

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

NEPAL

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**DEPARTMENT
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NEPAL
COUNTRY DEVELOPMENT STRATEGY STATEMENT
FY 1981

January 22, 1979
Samuel H. Butterfield
Mission Director

Country Development Strategy Statement for Nepal

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EMBASSY OF THE
UNITED STATES OF AMERICA

Kathmandu, Nepal

January 22, 1979

The Honorable John J. Gilligan
Administrator
Agency for International Development
Washington, D. C. 20523

Dear Mr. Administrator:

Herewith the first edition of the Country Development Strategy Statement (CDSS) for Nepal. It represents our best efforts to set forth an A.I.D. development assistance strategy for this poor and least-developed country still struggling to move into the Twentieth Century. While USAID/Nepal and I can hardly describe the product as a labor of love, it represents many long hours of effort and close collaboration between our A.I.D. Mission and the Embassy. I concur in the CDSS and commend it to you and to your associates in Washington. We hope it will provide a useful basis and framework for the design and implementation of projects which will make a meaningful contribution to improving the quality of life in this country.

During our deliberations in the preparation of the CDSS several points have arisen which either should be taken into account during its review or should be considered when the CDSS round gets under way next year.

With regard to the CDSS review, first, I believe we should recall that we are engaged in this exercise at a time when the U.S. is concerned with increasing signs of instability in the arc stretching from Yemen to Bangladesh. It is important, therefore, that our aid strategy contribute to orderly change and not to instability. Our strategy, especially in the basic human needs area,

must be orchestrated and implemented in such a way that it does not result in frustrated village-level expectations that might generate undeserved dissatisfaction with the government. As a key element of this, it is important that A.I.D.'s procedures be such that project design and implementation move briskly so that local aspirations for physical inputs, such as trail bridges, feeder roads, or schools, are met promptly.

I am also concerned about one aspect of the planning allocation figures that we are using in our strategy. As the paper sets forth, we consider the figure of \$71 million for 1985 projected by Washington as too large. We have set our sights lower at \$37 million for 1984 and \$35 million in 1985.

USAID/Nepal believes it can effectively implement a program of the magnitude proposed. However, based on the FY 1979 and FY 1980 A.I.D. level decisions by Washington, I am concerned that the figures may prove misleading to the GON, which is bound to learn of them. As you know, the U.S. had decided not to allocate the funds to Nepal that it had earlier asked USAID/Nepal to plan for and that it had advised the GON and other donors it was prepared to provide. These changes are not helpful in maintaining the credibility of our commitment to one of the poorest of the poor countries. I hope our future track record will reflect more constancy of purpose.

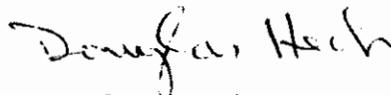
Finally, as noted in the CDSS, the mobilization of Nepal's greatest resource -- water power -- for both national and regional benefits has not been addressed. I am increasingly persuaded that if there is to be a significant move forward in improving the quality of life of the Nepalese people, it will be by putting water to work for their ultimate benefit and that of the region. Several projects to do this are under way or are being considered, the best known being Karnali. Both USAID/N and I believe that no strategy dealing

with Nepal over the next five years is completely valid unless it takes projects like Karnali into consideration in the context of regional water development. When the time comes I trust we will be among those ready to assist. Such regional assistance for Nepal could easily fill in the \$35 million annual gap between our proposed bilateral project program level and the Indicative Planning Allocation which emerged from AID/Washington's computer.

As for the next CDSS round, I recommend that the timing of the CDSS be synchronized with the State Department's GORM exercise (78 State 287307). At present we are putting the CDSS development assistance cart before the broader U.S. policy horse. A more natural and symmetrical schedule would call for the articulation in the GORM and related exercises of our overall policy towards Nepal which would then be followed by the preparation of the CDSS and our aid strategy in the coming years within the framework of this larger policy. I urge that State and A.I.D. work together to reschedule the timing of these several exercises.

I would appreciate this covering letter being considered as an integral part of the report and circulated as such.

Sincerely yours,



Douglas Heck
American Ambassador

PART I ANALYSIS

A. Analytical Description of the Rural Poor

"Land and agriculture have played the leading part in Nepal's social, economic and political life through the centuries" (Mahesh C. Regmi, Landownership in Nepal, p. 1.). About 91% of the population of working age (10 - 59) is directly dependent upon the practice of traditional agriculture for a livelihood. Human and bullock labor are the principal energy sources in agriculture on all but a few large farms in the plains ("terai"). Average productivity of Nepalese agricultural labor is very low while output per unit area on small farms is high, decreasing as farm size increases.

Some two-thirds of all farm households must obtain supplementary income in order to survive. These marginal agricultural households are particularly vulnerable to two broad patterns identified in the Nepalese economy. First, in the long run the inexorably increasing population is slowly destroying the ecological base for its' survival, principally by depleting the topsoil through over-utilization of forest, scrub cover and marginal lands and by overgrazing by livestock, with consequent erosion. Not only is land quality in the highlands affected, but also increased flooding and silting downstream pose a grave threat to the livelihood of millions of persons in Nepal, India and Bangladesh. Second, failures of the monsoon rains exacerbate the concentration of agricultural resources as rural debts are foreclosed. The population increase has been contained within this traditional agriculture to date by 1) increasing intensity of cultivation, 2) expansion in area, 3) widespread utilization of high-yielding varieties of wheat seed, 4) pursuit of supplementary (off-farm) income and, 5) internal and external seasonal and permanent migration. If these trends are correctly identified, the average productivity of Nepal's farmland is decreasing and the potential for very rapid urbanization

is increasing. At present, only about 6% of Nepalese live in "urban" areas of 6,000 persons or more.

The United Nations classifies Nepal as a Relatively Least-Developed Country (RLDC). The World Bank puts Nepal into the "low income country" category. The recent World Development Report, 1978 by the World Bank places Nepal as the thirteenth poorest country out of 125 for which comparative data was available. The World Bank records Nepal's per capita consumption of energy in 1975 as by far the lowest in the world. The proportion of the labor force in agriculture is the highest in the world. The World Development Report 1978 projects Nepal's year 2000 population at 22 million, a 58% increase over the present population in only 22 years.

Estimates of current GDP per capita fall within an unusually large range, since official estimates of the national income and product have not been published since 1975. Working from extrapolated national accounts data, the IBFD estimates average per capita GDP at \$120 equivalent in 1976. A recent estimate for urban areas of \$176 equivalent has been published. For rural populations survey estimates range from \$40 to \$80 equivalent (at official rate of exchange).

In Nepal, ownership of land, the overwhelming item of wealth, and thus receipt of income, is very concentrated. Two percent of all rural households cultivate about 27% of the land. Three recent publications provide estimates for concentration of income which show Nepal as having one of the worst income concentration problems in Asia. (See Annex, Table 1).

The "Survey of Employment, Income Distribution and Consumption Patterns in Nepal" (EIDC), published by the National Planning Commission of the GON in 1978, derived the estimates of national annual family income averages in 1977 for different categories of rural families (at official rate of exchange) ranging between \$296 and \$852 for a six member family. (See Annex, Table 2).

As one result of the EIDC survey, the GON is referring to the equivalent of 17¢ per person per day as the "national minimum subsistence level of income" for both rural and urban populations. Other researchers have arrived at a similar level of 17-25¢ as the shadow price of unskilled labor or as the minimum wage observed, so this range of income seems reasonable in terms of a level below which Nepalese must struggle extremely hard to obtain even the basic necessities of human life. However, when this level of 17¢ day (\$62/year) is applied to different survey results, two striking patterns are apparent. First, the great majority of rural Nepalese subsist on an average level of income below their government's "minimum subsistence level". Second, incomes in the terai are substantially higher than in the hills except for the bottom 20 percent. Applying the level of 17¢/day to the EIDC national average income distribution suggests that 55% of Nepalese fall below this level. Three surveys of hill populations derived income distributions in which nearly all of the entire population surveyed was below "minimum subsistence". (Note: The EIDC survey is the only national survey of income characteristics yet undertaken in Nepal. For several technical reasons its' results cannot be used with complete confidence. Several area-specific sample surveys completed with a high degree of technical proficiency contain much material germane to an analytical description of the rural poor, although for scattered areas only. Distillation of their information will be under-taken for the next round of the CDSS. In about 2½ years, national data will become available from the USAID/GON Analytical Study of the Rural Poor.)

Five other characteristics which help to illustrate the status of the rural poor are discussed below. These are, health status, nutritional status, control of family size, literacy, and un- and underemployment.

Health Status - In Nepal, the average life expectancy at birth is 44 years, one of the lowest in the world. The infant mortality rate of 152/thousand is one of

the highest in Asia. The proportion of the population with access to piped water (a widely used indicator of environmental health) is a very low 8%. For most of the rural poor "improved health" probably refers to effects of successful disease control programs (e.g., malaria, smallpox, leprosy and tuberculosis). Because of constraints of the terrain and absolute scarcity of facilities, staff and supplies, usually healthposts or hospitals are not easily accessible to villagers. In addition to these system delivery problems, the most serious basic health problem probably is the exceedingly low level of sanitation. Given the high capital costs of public intervention in environmental sanitation, it is apparent that a basic attack on this problem can be made only when villagers become convinced that change in their daily habits will bring further great progress in the status of their health.

The Nutrition Status Survey, conducted four years ago with AID financing, found that 54% of the reference population (children below six years of age) in the hills and 45% in the terai were less than 90% of median height for age (long-term nutritional deprivation), and that 17% of the entire survey population showed definite short-term nutritional deprivation. No similar data is available for the entire population (including adults), but suggestive information is available which corroborates information cited above from income surveys that much of the population exists below "minimum subsistence". For example, caloric intake as a percentage of requirements is listed as 86% in the recent IERD "Nepal Country Economic Memorandum". This could be an overestimate. For example, one authority provides an estimate that 85% of hill farm households do not produce enough food to meet their own consumption requirements, and that 50% of terai farm households are similarly deficit. The recent IERD sector report on Nepal's agriculture estimates that all hill areas (including the Kathmandu Valley) are food deficit, while terai surpluses are declining.

Control of Family Size - Roughly one-third of Nepal's people are 10 years of age or younger, 60% are less than 30 years of age, while only 27% are between 30 and 60 years of age. Estimates of annual increase in population go up for each reference period considered, to the estimate of current increase of 2.52%. In 1977/78, the number of new couples who accepted different methods of contraception was 5% of the group from 15-44 years of age. If current trends continue, even by the year 2000 only 9% of this national target group will be new acceptors. The proportion of couples who continue the use of contraceptives after initial acceptance is estimated to be only about thirty five percent after one year. Having children is almost the only assurance of being provided for in old age in an economy where accumulation of wealth is virtually impossible for the vast majority. In addition, after the age of four, children contribute vital labor to the household economy. Yet, somewhat over 20% of children die before the age of five. If a family is Hindu, it is important that the father have a son to perform religious rites after the father's death. All of these factors accumulated make family planning of not much interest to villagers until they have many living children.

Literacy - In the 1971 population census, 25% of the males, 4% of the females, and 14% of the population over five years of age are recorded as "literate" (self-declared, able to sign name). According to the Ministry of Education, in 1975 33% of the men and 5% of the women, or 19% of the adult population was literate. Information on distribution of literates by economic status is not available. Perhaps only 35% of the primary school age population is enrolled in school. About one-sixth of pupils are female.

Un- and Underemployment - The GON in the EIDC survey estimated that 63% of "family labor days per household in rural areas" are underemployed. This estimate undoubtedly is high, for several technical reasons. Using a different approach,

in 1974 the FAO estimated that production farm labor is underemployed 52% of the time. The Asian Regional Team for Employment Promotion (ARTEP) of the ILO found un- and underemployment in agriculture to be very high and decreasing from the smallest farms to larger farms. A general pattern of lower rates of underemployment in terai (than in hill) agriculture is apparent.

Summary - Preliminary analysis indicates that the rural poor constitute about 80% of the population and can be usefully broken down into two groups, on the basis of a "minimum subsistence" criteria which, quite literally, is whether or not the farm household has "enough" to eat. About 50-60% of farm families as well as many landless families apparently do not meet this minimal criteria. The proportion is substantially higher in the hills than in the terai, perhaps 70% versus 40%. This group could be termed the "nutritionally deprived" group. Their single outstanding common characteristic is that they farm very small bits of marginal land. Another 20-30% of farm families, and money wage-earning landless families, fall into the second group of the rural poor, which is that proportion which produces/earns just sufficient output to have "enough" to eat. From literacy, income and wealth and health data we can infer the presence of a third group which could be distinguished from the second by the ability to accumulate a small surplus, some of which is used in expenditure on social services. The relatively well-to-do make up no more than 5% of the population.

Generally, the rural poor earn income from small pieces of marginal land, have an annual per capita income of less than \$70 equivalent, are malnourished, don't use family planning, don't have access to adequate medical care, have one of the world's lowest life expectancies at birth, live at low sanitation levels, are illiterate, don't educate their children above the primary level, and are underemployed a substantial proportion of the time.

B. Structural Context of Poverty

1. Economic Factors

From a global perspective, Nepal is an isolated and very poor area within a poor region. Two-thirds of Nepal's area is very hilly or mountainous, with few large valley areas, while the remaining one-third is the drought-prone but relatively fertile beginning of the vast Indo-Gangetic Plain. It is no surprise that the struggle to subdue the land, Nepal's only significant natural resource apart from falling water (which is yet to be extensively converted to hydroelectric energy), lies at the heart of nearly all economic events.

In high mountain areas an estimated 1.9% of the land area is cultivated, while roughly 10.5% of hill area is cultivated and 48% of the plains area is under cultivation. Practically all mountain and hill land suitable for agriculture or pasture is being utilized. About 300,000 hectares in the terai may be available for cultivation as cleared forest land, depending on the area ultimately protected for commercial forest exploitation and soil conservation measures. Population densities per square mile of cultivated area differ greatly: 2,600 in the high mountains, 2,725 in the hills and 890 in the terai. The terai has served as the Nepalese frontier for quite some time. It contains 73% of the cultivated area but only 40% of the population. Currently, approximately 50,000 persons, or about 8,000 families, permanently migrate from the mountains and hills to the terai each year, and it is estimated that one million persons temporarily travel from the mountains and hills each year to seek employment and/or to trade. The terai contributes about 75% of the national revenue and roughly 60% of the national product. Compared to the hills, it is a monetized, commercial area with industries based upon processing of agricultural products, but competition for jobs serves to keep wages low. There is considerable potential for increased production in terai

agriculture, optimally from increased use of technical inputs applied in complement to more labor intensive cultivation.

Agriculture is estimated to have contributed 65% of GDP in 1976. The services sector contributed 25%, and industry, only 10%. Industrial output has not been rapidly expanding as a proportion of GDP in recent years. The growth sector has been services, led by public service and by tourism. Exports, which account for about 6% of GDP, are largely made up of agricultural and forest products produced in the terai. India is the terai's chief market, although third country export markets for jutes and jute products, spices and pulses, oil cake and, increasingly, rice are significant. Nepalese traders usually face a buyer's market.

Production of foodgrains has been stagnant over the past decade, as has been the production of jute. Rice and jute account for roughly 70% of Nepalese export earnings. The increasing Nepalese population, and an apparent increasing propensity to consume rice, against a background of stagnant output, can only mean that exportable surpluses decline and, at some point, aggregate foodgrain surpluses disappear. Indeed, export receipts have stagnated in recent years. More pertinent to this inquiry, the IBRD has observed that Nepal is no longer a foodgrain surplus country. Exports occur at the expense of subsistence.

Nepal is fragmented geographically and culturally and in internal marketing relationships. Nepal's population of approximately 13.9 million persons contains at least 100 caste/ethnic groups with about 50 different languages. The mountains and hills of Nepal present a formidable obstacle to development of interrelated markets covering anything but a minor proportion of the area of Nepal. Such hill marketing systems as there are tend to be north-south along river valleys, and with terai marketing systems, are oriented towards India.

The estimated national labor force ("economically active population" 10 years of age and over) is 7.8 million persons, of which only 6.5% are employed in the services, commerce or industry. The farm labor force, which is 86% of the total labor force, comprises 50% of the total population of all ages. Rural wage laborers and other categories employed in rural areas together account for 7.5% of the labor force. The proportion of the rural "economically active population" estimated to be outright unemployed ("without participation in any main or subsidiary occupation") is 5.5%, according to EIDC data (7.5% for urban workers). Formalized unemployment does not become a general problem until adult laborers in large numbers can find no work. In Nepal, this development is being delayed for quite awhile since agriculture lends itself to increasing intensity in labor utilization and since child participation in the labor force is so high.

At present in Nepal, it is likely that the majority of time reported as "underemployed" is an acute symptom of the lack of capital endowment (including technical inputs and complementary credit and organizational knowledge) on all but the largest farms. Much family labor on small farms, in particular, earns an imputed income well below the (low) level of average farm labor productivity, due to the absence of resources complementary to land and labor. In this condition labor, although "employed" in the given production system, is locked into a condition of desperate poverty. Another explanation for widespread rural underemployment can be found in the fragmented, ill-informed markets characteristic of most of Nepal. Refined specialization of labor and systematic exploitation of regional comparative advantage are more or less impossible in such circumstances. Potential increases in labor productivity are not realized.

The GON views the underemployed as a potential investment resource. However, underemployment is not a component of unemployment unless a wage is specified and

organizational changes detailed that will make possible mobilization of under-employed days. The overwhelming preponderance of farm work in rural employment implies significant "normal" underemployment in keeping with the seasonal nature of monsoon-dependent agriculture. In addition, both slow structural change from traditional to modern agriculture and the acute conflict between increasing population and stagnant per-area production levels tend to narrow the effective demand for numbers of laborers and increase the intensity (duration) of employment for those (fewer) workers retained. Experience in other Asian countries with abundant labor and scarce land suggests that much of this "excess" labor can be effectively employed in agriculture in Nepal, with the appropriate changes in farming systems (and input supply), as well as in the traditional outlets of light industry, construction and services.

The direct effects of targeted GON agricultural activities upon agricultural incomes are slight for all but relatively wealthy households, and probably have been and continue to be diffuse and, on balance, adverse, to the rural poor, although a recent emphasis upon provision of small kits of inputs through the extension service is an excellent step in the right direction, as is the program to very sharply increase the amounts of seeds of new varieties made available to hill farmers. Income effects of generalized, indirect GON policies upon the agricultural sector appear to be distinctly negative. There is no evidence that these policies are set with producer benefits in mind. Goals are revenue maximization, stability in urban prices and capacity utilization (of government-financed mills).

Internal terms of trade are adverse to agriculture. The price of rice in the Kathmandu Valley is kept low through public sale at a low, fixed price of a portion of rice destined for export but procured by the GON at a low, levy price. The numerous consequences of this policy have never been explored, but are

undoubtedly adverse to all agriculturists except laborers employed in the Valley. Government urban sales of nearly all goods and services are made at very low or subsidized prices. There are export duties and indirect taxes on several important agricultural products.

Prices of productive livestock and land have increased sharply throughout Nepal, with a consequent slow squeezing of the poor from these resources. Fertilizer consumption is very low, the supply erratic and the sale prices high. "Government planning which results in a scarcity of fertilizer effectively nullifies all other programs for the small farmer" (John Mellor, The New Economics of Growth, p. 85.).

Policies which have substantial impact on the agricultural sector as currently followed by the GON benefit a small group of the relatively wealthy and indirectly deepen the poverty of the population majority. While there are a number of small, but encouraging programs underway which have the potential of ameliorating the effects of established GON policies, over-all inequality in distribution of resources is increasing.

2. Social/Economic/Political Power Structure

Rural Nepal is a highly diversified and pluralistic society that is hierarchically ranked. At the top are the largely high caste elite landlords upon whom those at the very bottom (usually low caste) are completely dependent as tenants, servants and wage laborers. In the middle, social and economic stratification is often cross-cutting such that caste hierarchy does not necessarily correlate with economic status, but is more dependent upon land holding.

While the rural poor are often the powerless victims of the rural elite, in many areas traditional community decision-making is broadly based and governed by many social norms which incorporate participation by the rural poor in an egalitarian

manner. In fact, underlying the whole of the dominant social and economic systems of hierarchy in Nepal are a number of opposing tendencies (such as acceptance of inter-caste marriage and the many economic systems of reciprocal cooperation). Nonetheless, access to government services such as agricultural inputs, health care, legal services, and educational facilities depends primarily on the community's remoteness and the individual's socio-economic rank within a community. At least so long as these services are a "limited good", in the same sense as land is a limited good in Nepal, it will be the elite who are the primary beneficiaries.

For the last 15 years, Nepal's formal rural political structure has been based on a partyless panchayat system of tiered representation. Within this system groups of hamlets and villages extending up to a day's walk from each other are administratively grouped into nine wards which make up a village panchayat, with an average population of around 4,000 people. Direct elections take place only at the lowest level, when people elect their ward representatives. Village panchayats are grouped into districts, and two representatives of each village panchayat make up the District Assembly. Representatives of the District Assembly in turn form the National Panchayat, the nation's parliament. As in most political systems, it is the male elite members of various local factions who--in part because they are the only people who have the surplus income to afford the time and expense to become local leaders--constitute the majority of those serving within this system. The degree to which they represent the interests of the rural poor naturally differs by individual and area.

The highest power in Nepal is de jure and de facto vested in the King. His Majesty, like all rulers, is constrained to work within a complex framework of political, economic and social institutions. Aside from the National Panchayat, which only has authority to propose and debate, the principal institutions which make up

the central power structure in which and by which the King's authority is exercised are the Palace Secretariat and its agencies (including the Back to the Village National Committee), the Council of Ministers, the line ministries and departments and the military (which is relatively small in Nepal) and the police. In addition, the King's power is exercised through a few prominent rural and urban elites not directly represented through one of the above.

Central government institutions derive ultimate power from the Palace. Historically, they have been staffed at the upper levels by either high caste urban residents from Kathmandu or the Eastern Terai or by the urban Newars who have inhabited the Kathmandu Valley for several millenia. Given the small group of personnel from which the government has to recruit its officers because of educational requirements, as well as traditions of nepotism, it is not surprising that most government officers come from elite backgrounds and that many of them are related to each other through ties of kinship and other mutual obligations. Their orientation towards urban lifestyles and disinclination to live in rural areas serves as a significant constraint on channeling development to the rural poor, since they are socially and economically far removed from the vast rural poor majority. In addition, the development models provided them by foreign donors and educational institutions stressed (until recently) large scale infrastructure, high capital-input agriculture, traditional "peopleless" forestry, production over equity, etc. These foreign models served to reinforce an elite, top-down power structure by emphasizing sophisticated central planning and technological paternalism.

The policy of standardizing administrative and political institutions throughout the country has often inadvertently served to reinforce the power of the rural elite and undermine traditional organizations and norms which often functioned as countervailing forces incorporating wide-spread participation. Yet, the highly

stratified and diversified nature of rural Nepal together with the paucity of governmental infrastructure in rural areas seriously constrain efforts to direct development to the rural poor without first going through the rural elite.

Access to development inputs and services depends on their availability in sufficient quantity and quality, sufficient knowledge and skills in the language of government bureaucracy, and the accountability of delivery personnel to the people for whom the services are intended. So far, none of these conditions have been adequately met for the majority of the rural population.

However, there has been a shift in policy towards such things as: a) more planning from the bottom up, b) the expansion of the Panchayat Sector development program of small scale projects targeted to benefit the rural poor, c) more emphasis on small farmer hill agriculture, d) local community involvement in natural resource conservation, e) the use and training of local people as extension agents and health/family planning workers, f) the continuing expansion of educational and health facilities into the rural areas, g) the implementation of the New District Administration Plan which decentralizes development activities and increases the participation of the Panchayat Sector, h) the institutionalization of the program for placing all Master's Degree students in rural villages for a year, i) the apparent willingness of the government to incorporate women at all levels of the development process. These current activities are indicative of GON attempts to widen the participation of the rural poor within the power structure as well as to reorient the urban elite towards the needs of the rural poor. Although much more is yet to be done, these programs suggest that a degree of commitment and flexibility is contained within the present power structure which can lead to significantly increased benefits for the rural poor.

C. Public Sector Performance and Commitment

1. Economic Performance

Despite rapid growth in public expenditures, investment remains at a very low 9-10% of GDP. Although mobilization of domestic resources certainly will continue to be intensified, given the extremely low proportion of GDP represented by public revenues (perhaps 7%), the IBRD estimates that public revenues must grow at about 15% each year just to prevent a decline in the budget surplus on current account. Receipts, however, are very sensitive to fluctuations in agricultural output. An indefinite, rapid expansion in receipts cannot be anticipated unless a sustained increase in agricultural productivity is brought about. Yet, the draft Sixth Plan (1980-85) statement of principles assumes an average annual level of public savings 73% greater than the FY 78/FY 79 budgeted average (in constant '79 prices).

The scope for curtailing expenditures is limited. Public salaries, fringe benefits, overhead facilities, apparent military expenditures, and other significant areas where savings might be effectuated are, and have remained at, relatively low levels. Indeed, in context of discussions of GON absorptive capacity, there are frequent suggestions for sharp increases in public servant's salaries and fringe benefits, made on efficiency and performance criteria.

The GON has resorted to substantial borrowing from the banking system to cover budgetary deficits since 1974. This, and a continuing increase in foreign assets, has fueled a very sharp increase in the money supply (48% from May 1976 to May 1978), an increase the initial effects of which were substantially ameliorated by a very rapid rise in fixed and savings deposits, induced by GON interest rate policies. Nevertheless, the annual rate of price inflation in urban areas was over ten percent in both 1977 and 1978. The draft Sixth Plan statement of principles,

however, assumes a level of deficit financing roughly one-third higher than the highest annual level yet recorded. The level of public borrowing in FY 79 may equal the FY 78 level, which apparently was the second highest of record.

In the short run, a rapid expansion in imports could continue, funded by external assistance and by some drawdown in reserves and facilitated by the simplified exchange and licensing procedures introduced in March 1978. This could result directly in increased public revenue (from customs and duties), indirectly in an accelerated rate of increase in both agricultural and light industrial output, and over-all in a substantial reduction in inflationary potential. Even in an atmosphere of business confidence, however, a trade - led expansion in the economy could not be sustained without increased productivity in agriculture. Nearly all exports originate in agriculture. An import-led expansion would have to include a substantial proportion of agricultural investment goods. Current indications however, are for an undirected, worsening trend in the trade balance. Capital flows, from tourism and private remittances and, above all, from external assistance (which finances over 50% of Nepal's development budget), probably will continue to offset the losses on current account. This is by no means a dynamic, growth situation.

2. Absorptive Capacity

A problem of "absorptive capacity" commonly is identified by international aid agencies in direct relationship to the level of development of the recipient countries. It is a major problem for all 26 "least developed countries". The Nepalese economy, traditional and fragmented as it is, will naturally have difficulty absorbing new investment but the GON is making some major policy changes which could improve its absorptive capacity. Much more needs to be done by the GON to improve its capacity to act as a dynamic agent for change.

A major structural constraint is the limited ability of the GON itself to identify, plan and execute productive policies and projects. A particular shortcoming is the lack of attention paid to planning at other than the national or project level (e.g., sector planning or regional/local planning). Even national planning is severely compromised by lack of data while project planning institutions are just beginning to function in Nepal.

These conceptual and technical shortcomings are most immediately related to a general shortage of well trained and motivated technical personnel. The GON and aid agencies continue to place great emphasis upon training, including upgrading the skills of existing personnel. The technical cadre increases yearly and recent GON incentive changes are improving its rural deployment. But the systems' capacity will be constantly tested for years to come by the rapid increase in external assistance being made available to Nepal, and by the increased complexity of projects (such as integrated rural development activities).

To get around some of the severe absorptive capacity problems, the GON is proposing a major change in development planning and implementation. It proposes decentralizing much decision-making authority over planning, allocation and disbursement of development monies to regional, district and local authorities in the Sixth 5 Year Plan (1981-85). Local authorities are to have increased responsibility for mobilization of public resources, both in the form of contributed labor and through a new tax on agricultural output (see section 4 below). Organization of small producer groups is being promoted as is local level training. Whether basic skills shortages can be overcome, and equitable distribution of public revenues can be pursued through enhanced accountability of local units, resulting in local communities making sizable contributions to public investment, remains an open question.

"Absorptive capacity" is not an analytically helpful term in considering Nepal's development constraints and appropriate amounts of assistance. "Absorptive capacity" problems in Nepal or other RLDCs are primarily the basic problems of underdevelopment. There is no quick fix. There are no financial or other arrangements at the center that can be changed and thus materially reduce the problem. But the problem is primarily a result of an institutional and human skills bottlenecks that characterize underdevelopment.

In the long run solutions must result from widespread learning of modernizing skills plus growth/equity-focussed policies and institutions (public and private). In the short run the sorts of institutional efficiency changes that the GON hopes will result from such things as the new Panchayat Sector approach (local management, decision-making, training and finance) and new personnel incentives for "remote area" services can provide important increases in what is referred to as absorptive capacity.

In parallel, most donor assisted projects of any significance in Nepal have built in training, organizational and procedural changes needed to make the projects function over time and they try to provide needed technical assistance in the short run to help substitute for the present absence of management and technical skills.

Actually, it is demonstrable that very large capital intensive projects and flows of budget support could be "absorbed" readily in Nepal or other RLDCs. So it is not a question of "absorptive capacity" that should get attention when discussing forward planning assistance levels, but whether:

a) significant projects can be designed and organized by the GON with donor support that will substantially and effectively attack the basic development problems and

b) GON policy changes will be made and implemented that will promote livelier rural and private sector activity.

If these take place the development bottlenecks will crack faster than they now are and the misleading "absorptive capacity" question may be set aside.

3. Local Cost Financing

The IBRD forecasts a resource gap in funding public investment of at least \$77 million equivalent in the last two years of the current planning period (FY 79 and FY 80). IMF projections for the Sixth Plan period are not available. However, the annual average rate of development expenditure by the GON projected for the Sixth Plan period (\$342 million in constant FY 80 prices) is 55% greater than the projected FY 79/FY 80 average. As discussed above, projected Sixth Plan level of current revenue surplus and of deficit financing do not look feasible. Therefore, the Sixth Plan preliminary target of at least a doubling in aid receipts (compared to actual and anticipated Fifth Plan receipts) appears to be realistic. Given that the limited resource mobilizing capacity of the Nepalese economy is not likely to be improved other than through gradual structural change, it is apparent that means must be found to increase the rate of flow of external assistance into the economy to support the modest growth target (5% plus) of the Sixth Plan.

The IBRD, in the Nepal Country Economic Memorandum of March 1978, recommends three ways to accomplish this objective (pps. 33-34):

a. "... an increase in the proportion of total project cost financed by foreign donors including part or all of local capital costs, and current costs in sector... (particularly) agricultural and social services ...".

b. "Non-project assistance... (e.g.) programs being undertaken by the Government whose individual project components do not lend themselves to project assistance... (and) local development activities... (and) import programs of the

Government to help bridge the pervasive shortage of basic materials for development...".

c. "... aid directed towards sectoral development on a program basis... (including) investment requirements of a number of small investments... combined with technical assistance... (and) commodity assistance for the wage goods needed to reward employment."

USAID/N has opted for alternative (a) as most compatible with AID's programming practices and development goals.

4. Key Aspects of Nepalese Development Plans and Strategy for the Sixth Plan Period 1980-85

In 1980 Nepal will have completed four successive plan periods. These plans have concentrated on ending Nepal's isolation and integrating the major regions of the country. As a result, investments were primarily focused on the development of transport, power and communication facilities. Attention was also given to industrialization, health and education in the accessible Kathmandu Valley and the eastern plains (eastern terai). While this strategy was largely successful, significant improvements in the lives of the people were made only in the Kathmandu Valley and the eastern terai. A majority of Nepal's people were largely bypassed by the development process prior to 1975.

Under the present Fifth Plan (1975-80), the GON strategy has been focused on distributing the benefits of development to the population as a whole by channeling budgetary allocations towards smaller, quicker yielding investments and the social services. The major components that have received increased emphasis in the Fifth Plan include agricultural productivity, balanced regional development, improved social services, resource mobilization and employment promotion.

In regard to the upcoming Sixth Plan Period (1980-85), the GON's September 1978 draft entitled "Basic Principles of the Sixth Plan 1980-85", emphasizes the following:

Agricultural Productivity: Performance in increasing agricultural productivity during the Fifth Five Year Plan is very disappointing. Therefore, the Sixth Plan narrative says it will accord highest priority to productive investments in the agricultural sector. Special emphasis will be on multiple cropping and farming systems approaches to increasing agricultural productivity and employment. Other areas receiving priority attention include small and medium size irrigation schemes, land reform, agricultural inputs with emphasis on credit, livestock and horticulture and research activities emphasizing farmers participation.

Resource Conservation and Utilization: The Sixth Plan is giving special emphasis to the severe problems of resource conservation and utilization. Programs will be designed to carry out afforestation, soil conservation, water-shed management and torrent control measures. The GON will also seek to mobilize local participation of the people in managing and developing forest resources.

Integrated Rural Development (Panchayat Sector): Special stress is placed on the need to develop integrated rural development projects to satisfy the basic human needs of the rural population. In addition, the GON is encouraging the participation of the beneficiaries in project planning, implementation and evaluation. Resource mobilization at the local level is a key element of the Sixth Plan.

Health and Family Planning: The Sixth Plan projects delivery of general preventative health services as well as Family Planning and Maternal Child Health programs through the integrated health services model in all 75 districts. Emphasis will be placed on constructing health facilities where none exist and on the training of village health workers at the neighborhood level. While the "Basic Principles"

document barely mentions Family Planning, USAID/N has been advised that the next draft will thoroughly address Family Planning and Population issues.

5. Commitment and Projected Budgetary Resources

Earlier sections of this CDSS outlined the major policy changes being made, such as the move to decentralize responsibility for local development programs and to increase incentives for the assignment of government personnel to rural areas. The prior section dealt with the GON's development plans in specific sectors for the Sixth Plan Period. While these efforts will not be dealt with further in this section, they must be kept in mind as important indicators of intent and, hopefully, commitment.

The GON is making a serious effort, in addition to its policies of decentralization, to deal with the issue of participation in development as the "panchayat sector" strategy gets underway. To develop a consensus as to the meaning of the term, a series of workshops/seminars (involving political, academic and civil service leaders) on such topics as "Nepal National Workshop on Local Level Planning," "Community Forestry for Development in Nepal" and "Women and Change" culminated in a major seminar on "Peoples Participation in Rural Development." Practical projects are underway giving confidence to leaders favorable to greater participation. A particularly interesting example is the Small Farmer's Development Project (SFDP). This is a group lending scheme initiated in September 1975 in four panchayats, and it has been spread to over 33 panchayats. Large farmers are specifically excluded from participation in the program. Another example is the new forestry law that has returned the national forests, which were nationalized about 20 years ago, to community control and ownership. The participation of women in the political and development process was given impetus when a recent constitutional reform established that there should be at least one woman representative in each village and district.

panchayat.

The GON has also launched a major effort to expand its public revenue base without creating undue inflationary pressures. Interest rates payable by the banking system to private depositors have sharply increased, resulting in a large expansion in fixed deposits. The GON also appears to be loosening its control over organized economic activity. Examples include a lifting of the numerous restrictions on the opening of small and medium sized enterprises, import and export controls have been greatly simplified, and a majority of commonly traded commodities have been placed on a free list, with foreign exchange available to all traders at a high fixed rate. Earlier foreign exchange regulations gave rise to official corruption, which is being addressed by an official commission.

The GON is trying to develop a broad set of policies to deal with the under and unemployment issue. These policies are designed to increase the rate of investment through more labor intensive investment and the utilization of seasonally surplus labor. The GON states in the basic principles of the Sixth Plan that its objective is to create substantial employment in the rural economy in order "to gradually reduce the problem of absolute poverty by raising the income levels of the rural poor" (p. 34). This articulation, however, is incomplete without some specification of the institutional context, including an identification of the wage rate and work to be accomplished. Currently, only preliminary information on the types of work, with orders of magnitude, is available, but the data suggests that much more thinking through of these ideas is needed if real incomes in rural areas are to be raised.

The GON's record and policies in regard to agriculture are mixed. On the positive side, measures are being taken to carry out research with small farmers in their own fields and to incorporate the farmers' system approach into the government's

research program. Over 15,000 small kits containing one or two varieties of seed, fertilizer and pesticides have been distributed in the second year of this activity alone. On the other hand, the GON policy of insuring an adequate supply of food-grains for consumption in the Kathmandu Valley has distinctly adverse results for those farmers with a surplus to market.

The Land Revenue Tax and the Panchayat Development and Land Tax (PDLT) plus the Land Acts of 1957 and 1964 (land reform legislation), are the major examples of national policies directed to the approximately 1.6 million farm households in Nepal. At best, only about 25,000 households (1.6% of total farm households) are or might become direct recipients of land redistributed in accordance with the Land Acts. Available evidence suggests that indirect effects of land reform upon the rural poor have been adverse. It can be assumed that the ineffectiveness of land reform legislation constitutes policy. While the Land Revenue Tax is mildly progressive in initial incidence, the PDLT (which is replacing the Land Revenue Tax) is regressive in initial incidence. Generally, 55% of PDLT collections are retained by the village panchayat (the taxing authority) where the money is to be used for development works, and 10% goes to the district authority. The ultimate incidence of the tax will depend upon actual beneficiaries of these expenditures. Given the vital role of land in rural Nepal, it is reasonable to assume that those who control incremental proceeds from land will be major beneficiaries of the PDLT, absent countervailing pressures from the center. Nevertheless, actual resources available to localities should be increased under the PDLT (as compared to central grants to localities) and the PDLT mechanism does elicit participation of the populace in local development, reinforcing the participatory potential of the partyless panchayat system.

There can be little doubt that the GON is seriously, and with increasing effectiveness, trying to provide health and family planning services and educational opportunities for the previously bypassed areas of rural Nepal where most of the people live. GON policy statements are clear in this regard and the design of projects over the past three years has increasingly moved in this direction.

In health, the GON has moved from 33 rudimentary hospitals in 1952 to 65 hospitals and 483 health posts at present. Malaria cases have been reduced from 2 million cases in 1952 to 11,000 in 1977. Smallpox was eradicated in 1978. Nevertheless, there are still many problems and shortcomings in this expanded health system, including a severe shortage of manpower to staff these facilities and the availability of medical supplies for only about three months of the year.

Regarding population/family planning, the GON started its national program in 1968. Its efforts have met with some success but so far have had no significant effect on the soaring population growth rate. The number of couples using various methods of contraception has expanded from 1,850 in 1960/68 to 146,000 in 1977/78. A Population Commission under the Prime Minister has been established to address ways to increase both the rural demand for family planning and the supply of family planning services.

On the educational side, the number of children enrolled in primary school has increased from about 1 percent in 1950 to 35-50 percent at present. These substantial increases can be linked to the introduction of the National Education Plan, the introduction of free primary school education, a campaign to build schools in remote areas starting in 1978 and an emphasis on increasing the access of girls to schools in rural areas. In addition, the reported literacy rate for the country has steadily increased from about 14 percent in 1970 to 19 percent at present.

In regard to budgetary projections, both the "Basic Principles of the Fifth Plan", published by the National Planning Commission in February 1973, and the "Basic Principles of the Sixth Plan (draft)", published by the National Planning Commission in September 1978, contain nearly-identical tabular presentations of projected allocations of respective plan expenditures. The table below gives the proportionate and absolute distributions of projected outlays at the beginnings of the Fifth Plan and the Sixth Plan, by sector. This "table of intentions" (in Annex table 3) is noteworthy in several important respects. First, the Sixth Plan continues Nepal's attention to development of basic infrastructure. The Fifth Plan proposed devoting 48% of plan resources to infrastructure, while the Sixth earmarks 49% for that purpose. (The third plan devoted 67 percent to infrastructure.) Second, the proportion of resources indicatively targeted for expenditure by the public sector increases sharply, principally at the expense of the private sector. Third, emphasis in the Sixth Plan on social services represents a sharp increase over Fifth Plan targets. Fourth, while there is a relative deemphasis upon agriculture, irrigation, soil conservation, etc. in the Sixth Plan, the volume of resources actually targeted to agriculture should be substantially increased. The over-all targeted flow increases from the equivalent of \$338 million to \$733 million. Within this flow, a significant shift is expected from large-scale irrigation projects in the terai to smaller projects in both the hills and terai.

The GON anticipates a sharp increase in "panchayat sector" allocations in Sixth Plan documentation, due to a pending shift in attribution of district-level activities from the "public" to the "panchayat" sector. This action, when it occurs, could represent a significant shift in responsibility to localities, or it could be merely a book-keeping exercise. Currently, the projected allocation to

the "panchayat sector" shows little or no increase in the planned flow of funds in constant value terms. It should be noted that as much as one-half of the projected panchayat sector outlay represents the monetized value of voluntary labor, while most of the remainder is accounted for by proceeds of the new PDLT. As noted above, AID has reservations about certain aspects of each of these resource mobilization techniques, which we will be discussing with GON.

In sum, the GON is proposing major breaks with its "top-down", elite-focused traditions in a number of the concepts set forth for the Sixth Plan. It has begun making important practical changes during the present Fifth Plan in rural area development, delivery of services to the crowded "Middle Hills," resource conservation and financial mobilization. At the same time the severe population problem is receiving inadequate practical attention despite clear policy statements as to its priority, and some of the initial ideas for implementing the new rural development approaches proposed for the Sixth Plan raise the question of the adequacy of the tools to accomplish the task. Tentative sector allocations are in conflict with the attractive rhetoric. It is, in other words, a mixed picture. Probably this is what we should expect of a country which has been struggling for only one generation to meet the clamoring needs of this era while shaking off the archaic chains of the practices of past centuries. The GON's latest policy statements are in line with most of the best development thinking. The issue is implementation. Given this, the challenge to external donors is to weigh in with adequate and appropriate resources on the side of those promising efforts which could move forward the equitable development of Nepal. The next section outlines USAID/N's plans to do just that.

PART II STRATEGY

A. Long Range Goal and Objectives of USAID/Nepal Program

As the Part I analysis section of this document has shown, Nepal has many of the typical development problems found among most Relatively Least Developed countries (RLDCs). These problems include low agricultural productivity, low per capita income, rapid population growth, poor health, inadequate physical infrastructure, lack of skilled manpower, limited financial resources and an economic structure dependent upon subsistence agriculture. The previous section has also pointed out that Nepal possesses several characteristics to a unique degree among RLDCs. These include its difficult topography (two thirds of the country is covered by 3 east-west mountain chains that culminate in the high Himalayas and the mountains are cut by 3 major north-south river systems having 6,000 tributaries) exceptional cultural diversity composed of 100 different caste and ethnic groups, linguistic diversity with over 50 distinct languages, and a wide range of climatic conditions. Thus Nepal is fragmented geographically and culturally and in internal marketing relationships. To this must be added severe environmental problems that are being compounded by a rapidly expanding population. These uniquely severe development problems coupled with the standard development problems found in other RLDCs complicate the formulation of an effective yet simple strategy of development assistance to Nepal.

With Nepal's complicated development problems in mind, USAID/N has developed a long range goal and a set of broad objectives for our development assistance program for the CDSS planning period (FY 1981-85). USAID/N's long range goal is:

To assist the GON to promote development in such a way as to meet the basic needs of Nepal's poor majority, with special attention to the large, previously bypassed population in the "Middle Hills".

The principal broad objectives for the Middle Hills that our assistance programs will be directed to are:

- decrease population growth rate.
- limit the acceleration of forces creating Nepal's severe environmental problems.
- increase per capita food production and consumption.
- improve family health.
- increase employment opportunities and average labor productivity.
- strengthen the capacity of local groups to plan, implement and evaluate participatory development activities.

B. Overview of USAID/Nepal Strategy

The GON strategy and priorities enunciated in the initial draft of the "Basic Principles of the Sixth Plan" closely parallel AID's legislative mandate and strategy of meeting basic human needs. This compatibility serves as the basis for USAID/N's development assistance strategy for the period FYs 1981-85 covered by this CDSS.

USAID/N plans to assist the GON by concentrating its assistance in some depth on a limited number of Nepal's key development problems. Solutions to these problems are essential for the achievement of USAID/N's long range assistance goal and to accomplish the objectives set for our development assistance program during this strategy period. USAID/N plans to assist the GON in a two pronged manner. The first prong will be a national level approach. In this approach, USAID/N will help accelerate the institutional development of the GON's planning, evaluation and administrative capacity and national service delivery systems to address four key problems as follows: rapid population growth rate, environmental degradation (institutional aspects), declining per-capita food production and general poor health.

The selection of these four problems for emphasis at the national level naturally follows from the priority problems identified in the analysis section of this document and the GON's own strategy and priorities established for the Sixth Five Year Plan Period (1980-85).

The second prong will be a local level approach involving up to eight key, interrelated problems in selected rural areas. These problems include the four cited above for attention at the national level plus under-employment, weak participatory/resource mobilizing institutions, lack of appropriate technology and lack of modernizing skills. The GON is already beginning to address all of the eight problems plus a number of others in an integrated way at the village and district levels. The GON has adopted the integrated rural development approach as an area of particular emphasis in the Sixth Plan because it has recognized that these key development problems are inter-related and experience has shown in traditional societies and economies like Nepal most or all of the problems need to be addressed in concert. Experience has also shown that single sector or single problem approaches generally fail at the village level because of the absence of change-inducing dynamics needed to reinforce the single innovations.

C. USAID/Nepal's Detailed Strategy for FYs 81-85

1. National Level Approach

The specific USAID/N strategy for dealing with the four problems selected for emphasis at the national level are described in below.

Rapid Population Growth

The Analysis Section makes clear that the high and increasing rate of population growth is the overriding problem facing Nepal. USAID/N believes it is vital that we assist the GON, in cooperation with other donors, to address the overall population problem in the country on both the need for creating demand and

for the supply of services with the goal of limiting population growth to a level consistent with Nepal's development objectives, ensuring equitable support of the nation's population within available resources. To do this, USAID/N has established the following objectives for the strategy period covered by this CDSS:

- infuse the public and private sectors with an awareness of the implications of rapid population growth and a sense of immediacy in designing and implementing policies and programs on both the demand for and supply of services aimed at reducing the national population growth rate.
- reduce the Crude Birth Rate (CBR) by four points (from approximately 44 to 40 per thousand) and the Infant Mortality Rate (IMR) by 20% (from approximately 175 to 140 per thousand) within the next 5 years.

The following sub-objectives are also identified:

- to establish an effective, nation-wide, culturally acceptable system for delivery of family planning services.
- to establish an analytical support system for sound population policy development and implementation.

In order to achieve these general objectives in the population/family planning sector, USAID/N plans to focus its development assistance strategy on providing technical assistance, participant training, commodity assistance and financing to cover local capital and recurrent cost. Technical assistance will be provided the Family Planning/Maternal and Child Health Project of the Ministry of Health to enhance the administrative, managerial and supervisory capabilities of the Project Personnel at central, district and local levels. (Strong support will be given to the voluntary sterilization program, for which demand is high.) Technical assistance will also be provided to assist the National Population Commission to

design and carry out analytic studies aimed at population policy development.

Participant training will be made available to the POPCOM to develop expertise in research methodology and to the FP/MCH Project to further develop management, training and technical competence required for more rapid development of medical contraceptive and surgical sterilization services.

Commodity support will be provided for contraceptives and medical/surgical equipment and supplies required by the FP/MCH Project in its motivational and service programs.

Financing will be provided to the POPCOM in the form of a grant which will (with USAID/N involvement and approval) be sub-granted by POPCOM to local research organizations to design and carry out operations and fertility determinants activities and analytic studies. Seminars and in-country training programs will also be funded under the project.

Financing will also be provided to the FP/MCH Project to cover local capital and recurrent costs. While the GON has made a major effort to mobilize domestic resources, given its status as one of the world's relatively least developed countries there is still a very large budgetary resource gap that must be financed annually. The recent "IBRD-Nepal Country Economic Memorandum" dated March 16, 1978 makes a strong recommendation along these lines. The U.S. position paper for the 1978 Nepal Aid Group Meeting endorsed financing of such local costs. USAID/N believes that the GON's strategy in the Population/Family Planning sector is sound and worthy of substantial support of local capital and recurrent costs.

There is an important role for private voluntary organizations, particularly working in the private sector, introducing innovative programs in family planning services and motivation. The International Planned Parenthood Federation, the Family Planning International Assistance, the International Project

of the Association for Voluntary Sterilization and the American Home Association are currently working with the local family planning org should be encouraged to continue and expand their support. The Peace a valuable role in population education in the primary and secondary school systems and in assisting in the development of maternal and child health programs.

Environmental Degradation (Institutional Aspects)

The Analysis Section has pointed out that Nepal is experiencing a severe environmental degradation crisis which also threatens India and Bangladesh. In view of the urgency of the institutionally related problems of environmental degradation, USAID/N believes that it makes sense to focus part of its development resources to deal with this constraint at the national level. The other pressing resource conservation aspects of Nepal's environmental degradation problem will be dealt with at the local level in four to six selected areas. The objectives and strategy that USAID/N proposes to follow to deal with these problems will be explained below in the local level emphasis section.

The objectives of USAID/N's institutional emphasis on Nepal's environmental problems at the national level are to:

- train a cadre for the Ministry of Forests and the Department of Soil and Water Conservation capable of co-ordinating and mount an expanded resource conservation and utilization program in rural areas. (Nepal has a severe shortage of trained manpower to implement forestry, soil and water conservation, and range management programs dealing with Nepal's environmental program needs.)
- develop an Institute of Renewable Resources, under Tribhuvan University, to train manpower at the certificate and B.Sc. level in the most important sub-fields of Resource Conservation and

Utilization. (Nepal has no adequate training institution to educate and train personnel in the fields of forestry, soil and water conservation and range management.)

USAID/N's proposed strategy for attaining these objectives during the strategy period at the national level is to provide technical assistance, participant training and funds for construction and equipping of training facilities.

Declining Per Capita Food Production

The analysis section of this CDSS document has shown that 90% of the population is directly dependent on agriculture for a livelihood, that traditional agricultural practices continue to be practiced throughout Nepal and that per capita food production is declining. While the existing constraints are enormous to overcoming the problem of declining per capita productivity, USAID/N has tentatively decided to concentrate on the following three objectives in the agricultural sector during the strategy period covered by this document:

- to expand the package of new technology available to rural poor and increase the per capita productivity of food crops, livestock, grazing land and forests in a farming systems approach to Hill agriculture.
- to increase the supply of trained middle and lower agricultural manpower to expand programs directed at the rural poor.
- to improve the capacity to make agricultural policies specifically designed to benefit the rural poor.

In pursuing these objectives, USAID/N will build upon its current involvement in the agricultural sector. This involvement includes: (1) the development of improved production technology and practices for the major food

grain crops (wheat, rice and corn) and related cropping systems necessary to promote farmers acceptance of the new technology; and (2) developing a labor intensive system for producing, testing, processing, storing and distributing seeds of the major food grain crops and other food grain crops cheaply and effectively to the small farmers. These two efforts will terminate in FY 81 and FY 83 respectively. Therefore, USAID/N proposes as a follow-on to our efforts to improve production technology and practices for the major food grains a Farming Systems Approach to the problems of Hill agriculture. This approach will give attention to the operations of the farming system as a whole, which is the framework in which hill farmers consider production options and technology changes. It will include major attention to grains, vegetables, livestock and tree products. Such an approach could also involve attention being given to village managed extension programs if the proposed changes in the extension system are adopted.

USAID/N believes that this proposed program could best be designed and implemented through the Title XII mechanism. The program would include substantial technical, commodity and participant training assistance.

Other on-going programs USAID/N plans to build upon are the assistance being provided to strengthen the new Institute of Agriculture and Animal Sciences (IAAS) to train middle-level manpower and the training of about 60 middle level participants in India in various agricultural subjects not offered in Nepal. USAID/N proposes continue support to the very promising IAAS, to expand the India training program to include a larger number of participants and to increase institutional capacity to train lower level agricultural manpower at the village level.

The last area USAID/N presently proposes to address is providing technical assistance to improve the GON's capacity to develop and carry out

effective agricultural policies designed to enhance production and benefit the rural poor.

There is little private voluntary organization interest in the agricultural sector. The only organization currently working in Nepal is the Agricultural Development Council, which is carrying out a small program to train Nepalese in agricultural research and planning. The Peace Corps is providing volunteer support for the integrated cereals and seed production and input storage project and may play a role in carrying out the farming systems program.

Poor Health

The Analysis Section of this document has briefly pointed out that the general health of Nepal's population is at a low level. In addition the health services provided are woefully inadequate and unevenly distributed.

We believe that AID has the competence and knowledge as a result of our long involvement in the health area in Nepal to make a substantial contribution, in cooperation with other donors, toward the improvement of rural health in Nepal.

The objective of our assistance will be the continued development and expansion of an integrated health system capable of providing basic health services to Nepal's rural poor. Our special focus will be on the middle hills. Our assistance will concentrate on improving management capacity, strengthening training capacity, expanding rural health facilities and promoting effective environmental sanitation practices including safe water.

We will provide technical assistance, participant training and commodity assistance plus financing of a portion of local capital and recurrent costs. Technical assistance will be provided to:

- work with Ministry of Health personnel to up-grade the Administrative, managerial and supervisory capabilities of Ministry personnel at the

local, district and central levels.

- to develop a proper logistical support system to replace the six separate supply systems that currently exist.
- train adequate manpower at all levels, but with particular emphasis on middle and lower level manpower. The focus of our efforts will be on up-grading the capacity of the Institute of Medicine to train middle level manpower and on the Ministry of Health to train the village health workers. At the higher manpower levels, some attention will be devoted to establishing a community physicians school to train rural practitioners to work in community health services in rural Nepal.
- develop a capacity to plan and evaluate health data on a decentralized basis.
- develop effective environmental sanitation practices for Nepal's rural population with emphasis on safe water, low cost human waste disposal and disease vector control.

Participant training will be offered to develop a cadre of specialized personnel and to provide in country training of manpower for other personnel. Illustrative types of training include health services management, planning and evaluation, logistics and rural health management. Commodity support will be provided for health education equipment, health planning and evaluation equipment and supplies, insecticides for the malaria control and commodities for basic environmental sanitation programs.

Financing will also be provided to cover local capital and recurrent costs over the strategy period. The major argument for providing this type of support are contained in the analysis and rapid population growth rate sections of

this CDSS document. USAID/N believes that the GON's strategy in the health sector is sound and worthy of substantial support of local capital and recurrent costs financing.

Private Voluntary Agencies such as the United Mission to Nepal, International Human Assistance Programs, and CARE will be encouraged to work in the health sector. Nevertheless, the combination of resources provided these organizations and other donors without AID's support are not sufficient to have a meaningful impact on the problems found in the health sector. The Peace Corps is currently involved in the health sector providing volunteers in village water development, the nutrition area and for a limited health education program. The Peace Corps could provide volunteers, if asked, to assist in developing supervisory and management capabilities at the village level and to develop additional rural sanitation projects.

2. Local Level Approach

The specific USAID/N strategy for the local level approach is to concentrate on (i) rural area development programs and (ii) on activities to overcome Nepal's environmental problems. As will be discussed below, USAID/N's local level and national level approaches are designed to reinforce each other. Each is a necessary prong of the Mission's strategy.

Rural Area Development

The Analysis Section describes the interrelated, systemic factors perpetuating extreme poverty among approximately 80% of the citizens of Nepal. The strategy overview section described the GON and USAID/N rationale for a rural area development approach as fundamental to alleviation of rural poverty.

The major objectives of the USAID/N rural area development program are:

- to quantitatively and qualitatively improve food production and consumption by the rural poor.
- to improve and increase income generating opportunities within rural areas which are accessible to poor farmers, landless laborers and occupational castes.
- to strengthen the capacity of panchayats, cooperatives and other local organizations to plan, implement and sustain local development efforts.
- to provide local infrastructure services at the District and Village level through joint local-central efforts.

USAID/N's strategy to attain the objectives identified above assumes that financial and technical assistance will continue to be focussed on a single, multi-district area of Nepal in the period 1981-1985. Should progress within this project area be extremely promising, or should the management load of the Mission drop significantly during this period, expansion of assistance to a second area will be considered.

USAID/N's strategy for rural area development stresses the need for simultaneous financial and technical assistance to central, project, district and local levels within priority program areas. Much of this is dealt within our national level focus discussed previously. Within the project area to be assisted the following will be done:

- financial support, resources and technical assistance will be provided, directly or indirectly, to panchayats, cooperatives and other local organizations for activities in priority areas and other locally identified areas of activity.

- targeted assistance will be provided through appropriate central agencies and local organizations to benefit and provide for the development of the poorest groups within local communities -- the landless, near-landless, occupational castes, disadvantaged ethnic groups, and women.
- financial, technical and some commodity support will be provided at the district level to assure capable planning, monitoring and implementation of both district and village level development activities.
- central level agencies with responsibility for priority areas -- agriculture and livestock production, health, family planning, drinking water and sanitation, employment generation -- will be assisted through primarily local capital and recurrent cost support in accelerating the provision of staff, training and needed external resources to the project area.
- financial and technical assistance will be provided at the central and project level to establish and maintain effective coordinating and monitoring support within the project area.
- technical and financial assistance will be provided during area specific project design and implementation for medium and long-range planning of spatial development within the area.

The financial assistance discussed above is anticipated to comprise approximately 50% local costs, including some recurrent local cost financing on a descending scale. Expatriate technical assistance, following GON policy, will be kept to a minimum, and will consist primarily of short-term consultants for specific tasks. The use of Nepalese technical assistance will be maximized.

The Peace Corps parallels USAID/W's emphasis on the middle hills and will be providing the GOI with an increasing number of volunteers in critical areas such as rural water supply and education. These efforts are and will continue to be closely coordinated with those of other national and international volunteers, including the UK, the Germans, Dutch and Japanese. Nepal's own volunteer corps, the National Development Service, has expressed an interest in participating in rural area development efforts, primarily in village level activities. UNICEF, the United Mission to Nepal, and Save the Children Foundation - U.S. are all exploring the possibility of beginning small area development programs. Coordination with these and other voluntary agencies will be encouraged as the program progresses.

Environmental Degradation

The analysis section of this ODBS discussed the severity of the depletion of Nepal's natural resource base. USAID/W will support a local area approach to Nepal's environmental degradation problems in 4 to 6 watersheds, emphasizing the link between the human and physical resource base, in addition to the national level institutional aspects already discussed above.

The objectives for the local level approach to Nepal's environmental degradation problems are:

- to quantitatively and qualitatively improve the soil and water resource conservation and utilization practices in selected areas of Nepal.

- to relieve pressure on marginal and sub-marginal agricultural land through: a) improving and increasing non-farm employment opportunities; and b) improving the management of both livestock and of pastureland.
- to adapt and use appropriate technology being developed to expand the use of renewable and alternate energy sources as a substitute for scarce wood and manure.
- to strengthen the capacity of panchayats and other local organizations to plan, implement and sustain resource conservation activities; and
- to strengthen the capacity of the central departments and agencies plan, implement and monitor resource conservation activities in collaboration with local communities.

USAID/M's strategy to attain these objectives is formulated around the following elements which will be refined as the program progresses. All elements of this resource conservation strategy are based on the means of maximizing local participation to articulate and meet both short and long term needs of the rural poor. The overall strategy follows:

- planting of marginal and sub-marginal lands usually held in common by villages and panchayats, with fast-maturing, dual purpose fodder and fuel-wood species that support water development and supports agriculture production.
- establishing and improving pasturelands on less steeply sloping land that is not suitable for agriculture and introducing improved pasture and livestock management systems.

- introducing improved crop technology to increase the productivity of upland terraces and paddy lands.
- using alternate energy sources as substitute for scarce wood and manure, and
- expanding off-farm employment opportunities to decrease the burden on already overworked and limited arable land.

The strategy outlined above is complex and demands good quality technical backstopping. USAID/N will provide capital and local cost financing to promote employment and to construct erosion control structures and staff support facilities. Commodity support will be provided to encourage local seed growing and distribution and vegetative practices on eroding lands. Title XII institution(s) will work with the GON under a "collaborative assistance" contract in design and implementation of the program. This and other kinds of assistance will continue to be used for backstopping local participation projects and supporting the national staff to implement the designed strategy.

Few private voluntary organizations are working specifically in overall resource conservation and utilization, but several are working in components of the program which will probably receive USAID/N support. The United Mission to Nepal is assisting local private enterprise in the research, development and marketing of more efficient bio-gas plants suitable for low altitude use. The area chosen by the Save the Children Foundation - U.S. for an area development project is in one of the watersheds in the USAID/N program and efforts will be made to collaborate on relevant community activities. The Peace Corps has already assigned some volunteers to work under the program in soil and water conservation. Collaboration with other voluntary organizations indicating an interest in this problem area is planned as the program is further defined.

D. Other Strategy Options

Before reaching the conclusion that the dual national and local level strategy offered the best programmatic option for this Mission's strategy, USAID/N has given serious consideration to two alternative options. The first of these options was a key problem approach at the national level only, which would involve concentrating on the four major problems of rapid population growth, environmental degradation (institutional aspects), declining per capita food production and poor health. This approach has the advantage of spreading development inputs over a large area with the expectation that they will reach a large segment of the population. In addition, it is relatively easy from the management perspective for USAID/N to provide development assistance resources to such top-down programs. However, USAID/N agrees fully with the GOV that rural development in Nepal cannot be accomplished by relying primarily on delivery of services from the Center. Local human and financial resources must be mobilized through integrated rural area development programs. We share the GOV's conclusions reached in the "Basic Principles of the Sixth Plan" document as follows:

"In the context of boundless needs and aspirations as against limited resources, the need to take an integrated approach for rural or any other development work becomes obvious. Hence, the importance of intensive integrated rural development in the present development context of Nepal. The program ... will also infuse among the people a sense of participation by involving themselves directly in the formulation, implementation and evaluation of local development projects and in the decision making process." (pp. 58-59).

The implementation of this perspective requires sharply increased, multi-sectoral, direct support at the local level. Thus, the national level only alternative was rejected because it would have substantially less impact than the dual level

approach.

The only other approach given serious consideration by USAID/N was an integrated rural area development approach only. Another slight modification to this approach would be to add only one national level program, population/family planning, to the local level emphasis. This approach along with its modifications has the advantage of concentrating USAID/N's attention on assistance to rural development problems and opportunities for controlling the rapid population growth rate. However, USAID/N believes that national planning and delivery systems, beyond just population/family planning programs are as essential to rural development as are local level efforts. Likewise, the GON has requested our continuing assistance to a few of the national delivery services because USAID/N has been or can be an effective contributor to their expansion and improvement. Other donors are not likely nor do they have the capacity to take up much of the load if we were to terminate our efforts at the national level. Therefore, the local level only option and its slight modification were dropped, because it is inadequate for the development needs of Nepal and falls short of our capacity to assist.

Over the next year or so USAID/N will be assessing other options at both sector and overall levels. Our approach to the food production problem is tentative and will be more thoroughly explored with the help of the IBRD's recent comprehensive sector analysis and U.S. consultants. Among other things we will consider the use of food aid. Two overall options warranting exploration are: (i) a strategy for broad rural development assistance emphasizing resource transfers, which could move assistance levels closer to AFD's indicative planning figures through bilateral and regional programs and (ii) a strategy focusing on increasing rural labor productivity and related acceleration of the reduction in population growth. Nutrition and health would be important linking concepts. The role of internal migration to the terai

reconsidered as part of this.

.. Other Donor Programs

As this CDSS document has demonstrated, Nepal will have a substantial need for external assistance over the Sixth Plan Period (1980-85). Currently, the major bilateral donors providing development assistance to Nepal include the United Kingdom, Federal Republic of Germany, India, Japan, Canada, Switzerland, China and the U.S. The multilateral institutions such as the World Bank, Asian Development Bank, UNDP and its specialized agencies (WHO, FAO, UNICEF, UNFPA, WFP and UNDF) are also major donors to Nepal. Donors are unable to give us long-term projections, but we estimate they will provide about \$950 million during the strategy period.

Most of the donors, except for India and China, coordinate their assistance flows through the World Bank led Nepal Aid Group, which was formed in 1976. There have been two formal meetings of the Nepal Aid Group so far, and a third meeting is scheduled for the fall of 1979. One meeting of local donor representatives has been held in Kathmandu to discuss the GON's integrated rural area development strategy and proposed donor programs in this area. In addition, there have been a series of informal meetings among donors, including those that are not members of the Nepal Aid Group, to coordinate programs in the areas of resource conservation, health, population/family planning, agriculture, and rural area development. Nevertheless, there is a need for the GON to take a more active role in bringing about more formalized coordination under its leadership, among donors based in Kathmandu. In its absence we welcome the IRPD's emerging local leadership. On a day to day basis USAID/N has close and effective working relations with main donors in each area receiving our attention.

In regard to donors' areas of emphasis, the World Bank and Asian Development Bank are focusing mainly on infrastructure projects especially in the terai and Kathmandu (including roads, irrigation, hydel power) and more recently on rural area development projects in separate regions of the country. The UNDP and its

specialized agencies are providing technical, training and commodity assistance in: Health - water supply, sanitation, malaria control and integrated health services; Agriculture - grain storage, irrigation, forestry and range management; Population/Family Planning - census and family planning budget support; and Food Commodities - to support food for work activities. India is concentrating assistance on industry, irrigation and hydel power projects in the terai. China is interested in roads, power and industry mainly in northern part of the country. The Japanese are interested in hydel power, roads, health posts and commodity imports. The Federal Republic of Germany is involved in rural development in the Central Region, education, fertilizer imports and power. The United Kingdom is involved in road construction, education, agriculture and rural development mainly in the Eastern Region. Canada is expected to concentrate its assistance on power systems management, water resources mapping and rural development activities in one of the zones in the Far Western Region. Switzerland is heavily involved in Trail Suspension Bridges construction, rural roads, dairying, hill agriculture (potatoes) and mini-hydel schemes. Donor assistance is on a very soft loan basis or a grant basis, given Nepal's status as an RLDC.

The donor community programs are not duplicatory. In the sector areas of common interests, these donors meet regularly which helps insure that there is little overlapping of assistance provided in these areas and their programs are complimentary or geographically separate.

(Note: This strategy section does not deal with the important questions of regional water control and power development. Our next CDSS will touch on them as part of Nepal's development context. It is USAID/N's view that while regional programs relating to water and power need to be kept clearly separate from our bilateral assistance program, strategy for the latter should take account of the former. Each needs support from AID. In that regard, contributions to regional projects in Nepal could have a bearing on the appropriateness of the Indicative Planning Allocation discussed below.)

PART III ASSISTANCE PLANNING LEVELS

A. Commentary on Indicative Planning Levels

The Indicative Planning Allocation (IPA) proposed by AID/W for the Year 1985 totals \$71 million. USAID/N believes that this proposed level of assistance to Nepal is too high based on the GON's investment gap analysis for the Sixth Plan Period, other donor assistance flows, the type of program that is feasible for AID in Nepal and the mission staff limitations to manage such a program. Therefore, USAID/N recommends that the FY 85 IPA be reduced to \$35 million for Nepal at this time. During the coming year we will examine the question further.

In regard to staffing limitations, we assume that our ceiling for US and Foreign National direct hire employees will not be raised substantially.

The table below shows our proposed annual funding levels for 1981-85. They total \$150 million. The annual levels reflect our rough assessment of when program elements will be ready to come on stream. The amounts reflect multi-year but not necessarily life-of-project funding.

The growth in the program is moderate when inflation is taken into account. It reflects roughly a doubling of the current level of effort over the period in question. This amount of effort concentrated on the few key problems identified in this document for attention will permit us to provide and manage effectively significant help to Nepal in its ambitious program aimed at measurable improvement of the quality of life of its 13 million rural people.

B. Proposed Assistance Planning Level (PAPL)
(\$ Millions)

	Fiscal Year					Totals
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	
POPULATION	-	9.4	-	4.3	10.0	23.7
HEALTH	12.6	2.0	-	5.0	13.0	32.6

	Fiscal Year					Totals
	1981	1982	1983	1984	1985	
AGRICULTURE	11.4	20.6	22.0	27.7	12.0	93.7
Environmental Degradation	(7.7)	-	(21.3)	-	(11.1)	(40.1)
Per-Capita Food Production	(2.5)	(14.9)	(.7)	(14.8)	(.9)	(33.8)
Rural Area Development	(1.2)	(5.7)	-	(12.9)	-	(19.8)
Totals	24.0	32.0	22.0	37.0	35.0	150.0

The above table shows that USAID/N's proposed development assistance program for the period FY 81-85 is focused on the set of key development problems identified in the Strategy Section of this CDSS document (See Table 4 of Annex for more detail).

We do not at this time see critical key problems additional to those identified which we are prepared to help the GVN address during the 1981-85 period, given our staff limitations. (If more staff were available or our management load were to drop, assistance to rural basic education would be seriously considered.) We expect our portfolio of projects to decline from the present level of 21 to a range of 15-18, plus FITC and central projects requiring attention. This will permit us to concentrate more of our modest sized staff than is now possible on each of the management intensive areas that we are addressing. Personnel will be concentrated particularly on the high risk population, resource conservation and rural area development programs to insure timely implementation and effective evaluation.

All of the projects to be included in each program cannot, of course, be precisely identified at this time. In the food production area considerably more analysis is needed before firm project titles and scope can be forecast. Our thinking about both the rural area development and resource conservation programs will evolve rapidly over the next year or two as the GVN and donors bear down on the emerging local and national constraints to success. New project needs will undoubtedly emerge.

We have, however, identified elements of the major problems which we expect to help address and have analyzed probable funding levels for each element over the 5 year period in Table 4 of the Annex.

We do see the following projects as among those we are likely to propose in due course: (1) a Phase II in FY 81 of a Rural Medical Education project being initially funded in FY 79; (2) an Agricultural Policy project in FY 81; (3) a Rural Sanitation project in FY 82; (4) a Farming System Production project in FY 82; (5) an FY 83 Phase II of the Resource Conservation and Utilization project initially funded in FY 80; (6) a Phase II in FY 84 of the Rural Area Development - Rapati Zone project initially funded in FY 80.

C. Staffing Implications

USAID/N proposes in the strategy period an increase of only 2 US direct hire positions in its staffing levels over the planned level in FY 80 of 25 US direct hire positions and 64 FN direct hire positions. The foreign national direct hire staff will remain at the same levels throughout the planning period. This proposal assumes that the current ceiling and personnel service contract constraints will continue through the strategy period.

USAID/N's project workload is expected to total between 15 and 18 projects from FY 81-85, plus FITC and AID centrally funded projects which will require varying amounts of support. The proposed staffing level will be adequate to the task of planning and managing the increasingly large, complex, widespread projects that will require a high level of management intensity and field activity in remote areas. These large projects will contain many sub-activities, which will require detailed staff monitoring to insure proper implementation. The only constraint may arise from the increased design and approval responsibility being

placed on field missions, which will require a broad mix of skills to effectively design projects to reach the rural poor. Our current estimate, however, is that with the help of regional staff and consultants we can do the job carefully and satisfactorily.

USAID/W expects a continuing requirement for analytical, program and project design assistance over the strategy period. Special needs are expected to materialize for short term outside design and evaluation assistance in the areas of agricultural policy, economics, credit and marketing, rural information systems, non-formal education, non-conventional energy, rural sanitation, rural employment, and spatial planning.

TABLE 1

CONCENTRATION OF INCOMES

	<u>"Agricultural Development and Agrarian Structure in Nepal"</u>	<u>"Nepal Rural Household Survey"</u>	<u>"A Survey of Employment, Income Distribution and Consumption Patterns"</u>		
Hills	.48	.43	n.a.		
Terai	.51	.51	n.a.		
Nepal	.49	.46	.60		
These coefficients compare to other Asian countries as follows:					
Pakistan	.27	Sri Lanka	.39	Malaysia	.47
Bangladesh	.30	India	.40	Thailand	.47
Korea	.33	Taiwan	.40	Philippines	.49

TABLE 2

AVERAGE RURAL FAMILY INCOMES

	<u>Annual Average</u> <u>Family Income</u>	<u>Major Source</u> <u>of Income</u>
Landless	\$416	Salary and Wages
Marginal Irrigated	296	Crops
Marginal Unirrigated	410	Salary and Wages
Small Irrigated	507	Crops
Small Unirrigated	413	Crops
Medium Irrigated	727	Crops
Medium Unirrigated	493	Crops
Large Irrigated	852	Crops
Large Unirrigated	638	Crops

TABLE 3

DISTRIBUTIONS OF SECTORAL ALLOCATIONS OF PROJECTED EXPENDITURES, FIFTH PLAN AND DRAFT SIXTH PLAN (% AND \$ MILLION):*

<u>Activity</u>	<u>Sector</u>						<u>Total</u>	
	<u>Public</u>		<u>Panchayat</u>		<u>Private</u>		<u>Fifth</u>	<u>Sixth</u>
	<u>Fifth</u>	<u>Sixth</u>	<u>Fifth</u>	<u>Sixth</u>	<u>Fifth</u>	<u>Sixth</u>		
Agriculture, Irrigation,	30	27	30	35	50	45	36	32
Soil Conservation, etc.	(176)	(439)	(34)	(88)	(128)	(206)	(338)	(733)
Social Services	22 (128)	24 (390)	20 (23)	25 (62)	-	-	16 (151)	19 (452)
Industry, Commerce,								
Electricity, Mines,	20	26	-	10	20	35	17	26
Tourism	(116)	(422)		(25)	(52)	(160)	(168)	(607)
Transport and	28	23	50	30	30	20	31	23
Communication	(162)	(374)	(56)	(75)	(78)	(92)	(297)	(541)
Total (of total projected expenditures)	61 (582)	70 (1625)	12 (113)	11 (250)	27 (258)	19 (458)	100 (954)	100 (2333)

*At official rates of exchange (Rs 10.6 = \$1 1973, Rs 12 = \$1 1978). Fifth Plan in current prices, Sixth Plan in constant FY 80 prices. The National Consumer Price Index (FY 73 = 100) stood at 157 at mid-June 1978 (latest data available).

TABLE 4

PROPOSED ASSISTANCE PLANNING LEVEL (PAPL)
(\$ MILLIONS)

CATEGORIESPOPULATION

<u>Rapid Population Growth</u>	Fiscal Year					<u>TOTALS</u>
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	
Management	-	.6	-	-	.5	1.1
Logistics	-	.2	-	-	.5	.7
Commodities	-	3.5	-	-	2.0	5.5
Training	-	.2	-	-	2.0	2.2
Planning	-	.4	-	-	1.0	1.4
Population Policy	-	.8	-	4.3	-	5.1
Local Costs	-	3.7	-	-	4.0	7.7
(On-going)	(-)	(9.4)	(-)	(-)	(-)	(9.4)
(New)	(-)	(-)	(-)	(4.3)	(10.0)	(14.3)
SUB-TOTAL	-	9.4	-	4.3	10.0	23.7

HEALTHPoor Health

Management	.9	-	-	-	1.0	1.9
Logistics	2.6	-	-	-	2.0	4.6
Training	2.5	-	-	-	3.0	5.5
Planning	.4	-	-	-	1.0	1.4
Health Education & Sanitation	.6	2.0	-	5.0	-	7.6
Local Costs	5.6	-	-	-	6.0	11.6
(On-going)	(10.3)	(-)	(-)	(5.0)	(-)	(15.3)
(New)	(2.3)	(2.0)	(-)	(-)	(13.0)	(17.3)
SUB-TOTAL	12.6	2.0	-	5.0	13.0	32.6

AGRICULTUREEnvironmental Degradation

Conservation Improvement	1.0	-	3.3	-	2.0	6.3
Training/Education	1.5	-	3.3	-	2.1	6.9
Employment	2.0	-	5.5	-	5.0	12.5
Appropriate Technology	1.5	-	4.5	-	2.0	8.0
Planning Capacity	1.0	-	2.7	-	-	3.7
Research Development	.7	-	2.0	-	-	2.7
(On-going)	(7.7)	(-)	(-)	(-)	(-)	(7.7)
(New)	(-)	(-)	(21.3)	(-)	(11.1)	(32.4)
SUB-TOTAL	7.7	-	21.3	-	11.1	40.1

<u>Per-Capita Food Production</u>	<u>Fiscal Year</u>					<u>TOTALS</u>
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	
Agricultural Policy	2.0	-	-	-	-	2.0
Farming Systems	-	10.0	-	12.0	-	22.0
Training/Education	.5	4.9	.7	2.8	.9	9.8
(On-going)	(.5)*	(.9)*	(.7)*	(.8)*	(.9)*	(3.8)*
(New)	(2.0)	(14.0)	(-)	(14.0)	(-)	(30.0)
SUB-TOTAL	2.5	14.9	.7	14.8	.9	33.8
<u>Rural Area Development</u>						
Food Production & Consumption	.3	1.5	-	3.4	-	5.2
Income Generating Opportunities	.2	1.3	-	3.2	-	4.7
Local Organizations	.3	1.3	-	2.8	-	4.4
Basic Services/Infrastructure	.4	1.6	-	3.5	-	5.5
(On-going)	(1.2)	(5.7)	(-)	(-)	(-)	(6.9)
(New)	(-)	(-)	(-)	(12.9)	(-)	(12.9)
SUB-TOTAL	1.2	5.7	-	12.9	-	19.8
TOTAL	24.0	32.0	22.0	37.0	35.0	150.0

*Special Foreign Currency Appropriations for India Training.