industry (1988-1989).

- USAID's Forest Products Marketing Study, now underway, is an essential step to open opportunities for private operators and reduce the role of public corporations in this area (1989).

- Research on fertilizer pricing conducted under the Winrock OPG has served to focus donor attention on pricing policy. Even though USAID does not import fertilizer, our role in liberalizing private dealerships in Rapti and our sponsorship of the Winrock price study have resulted in the USAID's chairing of a donor fertilizer group. The recent meeting of this group included representatives from the World Bank, IMF, UNDP, and the three main bilateral suppliers - West Germany, Canada and Japan. Strong interest exists in reviewing the terms and conditions under which fertilizer assistance is provided and to seek more coordination and complementarity among donor programs, especially in pricing and distribution matters.

b. Devolution of greater community control and private participation in forest resource management

- USAID's support to research via the Winrock OPG, the Forestry Private Sector Study and our contributions to a major forestry concept paper and national workshop, have been instrumental in establishing the government's forestry agenda. Based on this, King Birendra recently pronounced that individuals are now free to harvest and utilize trees on their own land and to transport and market forest products. This is a reversal of one of the most detrimental of policies under which the government controlled the forests, forest products and revenues, dampening local interest and preventing proper management of forests.

- A shift in approach has expanded community management and control under the Resource Conservation and Utilization Project. This field experience will be evaluated in May, 1988, and the results used to reinforce the growing perception of the importance of community involvement in forest projects.

- Forestry related conditionality included in the Structural Adjustment Loan (SAL I) was drawn from USAID's Forestry Private Sector Study recommendations regarding private ownership and use of forests. This condition has now been addressed by the GON. During 1988 and 1989 USAID, in collaboration with World Bank, will continue to press for full adoption and implementation of all of the forestry related measures, using the second tranche of SAL I, the approval of the new Forestry Development Project, and possibly SAL II as leverage.

- USAID, with other donors, will push to have GON endorsement in FY 88 of the jointly prepared Forestry Master Plan and of the policy/program reorientation proposed therein.

- Rapti now supports community forestry in 80 localities and has planted 2,500 hectares of forests under panchayat control. Private forestry activities have been started in 8 panchayats. These test and refine policy implementation at the community level

and thus improve the quality of our contribution to dialogue at the national level.

- The Rapti Agro-forestry Program will be a major attempt to use national forest lands to produce forest products for local needs, under local management, and the first to retain the revenues for program expansion. Careful monitoring and analysis of this activity will facilitate discussion with the GON regarding wider adoption of this model in land-scarce areas.

c. Rationalized institutional structure for more effective coordination and resource allocation for agricultural research.

- During FYs 87 and 88 the GON, with ARPP support, formally integrated research activities under a unified research structure and administrative arrangement (NARSC). ARPP resources will be concentrated to make the new system operational and effective. USAID's project interests paralleled and were reflected in the World Bank's SAL I conditionality requiring the consolidation of the research system. (Essential support and progress monitoring is to be provided by ARPP). Operational requirements (e.g. staffing, budget) and provision for more autonomy may be incorporated into SAL II conditionality.

- ARPP has strengthened and institutionalized farming systems research within NARSC. With completion of research station inventories and development plans, ARPP will be in a position to encourage the GON to shed excess, redundant or unproductive facilities, establish effective interdisciplinary outreach programs at research stations, and set the stage for other donor assistance for these programs.

- ARPP will advocate formation of an autonomous research council during the next Five Year Plan period, and broadening systems research to cover additional crops (fruits, vegetables, and other cash crops.).

d. Local resource mobilization and user group participation to help provide adequate O&M and achieve maximum production from capital investments.

- In FY 87 IMP financed a benchmark study on resource mobilization in government managed irrigation systems which has a) provided the framework for management strategies joining the public sector with user-groups, which are now being field tested and b) contributed to the Ministry of Finance's decision to increase O&M budgets for large-scale systems by 15%. A more extensive study on both Government and farmer managed systems will refine approaches for motivating more user participation in O&M (FY 89).

- USAID support has led to draft legislation which formalizes water user group participation. Ratification is expected this year. Should this be delayed, the World Bank would consider including it as conditionality under SAL II.

- The Rapti Project, working through CARE and the Nepal Agriculture Development Bank, is introducing, in FY 88-90, a farmer-based, small-scale irrigation development model which does not involve a government irrigation agency. All O&M costs, as well as investment costs, are borne by the beneficiaries.

- Early successes in mobilizing farmers to support O&M achieved in IMP field sites, have drawn GON attention to participatory approaches. This is being reinforced by the major donors (IBRD and ADB) who are setting farmer involvement as a pre-condition for irrigation sector loans being designed in 1988.

#### Donor Dialogue

A high degree of donor dialogue and coordinated action is evident in the previous section on Policy Dialogue. The most conspicuous interaction has been in the forestry and irrigation areas but close cooperation with other donors is a regular feature of our work in all areas.

- In Forestry, USAID made major inputs into the conditionality under the SAL I, most notably that pertaining to private ownership and utilization of trees on private lands. USAID collaborated with UNDP in the benchmark Concept Paper which suggests the next generation of Forestry programs; with ADB, Finnida, UNDP, ODA, IBRD and FAO in the Forestry Master Plan which sets the framework for forestry sector development; and with UNDP/FAO and IBRD in design of a forestry implementation program which includes the USAID Forestry Development Project.

- One of the most encouraging and productive achievements is the increasingly close interaction in irrigation between USAID and UNDP and the major external funding agencies, namely the IBRD and the ADB. Both Banks now seek more beneficiary involvement in system operations and management as conditions for sector lending. They view IMP's in work in water user organization, training, research and monitoring as critical. (Discussions are now underway with IBRD to directly involve IMP water user organisers in their next project, perhaps in exchange for IBRD funding for some of the construction elements in the USAID project.)

- A major GON/Donor meeting on irrigation is scheduled for late February 1988, in which the mutual concerns of the donors will be thoroughly discussed with the GON. Later in the year, IMP is sponsoring a national workshop on farmer participation in agency managed systems and strategies for agency and donor assistance to farmer-managed systems.

- Consideration is being given to inclusion in SAL II of conditionability requiring passage of the water user legislation developed with IMP support.

- The IBRD, in particular, is following the reorganization of agricultural research supported by USAID with a view to lending for research once the new research organization is fully operational.

- The Rapti program for private dealership in fertilizer and the analysis of fertilizer pricing under the co-financed Winrock OPG has provided USAID with a highly visible role among donors. There is great promise, through united donor initiative, of altering policies and improving access to and optimal use of this key agricultural input.

- Based on fieldwork done by the IAAS and IIMI, USAID raised strong objections to the ADB's proposed East Rapti Irrigation Project. The U.S. board representative, along with the Australians, voted against the Project. Changes in essential elements of the Project have been accepted in principle by the ADB and GON.

- In FY 87 USAID and the World Food Program (WFP) have developed a Food For Work road building activity in Rapti which holds promise as a model for GON Donor-WFP collaboration elsewhere in the country. It incorporates professional and technical resources, the absence of which has been a critical failing in many FFW programs to date.

#### Portfolio Highlights Vis a Vis CDSS Objectives

The following is a summary account of recent and planned major portfolio accomplishments in agriculture with reference to the objectives stipulated last year in the CDSS.

#### 1. Sub-Objective: Strengthen Adaptive Research Capability and Performance

##### Benchmarks (1988 - 89)

Establishment of Research Coordination Committee (RCC) Secretariat and National Ag. Research Service Center (NARSC) to plan and manage research; operational and development plans for unified research network completed.

##### Accomplishments (1987 - 89)

- HMG has formally approved the RCC and NARSC institutional arrangement. ARPP evaluation has recommended concentrating project resources to make RCC/NARSC operational. Operational development plans will be completed in 1988.

Irrigation Management Center (IMC) established with demonstrated capability to complete its socio-economic research agenda for baseline and rapid appraisal studies.

Complete research on user-based O&M options for government-irrigation systems.

Farming Systems Research programs are active at 4 mid-hill sites and one high hill site.

Mid-term evaluation of ARPP, or special study, to assess and recommend the proper balance in USAID support for research on basic foodcrops and other cashcrops. Revision of ARPP if warranted.

OPG for policy research designed and initiated.

- By 1989 appropriate staffing of RCC/NARSC to be completed, a consolidated budgetary system implemented, and a research outreach program defined and initiated.

- IMC was given budgetary and administrative authority by the DOI. Joint internal review of IMC was completed and recommendations regarding staff development, research agenda and collaborative arrangements with outside support institutions are to be agreed upon and implemented in 1988. Research agenda will be fully implemented in 1989.

- Barker/Lohani study completed in 1987 and a broader survey to be completed in 1989. Water user legislation drafted and field tested in 1988 and approved in 1989.

- Farming systems sites established in 1987. Farming Systems Research Division staffed by 1988 and integrated into the Research Outreach Program by 1989.

- Mid-term evaluation of ARPP completed and recommendations for greater project focus on research and expanding research mandate negotiated and implemented in 1988. Research requirements for cashcrop production analyzed in context of analytical agenda results (1989).

- Second phase of policy research OPG (Winrock) approved by USAID in 1988. Marketing prospects for Hill cashcrops, and Tarai foodgrains, analyzed in 1989.

2-3 coppice reforestation research nursery and demonstration sites established.

F/FRED Agreement signed with Institute of Forestry (IOF) Institute of Ag. and Animal Science (IAAS) and Dept. of Forest/Forest Survey Research Office (FSRD) and Nepali researchers participate in regional forestry research activities.

Various Nepali entities and researchers are developing a coherent body of knowledge regarding marketing constraints and opportunities for Nepali agricultural, livestock and forest products.

- First site operational in 1987, second and third in 1988.

- Agreements signed in '87-'88 and 6 Nepali researchers presented papers at F/FRED-IDRC-FAO Workshop on multipurpose trees for small farm use. IOF, IAAS, and FSR participated in regional meetings. Nepal to host two regional meetings (88) and to engage in workshops/interchange with South and S.E. Asia colleagues.

- Forest Products Marketing study completed (1988) and others initiated with support from RAPTI Winrock, USAID and ICIMOD. Analysis and comparison of findings point to major marketing policy, institutional and support issues.

## 2. Sub-Objective: Establish Capacity for Local Technical Training

### Benchmarks (1988-89)

IMC delivering annual training programs for GON officials and farmers.

IAAS graduating at least 80 B.Sc. agriculturists and 300 extension agents per year.

IOF curriculum, and research program operational and responsive to manpower priorities developed in Forestry Master Plan.

### Accomplishments (1987-89)

- IMC training objectives focused and staff training underway (1988). Training of GON officials and, as appropriate, farmers, underway in 1989 with collaborating agencies assisting.

- IAAS graduates 70 B.Sc. and 200 extensionists in 1988 and 80 B.Sc. and 250 extensionists in 1989.

- IAAS training is adjusted to reflect the ADB Manpower Needs Assessment (1989).

- IOF Pokhara program is operational, faculty and research evaluation/selection procedures are approved, pilot research grants funded by USAID and Winrock are being conducted.

- IOF training is adjusted to reflect Forestry Master Plan priorities (1989).

3. Sub-Objective: Expand Utilization of Production Increasing Technologies and Improve Practices for Management of Productive Resources

Benchmarks (1988-89)

Test private retail distribution system for fertilizer and viability of private seedling nurseries.

Demonstrate viability of the private farmer-to-farmer system for production of improved seeds in the hills.

Water User Groups are established at selected sites and contribute a major share of annual O&M support requirements.

Locally planned agriculture and forestry pilot extension

Accomplishments (1987-89)

- Scheme for private fertilizer dealership in RPTI approved by HMG. 50 private dealers licensed (1988). 2000 Small Farmer Development Program participants receive timely fertilizer delivery (1989).
- 5 private nurseries established in 1988 and a total of operating in (1989).
- Government liberalizes private fertilizer dealership licensing, pricing and margin restrictions (1988).
- private producer-sellers operating in four districts (1988). Program extended to 5 other districts in 1989.
- Special evaluation performed indicating costs, benefits and refinements to this approach for farmers, HMG and other donors (1988).
- 15 water-user groups have been formed and federated on 1,500 ha. fieldsite, contributing approximately 60% of O&M costs and 30% of structural improvements. Similar results are achieved in two new fieldsites (1989).
- Water user associations receive legal status (1988).
- Pilot extension programs are operating and being strengthened

programs are operating in 8 districts under RDP and ARPP.

in 400 sites in 5 RAPTI districts. ARPP resources are being re-focused to strengthen research rather than extension.

Forest user groups established and the transfer of authority to local communities accelerating.

- SAL conditionality requires legal status for Forest User Groups and local retention of revenues, and the Draft Management Plan calls for accelerated pace and scale in the handover of forests to Panchayats and user-groups.
- His Majesty recently issued directives allowing trees on private lands to be harvested and marketed without Forestry Department permits (1988).
- Formal HMG approval for the Master Plan and recommendations calling for user group formation and transfer of forest lands to local communities (1988).

4. Sub-Objective: Support Activities aimed at maintaining biological diversity.

Intervention: Assist the preparation of a National Conservation Strategy and funding of selected activities falling under it.

Benchmark (1988-89)

National Conservation Strategy developed and approved, providing a coherent, operational framework through which key environmental priorities can be met.

Accomplishment (1987-89)

- Completion of USAID Biological Diversity Strategy (1987).
- Draft NCS prepared and submitted to HMG for formal cabinet approval (with ST/FENR funding and Mission staff assistance (1987)); Proposals from PVOs for implementation for NCS activities reviewed and approved (1988-89).
- Collaboration with World Bank/ODA to ensure a major environmental study they are initiating is complementary to NCS (1988).

HFP Studies Underway/Proposed

Subject	Study Objective	Status
1. Health Care Financing Cost Recovery Schemes Study for Nepal	to review and update information available on existing health care financing schemes in Nepal; to provide recommendations and possible strategies for providing HFP services through various cost recovery schemes.	completed.
2. PBHW Effectiveness Survey/Study	to assess PBHW effectiveness, recruitment and hiring procedures, service coverage and supervision; to assess the extent of utilization of women as PBHWs and make recommendations for increasing the use of females as FP/MCH promoters.	underway by JSI/Interface; estimated date of completion is September 1987.
3. Assessment of Temporary Family Planning Method Continuation Rates	to determine accurate continuation rates and reasons for discontinuation for pills, IUDs and injectables in Nepal in order to improve and expand the delivery of temporary methods in Nepal.	JSI/under negotiation with New ERA; draft report completed.
4. Assessment of the Role of the Private Sector in Family Planning in Nepal	to provide a current assessment of the role of the private sector in providing F.P. services in Nepal; to develop recommendations and strategies for increasing the private sector role in the provision of F.P. services.	completed.
5. IUD Acceptability Study	to review status and acceptability of the IUD in Nepal; to develop recommendations and strategies for increasing its use.	under discussion with URC; estimated completion February 1988.

Subject	Study Objective	Status
12. Assessment of Use of CRS Contraceptives.	to document the current use of CRS contraceptives in areas where they are available.	Draft report completed.
13. ORT Container Study	to document the types of mixing containers generally available in Nepal households as a basis for determining the most desirable packet size for package ORS.	CRS and a Local Consultant with JSI assistance. October 1987.
14. Rural Marketing of ORS and Contraceptives by CRS	to assess rural perceptions of ORT, diarrheal disease, and temporary contraception as a basis for expanding CRS sales of ORS and contraceptives in rural areas.	CRS and JSI. Ongoing.
15. Construction end-use assessment	to assess the extent to which OI35-funded construction is being properly staffed, stocked and utilized.	to be carried out by HFP and PDIS/ENGR by January 1988.
16. Study on unmet need for family planning	to identify factors related to the non-use of contraception among women identified as having an unmet need for family planning.	S&T/POP (DHS) funded; estimated date of completion 18 December 87.
17. Socio-economic and Programmatic Determinants of Contraceptive Use in Nepal	to identify those factors related to the current levels of contraceptive use in Nepal based on a further analysis of UNFPA/BMG's National Fertility and Family Planning Survey of 1986.	under discussion with John Stoeckel of Population Council, Bangkok for central funding through the DHS Project in 1987.
18. Nepal Fertility and Family Planning Survey	to obtain current information on fertility levels and patterns, and the extent of contraceptive use and knowledge in Nepal.	survey carried out by FP/MCH and UNFPA in early 1986; completed.

Subject	Study Objective	Status
19. Epidemiologic Review of Data on Primary Health Problems in Nepal	to review available epidemiologic data on priority health problems of Nepal; to summarize data in terms of specific diseases/ conditions.	completed by Nicholas Wright under JSI Contract, February 1986.
20. Barriers to Effective F.P. in Nepal	to study fertility, contraceptive use, reproductive decision making and utilization of F.P. service clinics in the Kathmandu Valley.	carried out in 1982 by Sidney Schuler, et.al. under the JSI Contract.
21. Reproductive Decision-making in Nepal from the User's and Nonuser's perspective	to identify determinants of contraceptive use in Kathmandu.	Sidney Schuler and Melvyn Goldstein with Population Council funding, 1982.
22. External Assessment of Malaria Control Program of Nepal	to study the overall malaria situation during 1984 and 1985, by evaluating the antimalaria activities being carried out and to recommend any change if necessary for improvement; to study the continued rising trend of malaria incidence as well as the exacerbation and spread of <u>P.falciparum</u> and to recommend measures to contain further rise and spread of <u>P.falciparum</u> infection; to review the existing workplan of entomological activities and give suggestions for further improvement; and to study the adequacy of financial and administrative support provided by BMG and donor agencies for the Seventh Plan period.	carried out in March 1986 by BMG/WHO/USAID/ODA (U.K.) assessment team.
23. Review of FP/MCH Financial System	to assess current FP/MCH financial accounting and reporting system and design an upgraded system.	carried out by Ernest Petrich in August/September 1986 through the Centrally Funded RACH Project.

Subject	Study Objective	Status
24. Review of MOH's Health Planning Division's (HPD) Central Health Information Systems	to assess and advise on health information needs, information system approaches (including child survival monitoring), data processing and technical assistance needs within the MOH's HPD.	carried out by Ernest Petrich in October 1986 through the JSI Contract.
25. Review of the MOH Personnel Management System	to assess the potential application of personnel management technology within the MOH, options available, related training and organizational changes necessary to keep an improved system functioning; to assess the nature and level of commitment required of the MOH to effectively promote and take full advantage of potential management efficiencies.	carried out by Peter Shipp in January 1986 through the centrally funded PRITTECH Project.
26. Health and Utilization of Health Services/Facilities	to carry out a two-phased survey in 4 districts to assess maternal and child morbidity and mortality and health service utilization.	carried out by IDS in 1983 in Surkhet, Rupandehi, Kathmandu and Kayre through PDS funding.
27. Review of the delivery of Health Services for Improving Integrated Services in FP and MCH	review of current status of the integrated health delivery system, identification of problems and recommendations for improving the quality of service delivery; development of a plan of action for integrating health service delivery.	carried out by an HMC Task Force and funded by UNFPA and USAID in 1985.
28. TBA Assessment	to study the extent of use of TBAs in Nepal and to assess the impact of training on their effectiveness.	September 1987.
29. Socio-anthropologic Study of Diarrhea	to determine beliefs and treatment practices regarding diarrhea in Nepal.	completed.

Subject	Study Objective	Status
30 Child Survival Pharmaceuticals Requirements	to determine requirements, demand, availability and utilization of pharmaceuticals for CS, and to suggest systems improvements.	underway by MSR and New Era contractors.
31. Far West Malaria Epidemic Investigation	to assess status, causes, and actions related to major malaria epidemic in Far West.	completed by HFP staff, NMEO and with assistance of AID/W funded VBC Project.
32. Malaria Training Needs	to determine training system requirements to meet NMEO and ICHSDP's needs over medium term.	awaiting AID/W confirmation of dates and people.
33. Survey of Six Fully Integrated Districts	to assess health status, organization and effectiveness of integrated health service delivery, degree of coordination and decentralization and the extent of community involvement in the six fully integrated districts of Nepal.	carried out by WHO and HMG in early 1986.
34. Norplant subdermal long- acting, reversible, contraceptive trial - Phase I	to test feasibility in Nepal to use this contraceptive method - first stage testing on small populations in Kathmandu Valley through PP/MCH Project and PPN.	FHI via AID/W funding. PP/MCH study progressing well; PPAN progressing poorly.
35. Norplant subdermal long- acting, reversible, contraceptive trial - Phase II	second stage testing in several sites; small groups of clients around Nepal. Through PP/MCH Project.	FHI via AID/W funding. Begun early 1987 in three sites. PPAN dropped due to poor performance in Phase I.
36. Acute Respiratory Infection Control Project	to determine if an ARI control program can reduce child mortality in a large, remote, high-hill population (Jumla).	Nepal Red Cross, Mrigendra Medical Trust, and JSI. One full year of fieldwork completed.

Subject	Study Objective	Status
37. Copper IUD continuation study	to compare continuation rates and factors for Copper T - 200 vs. Copper T - 380 among Maternity Hospital clients.	FHI via AID/W funding. Expected start-up December 1987.
38. Factors Responsible for Persistent Transmission of Malaria in Sindhuli District	Why malaria persists despite effective standard control program; investigation of factors in transmission.	VBC via AID/W funds; Implemented by NMEQ. Underway.