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Country Development Strategy Statement

SMALL PROGRAM STATEMENT

FY 1984

Nepal

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BEST AVAILABLE

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SMALL PROGRAM STATEMENT

NEPAL

Objectives

The main AID objective in Nepal is to help make the hills a fit place to live. Companion to this is the larger purpose of achieving balanced growth for the country at large. In terms of immediacy these objectives recognize the overriding economic and social deprivation of the hills. They also reflect the interdependence of all the regions and people of Nepal.

The statistics which place Nepal among the least developed countries are challenging enough: per capita annual income $140, 80 percent adult illiteracy, life expectancy 44 years, chronic malnutrition and barely half the people within reach of government health services. The figures for the hills however are even worse. They portray a people literally at the edge of survival--income less than $100, 90 percent adult illiteracy, life expectancy of 40 years, less than 20 percent of the people in reach of health services, severe malnutrition and food consumption 10 percent less than the national average.

Population pressure in the hills means 1500 persons per square kilometer of arable land, average family land holdings less than a hectare, declining yields and land productivity, forest degradation and widespread erosion. These in fact are the most ominous indicators, for food is not only the staple of life, it is the source of work and income for more than 95 percent of the hill population. Moreover, in the face of both the

lower levels of food consumption and endemic malnutrition in the hills, it is clear that Nepal's precarious crop surplus from the Terai (southern border) is exported at the expense of the people of the hills.

In past years Nepal had looked to a diversification of agriculture based on climate, with the Terai producing food grains and cash crops and the hills concentrating on horticulture and livestock. Confronted however with food deficits in almost all hill districts, the extreme difficulty of transporting commodities in or out of the hills and the pull of the Indian market for Terai production, this policy failed. Diversification of agriculture in Nepal (as development generally) can only be based upon stable economies in each region. Instability in the hills retards progress for the country as a whole.

Recognition of this fact is probably the principal factor in the current Government of Nepal (GON) emphasis on increasing hill food production. Equity concerns also count heavily, and these have been reinforced by the political changes of the last two years, the contentious national referendum in 1980 in which the hill regions gave the political Establishment its only solid support, and the more recent (1981) election of parliamentary representatives.

In sober development terms however it is also important to recognize the limits of potential change. Even if all GON and

donor-assisted hill projects meet their targets, improvement in living standards for most people in the hills will not be great. As the World Bank recognized in its recent (1981) report, ".... extreme poverty will remain the norm for large segments of the country for many years to come." This is especially true for the hills whose people, in mute testimony to that truth, migrate yearly by the thousands to the Terai and India.

This mass movement of population may slow somewhat as the result of diminished opportunities or due to government restriction, but it almost certainly will not completely cease. The plain fact is that the carrying capacity of the hills has already been exceeded. Beyond therefore the immediate need for establishing minimal conditions for survival in the hills, it is imperative to plan for the parallel growth of the Terai and of the valleys and towns. In effect, the pressing conditions in the hills should not obscure longer term recognition of the interdependence of the hills with the rest of Nepal.

Program Concentration

AID program concentration reflects both emphasis on hill development and the essential relationship of this to national growth. In the course of the last two years the AID program in Nepal has been reduced from 17 projects to 11 with a focus on coordination for mutual reinforcement. Food production, income generation and employment schemes, energy and natural resource conservation

are all integral to each of our two principal hill development programs. The integrated rural development program in the Rapti Zone will increase food production, generate off-farm employment, develop small irrigation systems, expand agricultural credit, improve roads, assist reforestation and strengthen the quality of livestock. The resource conservation project, targeting the Kali Gandaki and Daraundi watersheds, includes many of the same components with particular emphasis on energy and natural resource protection and renewal. Both projects depend for success on community participation and decentralized implementation, and both rely on subsidiary AID projects to reinforce their objectives.

Both for example draw upon the AID suspension bridge and radio education projects for infrastructure and communications. More importantly, both draw upon technology developed and tested by the integrated cereals and seed production projects, on the work of the agricultural resource inventory program, and on the improved research and planning capability of the Ministry of Agriculture, supported through an Agricultural Development Council (ADC) grant. Ultimately they will also benefit from AID assistance to the Institute of Agriculture and Animal Sciences (IAAS), Nepal's sole resource for training agricultural planners and field extension agents. The institutional development, technology transfer and extension emphases reflected in these support projects also contribute more

generally to the development of a capacity in Nepal to support agricultural development nationally.

Under conditions where less than 50 percent of the population has access to government health services and where the prevalence of contraceptive use is less than 10 percent of eligible couples, the population is growing at nearly 2.6 percent per year. The implications of this rapid increase make health and family planning the most important of all the AID programs. With infant mortality now in excess of 150 per 1000 births, improved rural health services are a prerequisite to effective family planning.

Of all perceived deprivations, poor health care is the one most frequently voiced. Complaints about poor roads, faulty irrigation, lack of seed, high cost of fertilizer, are a common refrain, but they are also what Nepalis are prepared to live with. Shortages of medicines however, the absence of health workers, mid-wives, nurses and doctors, are real and personal grievances for people who are chronically sick, in effect for much of the population of Nepal. While the AID integrated rural health and family planning project, therefore, reinforces the Rapti and resource conservation projects with services in those project areas, it contributes directly to GON efforts to extend the reach of adequate health and family planning services throughout the country. In the longer

term, the affordability of health care in rural areas--the sharing of costs by communities and households --is a principal question to be addressed in this project. Without community financial support, there probably can never be an adequate health system throughout rural Nepal.

AID support to the National Population Commission reinforces government efforts in health and family planning and injects the population issue into development policy as a whole. National policies affecting female education and employment, child labor and compulsory schooling, migration and family security are as vital as health and contraceptive services in bringing down the high rates of population growth. The framework provided by the Commission is an essential vehicle for developing and applying these policies throughout government development work.

The AID/Nepal effort can be more directly focused by merger into a single project of the present national agricultural systems support projects. In effect this would require a fourth core project */ that would combine the education, planning, research and extension work of such projects as integrated cereals, seed production and input storage, ADC support to the Ministry of

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*/ The present three: Integrated Rural Health and Family Planning, Rapti Zone Integrated Development, and Resource Conservation and Utilization.

Agriculture and MUCIA assistance to the Institute of Agricultural and Animal Sciences. As these projects terminate over the next three years they would be succeeded by the larger single program. This would permit stronger emphasis on the common problem of extension and technology transfer, the key to project impact. It would also maintain continuity in support of Nepal's teaching and research institutions.

The agricultural core project would essentially provide support for national systems--institution building, research for generating, improving and adapting food production technologies, teaching, policy formulation, extension, etc. The Rapti and resource conservation projects (and most other donor-assisted agricultural and IRD-projects) deal with the application or use of products from national systems. Indeed, they are heavily dependent upon national systems for ideas and materials to work with at the farm level. The movement of the GON agricultural research system toward a sharper understanding of the realities of Nepal's multifaceted, integrated farming systems, and the expanded communication roles (transfer and feedback) required of the extension service in this process, together argue for further balancing of AID support between the two essential poles of generation and application.

Similarly, AID support to radio education and to suspension bridge construction in the hills would continue, with emphasis

on the Rapti Zone and resource conservation areas. Apart from the obvious development effect of the bridges, the project exemplifies AID cooperation with Peace Corps and other donors. Peace Corps Volunteers and Swiss technicians in fact are responsible for much of the field work. Radio education, directed to primary school teachers, is a measure of the seriousness with which we take the basic developmental problem of literacy and view its potential contribution to change. Education is a traditional AID field in Nepal and while we have reason for pride, we have even more cause for staying with the effort. Both suspension bridges and radio education are expected to end next year.

Nepal's extensive potential in multi-purpose hydro development, particularly the Karnali project, presents a special opportunity. If Nepal and India reach agreement on Karnali, and the project engages the support of the World Bank, we would propose at that point the United States consider providing assistance should that need be identified.

Finally, given the chronic food deficit and low purchasing power in the hills, we propose in the course of this year to review the feasibility of an expanded food for work program. AID at present provides approximately $2.1 million annually to the World Food Program (WFP) for food programs in Nepal and these include significant food for work activities. Our review of the question assumes continuing WFP sponsorship but will specifically

look to the adequacy of the present program both in scale and substance.

Agency Priorities

It is not difficult to characterize the AID/Nepal program in terms of the Agency's priorities. The overriding goals of increased food production and consumption are reflected in virtually every aspect of the program including health and family planning. The program specifically calls for coordination of projects so that each reinforces the others and depends on the institutional linkages and technology transfer among them.

Support to higher education, for example, as well as basic training of agricultural technicians is the substance of the IAAS/MUCIA project; the research and planning purposes of the Ministry of Agriculture are supported through the ADC grant. Both projects, together with the agricultural resource inventory project, contribute to the cropping systems research and extension of the integrated cereals project (ICP) and to the seed dissemination and extension objectives of the seed production and input storage project. Each of these projects in turn works in the Rapti and resource conservation areas, as do suspension bridges and radio education. In all areas and at all levels, institutional development, including training, is basic to project and program success.

The role of universities and Title XII institutions in this effort is substantial. Not only do these include MUCIA (Mid-Western University Consortium for International Activities) noted above, but also SECID (South-East Consortium for International Development) as the supporting institution for resource conservation, ERIM (Environmental Research Institute of Michigan) for the agricultural resource inventory program, IADS (International Agricultural Development Service) for both the integrated cereals and seed projects, and SIU (Southern Illinois University) for radio education. The list reflects the importance of the contribution these institutions can make to the technology transfer and institution building necessary to the development of Nepal. Their work is an integral part of the AID/Nepal program.

Added to these are the modest supportive roles of PVOs in health and family planning, rural development and health, rural development and education. Particularly important and equally responsive to the Agency's directions is the close cooperation reflected at the project level between AID and the Peace Corps. Some 23 Peace Corps Volunteers are now at work in AID projects and more are coming. AID has also financed and participated in substantive project training for Volunteers.

In effect, the program is lean, focused, interlocking and responsive to Nepal's immediate and longer term development. It is also closely coordinated with assistance from other donors. The infrastructure work of India, China, France, Japan and the multilateral development banks contributes in complementary fashion to Nepal's needs. India, through the use of PL 480 rupees, is also an important and continuing source for training Nepalese technicians under our program. The Federal Republic of Germany, the United Kingdom, Canada, Australia, Switzerland and the United Nations generally share with AID the same broad rural development emphasis. Donors often work in geographically separate areas, but contact in policy exchange and shared experience at the project level provide a continuing basis for coordination.

Issues

To leave it at that however is too simple. Assuming each project meets its objectives, there is the larger question whether the effect will amount to more than marginal improvements in the lives of people. For that question, there are no immediate answers. Substantive and timely evaluations, the willingness to change course and the recognition of the fragility of the people-resource balance in the hills will all have a bearing on how the issue is ultimately determined.

Private Sector

Private sector involvement in the AID/Nepal program is limited, but this simply reflects the paucity of opportunities for the private sector in Nepal generally. Per capita industrial investment in Nepal is less than $2.50. Eighteen (of 75) districts have no such investment at all. There has nontheless been private sector growth in Nepal over the last decade and this is expected to accelerate. The GON has issued new industrial and investment policies encouraging an increased private sector role, and 34 percent of the development expenditure targets of the current plan are expected to be met by the private sector.

United States participation in that growth however has been negligible, limited principally to tour and travel agency connections, a few hotel projects and discussions between an American pharamaceutical company and the Royal Nepal Drug Company. It is difficult in fact to say whether large scale capital investment makes sense in Nepal for private United States or even indigenous investors. While the adjacent Indian economy represents a potential market it is also the major source for virtually every requirement Nepal has. More importantly, India provides the only practical surface access to Nepal for raw materials and the only corridor for export transit to third countries. In addition, to the extent encouragement of the private sector in Nepal has historically meant encouragement of

Indian investment, concerns have been raised in the GON. In sum, there has been official ambivalence about foreign investment in Nepal and the resulting policy swings have led to investor insecurity.

Apart from continued AID program support to farmers, cottage industries, appropriate technology development and to PVOs, discussion of an expanded AID/private sector role in Nepal is probably theoretical for the present. Immediate opportunities for profit are limited and investment difficulties are formidable. More to the point, profit-seeking investment often tends to bypass the basic needs of the poor--they have little potential for immediate profit. That is certainly the case for the hills of Nepal. This having been said however, the GON's new policies regarding foreign investment are encouraging and the potential they may offer will be explored in the coming year.

Policy Dialogue

The recent Aid Group meeting raised a series of policy questions for the GON. The most important of these concern: greater mobilization of domestic resources (particularly from the agricultural sector), reduction in number and increase in efficiency of public corporations, emphasis on operation and maintenance rather than on new projects, and need for development of a coherent population strategy.

Related to these was the general conclusion that Nepal's agricultural pricing policies need to be addressed, but with the understanding that the specifics would await completion of the Asian Development Bank (ADB) agricultural sector study. In a country where subsidized food distribution meets only ten percent of the hill food deficit, where even at the subsidized price it is too expensive for most people, and where only eight percent of the chemical fertilizer in the country is consumed in the hills, the question of the effect of pricing on production incentives is not at all clear. The ADB study should shed light on the issue and permit a formulation of the question.

The Aid Group's recommendations reflect the fact that the development of Nepal depends overwhelmingly on the efforts of the Nepalese themselves and that policy changes toward greater self-reliance are in Nepal's own interest. AID is associated with these recommendations, and while some of the specifics remain to be defined, the Aid Group findings generally provide the policy agenda for the coming year.

United States Interests

The capacity of AID to influence government policy in Nepal is a function not only of approach but equally of the scale of assistance at our disposal. The United States has been an important contributor to the development of Nepal for 30 years. Although our relative ranking in the list of donors has declined,

our presence and contribution remain important. The close cooperation and understanding which this long association represents are a tribute to the good relations between both countries. In plain terms, Nepal's stability and friendship are important to the United States. In that context it would be difficult to argue with the proposition that dialogue between this least developed country and the richest country in the world must reflect America's concern for Nepal's development. By the same standard, the current levels of support for the Nepal program are barely credible. Once the present implementation momentum has improved and the pipeline has been reduced, that issue will need to be addressed again if we are at all serious in what we are about in this country.

Planning Levels

	($ Millions)				
	FY 83	FY 84	FY 85	FY 86	FY 87
Agriculture, Rural Development and Nutrition	8.3	10.7	11.7	14.5	15.5
Population	2.4	2.4	2.9	3.0	3.0
Health	2.5	2.9	2.9	2.5	3.5
Education and Human Resources	0.3	0.5	0.5		
Total	13.5	16.5	18.0	20.0	22.0

These planning levels will not permit us even to implement the present program at expected disbursement rates. They preclude

altogether any consideration of increased assistance, a requirement supported both by Nepal's needs and by the interests of the United States in Nepal's development.

AID/NEPAL - SUMMARY OF ACTIVE PROJECTS

Projects No.	Title	FY of Initial Oblig.	FY of Final Oblig.	($ '000) Authorized Project Cost 2/
0102	Institute of Agriculture and Animal Sciences	74	82	5501
0114	Integrated Cereals	76	82	7970
0118	Seed Production & Input Storage	78	78	4031
0119	Trail Suspension Bridges	79	79	3000
0123	Radio Education Teacher Training	77	81	3285
0129	Rural Area Development (Rapti Zone)	80	84	26700
0130	Population Policy Development	79	79	2000
0132	Resource Conservation and Utilization	80	84	27498
0134	Agriculture Resource Inventory	80	80	2400
0135 1/	Integrated Rural Health/FP Services	80	84	34200
0144 1/	PVO Co-Financing	81	84	2500

1/ SPLIT FUNDING

2/ ALL GRANTS