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Country Development Strategy Statement

FY 1986

Nepal



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I. ANALYSIS

A. Development Context: Summary and Update

By most standards Nepal is one of the least developed countries in the world. The per capita annual income is currently estimated at only \$140, about 80 percent of the adult population is illiterate, life expectancy at birth is only 44 years, and few people have access to unpolluted water or adequate basic health care. The physical obstacles to development are more severe than those found in many other developing countries.

Nepal has a relatively narrow resource base. There is little available arable land; an underdeveloped human resource base; a social context which excludes most women from development opportunities and benefits; lack of adequate and alternative energy resources (fuelwood provides over 85% of total energy consumption); rapid deterioration of natural resources; limited resource mobilization and inadequate financial resources. In addition, both the public and private sectors in Nepal suffer from inadequate development experience. Indeed, few countries began their development as late and at such a natural disadvantage.

The difficult topography of the Himalayan hills and mountains results in extreme inaccessibility of many parts of the country. It has been estimated that one-third of Nepal's people require three days walking time to reach a motorable road. In these areas, marketing is limited largely to the capacity of human portage, and about 50 percent of the economy remains non-monetized. Nepal, being landlocked, is dependent upon India and Bangladesh for external transit. In this regard, special insurance requirements, documentation, and cumbersome formalities all contribute to the high cost of importing and exporting. The lack of an

adequate internal transport infrastructure further compounds problems in the flow of economic goods and services. These facts complicate development efforts and add substantially to the cost of material inputs and production.

Agriculture dominates the economy of Nepal. The sector provides a way of life for 94 percent of the economically active population and accounts for 60 percent of GDP and 70 percent of exports. Productivity has declined slightly during the last 20 years, retarding growth of the entire economy. Substantial investments, both domestic and external, have yet to result in corresponding increases in agricultural production. A rapid and sustained increase, primarily through an improved system for the development and dissemination of technology, is essential to meet food needs, raise income, and provide employment and export opportunities. The future pace and course of economic development depends upon growth in the agricultural sector.

The nutrition status of the population has gradually deteriorated. Only 86 percent of the WHO per capita minimum daily caloric requirement is being met; roughly 30 percent of the population face malnutrition. Unskilled labor is an abundant and cheap resource, however unemployment and underemployment are high both for unskilled labor and in other fields.

Nepal's demographic situation is perilous. Over the past decade, a 2.6 percent population growth rate -- coupled with average annual GDP real growth of 2.5 percent -- has produced a net decline in average per capita income. Unless this rapid population growth rate can be reduced,

much of Nepal's development effort will continue to be nullified. The population density per hectare of arable land already exceeds those of Pakistan and India. There is marked evidence of resulting pressure on the physical environment, and an increasing burden on the Government of Nepal (GON) to provide basic economic and social services.

In addition to these long-term difficulties, more immediate economic problems are of mounting concern. These include: (1) inadequate domestic resource mobilization for controlling rapidly increasing budget deficits; (2) growing demands on limited foreign exchange earnings; and (3) the need for expensive infrastructure requirements in most areas of development. There is growing recognition of the need to mobilize greater domestic resources to (1) maintain government salaries high enough to serve as an effective performance incentive; (2) maintain newly completed projects and existing national infrastructure; (3) cover large consumer and agriculture subsidies; and (4) finance new development initiatives.

In addition, Nepal's exports (presently on a par with 1975-1978), have declined significantly for the last two years. Reduced international reserve holdings are now equivalent to only four months' imports and create great demand on the foreign exchange earnings of the tourism and capital accounts. Yet Nepal must import to exist, let alone develop.

Furthermore current political challenges such as the issue of migration, the need to reduce consumer imports at a time of rising expectations, and regional issues involved with the development of Nepal's vast hydropower potential complicate finding solutions to development

problems. It may become more difficult for the GON to remain focused on the country's longstanding development problems if these more immediate economic and political problems are not resolved.

The central theme of our assistance strategy is balanced development for both the southern plain (Terai) and the hills. The Terai (which consists of the northern part of the Indo-Gangetic plain) is a flat, fertile plain on which most agricultural development has occurred over the past 30 years and which holds the largest promise for expanded food production. The hill region, on the other hand, contains more than half of Nepal's population, most of whom live in extreme deprivation. AID-supported research on improved varieties of rice, wheat and maize has scope for broad application in both the Terai and the hills. AID projects in conservation and improving agricultural practices are under way in both areas, with particular emphasis on the hills. Our rural health/family planning and education/human resource development programs are nationwide endeavors. AID's contribution to national strategies for health, family planning and natural resource conservation are key involvements which cut across the hill-Terai dichotomy.

FY 1986 will be the first year of the GON Seventh Five Year Plan, documentation for which is not yet available. However, the GON presentation to the December 1983 Paris meeting of the Nepal Aid Group, together with other current official pronouncements, indicate the Seventh Plan will continue the priorities established in the Sixth Plan.

II. STRATEGY

A. Overview

These priorities are principally addressed to improving the quality

of rural life through increased productivity, promotion of employment, expanded coverage of social services and improvement in natural resource management.

AID's program in Nepal is and will continue through the 1980s to be oriented toward the problems of an overwhelmingly rural society and economy. Thus AID's Rapti and Resource Conservation and Utilization (RCU) projects are directed toward integrated, self-sustaining development activities, including effective local support systems. The planned Institute of Agriculture and Animal Science (IAAS) II and Agricultural Research and Production (ARP) projects also reflect this rural focus. Although our Integrated Rural Health/Family Planning project and education sector activities will have impact in urban areas and towns they, too, will continue as primarily rural initiatives. We are also assessing urban problems and trends in Nepal as a basis for GON and other donor consideration, but do not anticipate significant allocation of AID resources in this sector.

1. Objectives

Our specific development objectives are to

- Increase rural productivity and income levels
- Improve natural resource management
- Broaden access to basic services, particularly health and family planning.

2. Constraints

Nepal poses an array of obstacles which typify many LDCs but in the Nepal context appear particularly imposing. The major constraints include

- Extremely rugged topography

- A dearth of adequately trained development personnel
- A rural household production system dependent on traditional technologies and practices leading to relentless exploitation of the environment as a means of survival
- A meager and deteriorating resource base which, given prevailing methods of production, is already taxed beyond its ability to sustain existing population densities in the hills
- Deeply ingrained cultural and economic factors bolstering resistance to attitudinal change with respect to family planning and the role of women.

3. Program Strategy

In recognition of these constraints and in order to address them, AID is pursuing a rural development strategy the principal elements of which are summarized as follows:

- Integrated, multi-sectoral programming. Although an exception to the Asia Regional Strategy, in Nepal an integrated approach to rural development (IRD) offers greatest promise for sustained impact given the obstacles outlined above. Isolated initiatives, though simpler in concept and implementation, do not bring to bear the breadth of resources required.
- Geographic focus. AID's IRD, natural resource and primary education programs focus on targeted hill regions of the country. Assistance to the national systems for agriculture and health/family planning supports these programs.
- Natural resource management. The basic life support capacity of the hill environment is deteriorating rapidly. Testing and implementing technologies to reverse this trend, and creating the institutional

means to do so, are priority concerns.

- Increase productivity. The household production system is central to rural development. Labor productivity in agriculture must increase with better access to inputs and improved farm technology. AID's strategy also puts new emphasis on reaching the female population through our program.
- Reduce the population growth rate. Nepal, it has been reported, has a higher ratio of population to arable land even than Pakistan or India. Family planning and maternal and child care will receive continued emphasis throughout the program.
- Decentralization. Local government units concerned with development in the hills lack adequate authority to develop or use resources. The ADB Agriculture Strategy Study cites organizational/managerial weakness as a foremost obstacle to progress in that sector. AID's strategy will concentrate on helping to build local institutional capability and participation and will urge greater devolution of resources and fiscal authority.
- Policy. AID recorded our leading policy interests related to promotion of rural development in the FY 1985 ABS. In addition to decentralization these include continued influence on the national conservation and population strategies; fertilizer and seed policies; agriculture pricing and marketing and related private enterprise incentives.
- Collaboration with the other donors. This cooperation is essential

as we seek to influence GON policy considerations. The recently concluded ADB and GON fertilizer loan agreement, which contains terms promoted by AID relating to producer incentives and fertilizer pricing and marketing, is evidence of the promise of this approach. Over the CDSS period AID will seek continued opportunities to reinforce our program objectives through coordination with other donors, including complementary and co-financed projects (e.g., in agriculture and education).

The following sections review specific aspects of the strategy as reflected in our agriculture, rural development, health/family planning and education sector programs.

B. Rural Development and Productivity

The AID rural development strategy concentrates on natural resource management and conservation as the basis for production and indeed, in many regions of the country, a prerequisite for survival. This involves support for national conservation planning and implementation of a countrywide conservation strategy, combining better forest management with availability of alternative energy sources, and promotion of family planning. The second principal strategic emphasis aims at increasing rural household productivity and income by introducing technologies developed through agricultural research, encouraging entrepreneurship, alleviating policy constraints through analysis and reform, and strengthening the national systems and institutions needed to support our own program and those of others.

Recognition of the overriding nature of Nepal's environmental and natural

resource concerns is fundamental to AID's development goals. The strategy can be viewed as a spectrum. At one end, preparation of a national conservation plan and associated initiatives at the policy level are efforts we propose to support through the RCU and Rapti projects and a number of complementary resources through AID/W auspices. At the field operations end of the scale, Rapti and RCU are themselves landmark efforts reflecting AID's commitment to testing and applying resource management and conservation practices and technologies. The outcome of this approach will be replication of field experience in other areas of the country, reinforced by commitment at the policy level to a comprehensive conservation plan commensurate with the urgency of the problem.

The RCU project establishes a direct link to the National Commission for Conservation of Natural Resources (NCCNR). We will also draw on Science & Technology Bureau resources to support assistance by the International Union for the Conservation of Nature and Natural Resources (IUCN) to the NCCNR for preparation of a national conservation strategy. The RCU project will continue to support Nepal's Institute for Renewable Natural Resources (IRNR), specifically through development of a conservation-oriented curriculum for natural resource management. Assistance to the IRNR involves AID in cooperation with the World Bank, which will fund construction of new campus facilities for the Institute in Pokhara.

The RCU and Rapti projects will continue to be the major means of testing and applying conservation practices in an operational context. Through watershed management, forestry development, agricultural improvement, application of alternative technology and range management, these

projects engage local participation in the use and conservation of natural resources. We will concentrate our efforts on technologies and approaches to technology transfer which have been successful elsewhere and require minimum adaptation, and which can be managed by host country personnel.

A fundamental premise is the need to relieve environmental pressure attributable to an intensely exploitative mono-economy. Ultimately Nepal's deteriorating productive resource base is inextricably bound to intensive, traditional land use patterns at the farm level. The basic constraints are the absence of technological options and the support services needed to increase production and diversify income sources. We will continue through the program to work at finding ways to provide these options.

We are also looking for productive alternatives to farming which, however, are farm use-oriented, e.g., fabrication and repair of simple tools and equipment, improved seed, more efficient stoves, and processing cash crops such as oilseeds. Considerable local unmet demand already exists or can be stimulated for products such as these.

On energy, we will continue to put substantial emphasis on alternative sources and forest management and reforestation. Nepal's total energy consumption is one of the lowest in the world at 200 kilograms of oil equivalent per capita annually. This is only 25 percent of the Overseas Development Council's estimate of energy consumption necessary "for an adequate life with basic human needs fulfilled." However, 94 percent of that energy comes from traditional sources, primarily fuelwood, and is

largely consumed by families for cooking and heating. The remaining 6 percent is provided by commercial fuels (coal, oil, and electricity), used mostly by industry. In August 1983, the UNDP and World Bank published "Issues and Options in the Energy Sector" for Nepal. The report makes it clear that anything less than a major effort in energy development will be insufficient to prevent severe environmental degradation and an excessive drain on the country's foreign exchange earnings.

On the broader energy stage, Nepal has an immense hydro-electric potential which remains virtually untapped. According to the GON Ministry of Water Resources, the rivers could be harnessed to provide an economically feasible yield of more than 20,000 megawatts. However, the large expenditures required, plus limited domestic demand, lack of detailed information, and the difficulties of reaching agreement with India on sharing production, are obstacles to extensive development of this resource. Present progress on reaching agreement and funding for the first steps of the 3,600 megawatt Karnali project, however, indicates these obstacles can be overcome. If the project does proceed, there should be scope for United States participation in this most important of Nepal's development opportunities.

Because of the overwhelmingly rural nature of Nepal's economy, however, fuelwood will remain the predominant source of energy for the foreseeable future. At the same time deforestation has become a problem of critical proportions, with catastrophic implications for the environment should present trends continue unabated. Any solution to the country's environmental and energy problems must include immediate and

major efforts to accelerate afforestation and reforestation. The urgent need is to moderate demand for fuelwood through the widespread use of more efficient stoves, and to substitute other energy forms such as biogas for fuelwood. The RCU and Rapti projects are both directed at this problem of broadening energy options, especially at the household level, and replenishing forest resources as an environmental imperative. Over the CDSS period AID specifically expects to see and, in concert with other donors, assist in completion of a national conservation strategy and implementation of a national action program; broader application of communal forestry concepts; the capacity to meet most training needs in alternative energy technology, forestry and conservation locally in Nepalese institutions; and a demonstrable private sector role in production and marketing of low cost, conservation-oriented technology. The Peace Corps has also been providing valuable input to AID's energy and forestry programs. The Mission will encourage continuation of this involvement, including PCVs in the areas of biogas and micro-hydro technology.

Decentralization and local mobilization are key AID policy concerns as the GON prepares to implement the Decentralization Act. Strengthening local initiative and access to resources are necessary ingredients for change. Notable progress has already been made in relinquishing fiscal control and audit functions to the Districts. We will lobby for local autonomy to raise and expend revenues, for better access by local entities to professional and technical personnel, and for a decentralization timetable. In the project context, we will augment training for local leaders and development staff.

As the ADB Agriculture Study points out, to implement and sustain the GON's integrated rural development program, agriculture sector support systems must be strengthened. AID will continue to have a lead role in developing agriculture research and production programs centered on technology transfer and the personnel to plan and implement them. We will work in close collaboration with other donors such as the World Bank and ADB in the process. Technology transfer will concentrate on the development and extension of improved varieties of cereals.

Utilizing a systems approach, AID Integrated Cereals project (ICP) technical assistance has been successful at developing high yielding varieties of rice, wheat and maize and adapting these to local cropping patterns. The improved materials and block extension approach developed with AID assistance is being replicated by the World Bank extension program throughout the Terai, and has been successful in the Rapti zone as well. The ICP pre-production testing methodology is now being used in other donor projects and in the RCU districts.

In order to supply improved planting materials and other technological innovations using research and extension methods tested in the ICP, work will begin immediately on a follow-on project, Agriculture Research and Production (ARP). The ARP project will emphasize improved technology for the hill areas. It will also respond to many of the needs identified in the FAO/World Bank's Nepal Agricultural Research Review, which was partially funded by AID. We will go beyond the major cereals (rice, wheat and maize) to improve and select more productive varieties of pulses (lentils, beans, peas, chick peas) oilseeds (mustard, Niger, sesame) and other cereals (barley, millet, buckwheat). The role of animals, as providers of farm power, milk, and dung, will be examined

and ways found to enhance the contribution of livestock to family welfare while reducing the damage they inflict on the local environment.

The ARP project will focus on (a) technology through research, (b) access through extension and (c) seed supply. We will select research production sites to tie in with our other development programs and those of other donors such as the World Bank, ADB, Germany, the U.K. and the Swiss. Once effective technologies and extension methods are developed we expect these will be integrated into other donor extension programs and AID-supported research will then move to a different agroecozone. Such a program has worked under the ICP and is also suggested in the Asia Bureau Regional Strategy. Continuing involvement of Peace Corps Volunteers will be required.

The shortage of trained agricultural personnel is a continuing impediment to the delivery of improved technology. Strengthening of the Institute of Agriculture and Animal Science (IAAS) will be a major emphasis, with a particular purpose of providing training relevant to Nepal. In line with Asia Regional Strategy recommendations, a system for selection of students from a variety of rural backgrounds and regions will also be instituted. As a preponderance of crucial production decisions are made by women, a main effort will also be to increase the enrollment of women students.

A part of the planned assistance to IAAS will be development of a partnership between the Institute and selected Title XII institutions for exchange of faculty and graduate students. Links will also be established with regional universities and international centers. Significantly, AID

assistance to IAAS will be closely aligned with that of the World Bank in the form of a co-financed project.

On policy concerns, AID will continue to work toward the adoption by the GON of policies conducive to food production objectives. Farm gate prices should be permitted to rise. GON support prices should also be announced well before planting time to reduce market risk. Adequate supplies of fertilizer, seeds and other inputs are essential. These will continue to be major AID policy interests over the CDSS period.

We have previously reported our comments and concerns (e.g. 83 Kathmandu 6688) regarding GON fertilizer policies, particularly the need for increased private sector participation in sales and distribution of farm inputs. The GON recently specifically stated that the private sector will be encouraged in the import and distribution of fertilizers. Increased private sector participation must result in either fertilizer subsidy policy modifications or further increased subsidy costs for the GON.

The ADB Agricultural Sector Study underscored the importance of this issue in addressing the comparative costs of alternatives for meeting food requirements in the hills. The report reflects optimistic growth and production projections and large capital investment requirements -- \$3.4 billion over 15 years, or about \$230 million (1980 prices) annually for the agricultural sector alone, more than double the current rate of investment. Given population growth and foodgrain production projections, the cost (under the GON's current subsidy system) to purchase, ship and distribute foodgrains sufficient to meet hill area

subsistence requirements will necessitate minimum annual outlays of \$150-\$200 million (1980 prices) indefinitely. On the other hand, to develop productive capacity in the hills for growing the necessary foodgrains will entail significant commodity and infrastructure development costs approximating \$125-\$175 million (1980 prices) per annum, for about a decade. The economic efficiency apparent in the production alternative would also be enormously reinforced by the social and political advantages of addressing the needs of the hills through development rather than relief. Accordingly, AID's agriculture program and policy initiatives will pursue the production alternative.

The overall issue of agricultural sector pricing was identified in the policy analysis and dialogue agenda put forth in our FY 1985 ABS. It was intended that the general conclusions from our Pricing and Marketing Study in the RAD and RCU project areas would be available for comment in this CDSS. However, as a result of the size of the survey (1600 households), and the limited computer processing capability in Nepal, the contractor remains at the data analysis stage. We expect to comment on the study conclusions and recommendations in our upcoming ABS.

1. Workplan: Rural Development and Productivity

- 1985 - Assess farm survey research and pilot programs for modifying and broadening household production systems
- Initiate IAAS (II) project; assist IAAS in formulating a master plan for campus development which, inter alia, provides capacity to graduate 100 B.Sc. recipients annually by 1987 and enroll 80 women in B.Sc. programs by 1988

- Initiate ARP project aimed at establishing a private sector on-farm seed production program in the hills by 1988 and measurable increase in production and income for participating farm households by 1989
 - Undertake support for preparation of Nepal's conservation strategy
 - Implement measures identified in 1984 to increase women's participation in agriculture projects
- 1986
- Plan expansion of farming systems, household production diversification and community forestry based on assessments in 1985-86
 - GON establishment of farming systems research program on a permanent basis
 - Assist the GON to implement the national conservation strategy
- 1987
- Begin intensive test of ARP extension production program methodology for the hills
 - Assess change in private sector role in fertilizer distribution in hills
 - Urge GON to undertake pricing and marketing policy measures as private sector incentives based on ARP and other experience to 1987
- 1988
- Complete pilot phase of private sector on-farm seed production program in hills
 - Complete low cost micro-hydro research phase, enter replication phase; demand for fuel efficient stoves met in RCU and Rapti areas

- 1989 - Complete initial phase of ARP aimed at developing improved varieties adapted to specific hill sites for millet, buckwheat, barley, pulses, oilseeds (1989-90)
- Complete basic arrangements for a functioning IAAS Title XII partnership at IAAS
 - Support an assessment of national conservation strategy
 - Support an assessment of agriculture pricing and marketing policies since 1987, with focus on private sector and production impact

C. Population Planning and Health

AID's activities in Nepal are based on an integrated strategy for reduction of fertility and child mortality. The major objectives of our health and family planning program are to: (1) assist, improve and expand rural health and family planning; (2) integrate health, nutrition and family planning; (3) reduce mortality among infants and young children.

Population planning is and will continue through the 1980s to be a major sector of emphasis, an integral part of our development assistance strategy. Population planning in Nepal must be viewed from a national development perspective. All sector initiatives, from agricultural production to natural resource management relate to, and are affected by, the dynamics of population growth. This growth in a predominantly rural, agricultural economy has had an adverse impact on agricultural productivity due to the pressure of population on the limited available arable land. It contributes to declining per capita food production and poor labor productivity. It's debilitating effect on the environment is evident. An overwhelming dependence on fuelwood has resulted in severe deforesta-

tion which, in turn, has adverse consequences for the agricultural production base. Mounting population puts a heavy burden on the public sector to provide even basic services. For these reasons, we will continue to integrate family planning into our sector programs. We will also continue assistance to the GON's National Commission on Population (NCP) to effect integration and institutionalization of family planning components into GON development programs.

Nepal's population, estimated at 15.8 million, grew at an annual rate of 2.6 percent during the period 1971-81. At this rate the population, which doubled in 60 years from 1911-71, will double again in only 26 years. As it is, the population carrying capacity has already been exceeded in many hill areas and may soon reach acute proportions in the Terai. A substantial reduction in fertility rates is also required to avert a decline in the already precarious living standards of the Nepalese people.

Although it is extremely unlikely that Nepal will reach the crude birth rate (CBR) of 20-25/1000 by the year 2000 postulated in the Regional Plan, with coordinated donor assistance Nepal can succeed in reducing its CBR substantially below the current level of 44. Two encouraging factors in this regard are the firm GON commitment to fertility and infant mortality reduction and evidence of other donor interest.

During the CDSS period we will continue our close working relationship with the NCP. We will assist the NCP in further refining a population strategy based on priorities and realistic resource availabilities. We will endeavor to build the institutional capability of the NCP as the key

coordinating and policy making institution within the population sector. Through the NCP, and with assistance from our Integrated Rural Health/Family Planning (IRH/FP) I and II projects, we intend to promote incorporation of population considerations into all aspects of the GON's development planning process. We will also work with NCP to initiate research and pilot activities designed to test and reinforce policy initiatives.

As with population, we will continue assistance to the health sector throughout the CDSS period. Reduction in infant mortality and morbidity rates is associated with receptivity to family planning. Health care is an essential, basic service. Improved health status is dependent upon four inter-related objectives: (1) improved child spacing and family size limitation; (2) control of diarrheal problems; (3) control of communicable diseases; (4) improved nutrition. Nepal is characterized by a high infant mortality rate, especially in rural areas, due largely to the incidence of malnutrition, respiratory and diarrheal disease. Our programs will assist the primary health care system in the specific areas of financial and logistics management, training, information and service delivery. This assistance will be on a long-term basis and will be in cooperation with other donor programs.

The focus of our efforts in this sector is to reinforce the rural health delivery system of the Ministry of Health. This involves not only procurement of medicines and contraceptive commodities, but an important effort to institutionalize a management systems approach to delivering goods and services to the rural population. Our objectives are to: integrate and strengthen service delivery; decentralize health services;

and improve infrastructure.

Our program will utilize indigenous PVOs in family planning motivation, health education and service delivery. We will, inter alia, assist the GON to improve its research and analysis, specifically on nutritional impact of agricultural policies affecting food consumption. We will continue a policy dialogue on the integration of health service delivery based on evolving integration achievements and capabilities, and in line with the Asia Regional Strategy will encourage greater GON interest in community financing of and community participation in primary health care activities. We will work closely with the Contraceptive Retail Sales Private Company Limited (CRS) to involve the private sector in marketing contraceptive and oral rehydration salts. Our goal is to expand CRS contraceptive and oral rehydration salts distribution to 11,000 private shops and pharmacies nation-wide. As part of this initiative, we plan to incorporate training in the use of oral rehydration salts at all levels.

1. Policy Aspect of Population Planning Strategy

The GON, in June, 1983, issued a National Population Strategy directed to reduction of the total fertility rate (TFR) to 2.5 by the year 2000. Major components of the strategy have been reported and assessed elsewhere (e.g. 83 Kathmandu 5502 and 6545) and will not be repeated here.

A specific Action Plan for the period from 1983-89 was also developed calling for the following steps:

- a) Increase contraceptive prevalence;
- b) Increase the numbers of physicians to assist in voluntary sterilization programs;

- c) Develop plans to assess personnel needs and provide in-service training for staff;
- d) Establish specific targets for formal education and initiate various incentives to encourage school enrollment, construction, and access to technical training;
- e) Decentralize responsibility for planning and implementing population planning programs.

The projected financial requirements for the 1983-1989 Action Plan total over \$161 million, of which \$106 would be met by donor contributions, according to the plan. The projected target may be overly ambitious in relation to likely resource availability and we will work with the NCP to establish more realistic action plan targets. Our second principal effort in this realm will be to encourage marked increases in other donor resource commitments to Nepal's population program. We also intend to assist NCP itself as a maturing and increasingly influential institution. This assistance will encompass implementation of fertility research and further testing of approaches to achieving fertility reduction. The IRH/FP program will become the vehicle for this support in FY 1986 after completion of the Population Policy Development project.

2. Workplan: Population Planning and Health

- 1985 - Assess with GON feasibility of decentralized management of health and family planning service delivery, based on 1984 evaluation
- Discuss service delivery integration policy issues surfaced in FY 84 IRH/FP I mid-term evaluation with GON

- Formulate population strategy implementation plan with NCP which establishes priorities based on realistic resource availability
 - Initiate training in oral rehydration salt therapy to 3,000 health workers
- 1986
- Institutionalize family planning components into GON programs
 - Initiate research and pilot activities to test population strategy initiatives
 - Final evaluation of IRH/FP I; determine need/scope for follow-on project
- 1987
- Design of IRH/FP II
 - Decentralized management HFP pilot programs initiated
 - Identify measures for expanding/strengthening role of indigenous PVOs in Health/Family Planning
- 1988
- Initiate IRH/FP II
 - Expand CRS contraceptive/oral rehydration salts distribution network to 11,000 private shops and pharmacies and achieve 20 percent CRS self-sufficiency
 - Evaluate population research and pilot activities of NCP
- 1989
- Support GON assessment of progress of national population strategy implementation
 - Evaluate decentralized HFP programs

D. Human Resources Development

Since 1954, AID has been a major donor in the Nepalese education sector. We have played an important role in helping the GON establish a strong

institutional infrastructure which supports a nationwide public education system where none existed 30 years ago. We have also played a catalytic role in enlisting the support of other donors for this sector. The GON, AID and other donors are now shifting attention to qualitative improvements in the system.

Our human resource development strategy is fully consistent with the Asia Regional Strategy. Training of professional personnel, for example, is a key element in support of our agricultural, rural development and natural resource management programs. On that point, AID will continue to assist the Institute of Agriculture and Animal Science (IAAS), a part of Tribhuvan University, through our IAAS II project. Strengthening the Institute will emphasize provision of training relevant to Nepal and increasing the enrollment of women. The IAAS II project will be co-financed with the World Bank. We will also continue assistance to the Institute of Renewable Natural Resources (IRNR) to develop the required in-country capacity to train natural resource management personnel and conduct basic environmental research. The World Bank is also associated with the project.

AID assistance to basic education is addressed to quality and access. Specific activities are directed at 1) upgrading primary school teachers by providing them training via radio and 2) increasing access of girls to primary and secondary schools. Our strategy also includes a major participant training component.

Based on the April 1983 evaluation of the Radio Education Teacher Training I (RETT I) project, we are developing a follow-on radio-based

training activity (Radio Education Teacher Training II), which will build on the lessons learned in RETT I and stress the improvement of primary teacher basic knowledge. Design and implementation of RETT II will also be coordinated with a World Bank funded primary education pilot project centered on the primary school "resources center" concept.

Also in line with the Asia Regional Strategy, efforts at increasing the access of women to education will take form in a new Female Education project to test ways to increase female enrollment and retention in primary and secondary schools. The project will provide valuable data on which to base policy-level decisions affecting female educational status. It will be implemented by the National Commission on Population (NCP) and the Ministry of Education and Culture, and will be coordinated with related research activities being carried out by the NCP.

Our education strategy also includes a new institution-building general participant training project, Development Training and Technical Services (DTTS), to expand upon the PL-480 excess currency program for Nepalese training in India. This will be patterned on the "flexible project" concept elaborated and advocated in the Yaeger Implementation Task Force Report. It will be designed with enough flexibility to respond to public and private training and related needs such as short-term technical assistance in areas not adequately covered by current projects, e.g., energy, urban and industrial sectors. It will also enable AID to initiate self-contained pre-project activities in order to accelerate implementation; and in some instances will permit modest post-project inputs to capitalize more fully on earlier AID project investments.

1. Workplan: Human Resources Development

- 1985 - Complete RETT II R&D phase
 - Research and design of Female Education pilot interventions
- 1986 - Test Female Education project pilot interventions
 - Begin implementation of DTTS project
- 1987 - Complete testing of Female Education project interventions
- 1988 - Elaboration of national action plan for female education in conjunction with NCP and MOEC
 - Final evaluation of RETT II and Female Education projects
- 1989 - Implementation of Female Education II project to help GON put national female education action plan into effect

E. Urban Development

High rural densities and limited arable land in Nepal have contributed to an increasing rate of urban growth over the past decade. While the vast majority of Nepal's population still lives in essentially rural areas, urban growth rates have been much higher than national and rural growth rates, with some settlements growing at 7-11 percent per annum. At these rates, Nepal's urban population will double in the next decade.

It is widely recognized that while there is ample room to increase the efficiency of agricultural production in Nepal, there are clear limits to the carrying capacity of the agricultural sector which is reaching a saturation point. Attention to alternate settlement patterns, including job creation and training for non-farm employment is required. Two basic urban policy issues which the GON will need to address within the

short-run are: (1) where in the settlement system should jobs be created and (2) where and how can the hill people be trained for urban jobs?

Urban development and employment has not been a stated priority by either the GON or the donor community. Yet investment programs have stimulated urban growth, and urban areas have received considerable sectoral-level consideration. What is lacking is an understanding of the role that urban development can play in national development. Between now and the year 2000, an additional population of 10 million people must be accommodated in Nepal. We anticipate that an unprecedented percentage of this increase will be attracted to urban settlements.

AID's Urban Development Assessment, conducted in early FY 1984 will be completed by March, 1984. This Assessment will provide the basis for development of a settlement strategy which can be used as a tool to strengthen national development planning, both for rural and urban areas. It will be developed into a framework to assist the GON and donor community to make more coherent sectoral choices regarding investment, as well as provide guidance to the GON in the development of a rational strategy for the utilization of its own resources. The AID strategy does not envision substantial U.S. funding in this sector during the 1980s. Rather we will seek with very modest resources to raise to a higher level of awareness consideration of urban sector trends and their implications.

III. RESOURCES

A. Assistance Planning Levels

	Planning Levels					
	(\$000)					
	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>Total</u>
ARDN	9,900	10,500	10,620	10,000	8,430	49,450
Population	2,200	2,200	1,630	2,000	2,200	10,230
Health	1,657	1,800	1,750	2,000	2,200	9,407
EHR	<u>1,243</u>	<u>500</u>	<u>1,000</u>	<u>1,000</u>	<u>2,170</u>	<u>5,913</u>
TOTAL	15,000	15,000	15,000	15,000	15,000	75,000

The table above reflects our program emphasis over the CDSS period, with 65.9 percent of our funds being provided to the agriculture and rural development sector, 13.6 percent to the population sector, 12.6 percent to health, and 7.9 percent to the education and human resources appropriation account. The latter does not include participant training or human resources development activities such as IAAS and IRNR funded under other sector accounts.

Our emphasis in agriculture will be concentrated on natural resource management, production, rural development and technical training (Resource Conservation and Utilization I and II; Rural Area Development I and II). Approximately \$35.2 million, over the CDSS period, will be obligated for this purpose. We are also emphasizing related agricultural research and technology transfer (Agricultural Research and Production) to create national research and support systems essential to agriculture (\$9 million). We will continue our important work in agricultural

education institution building (Institute of Agriculture and Animal Science II) with obligations of \$4 million. In addition, \$1 million will be provided for priority agricultural programs implemented by U.S. private sector agencies (PVO Co-Financing). Educational support under natural resource management (the Institute for Renewable Natural Resources) will continue to be funded through the RCU I and II projects.

In the Population sector, \$9.7 million will be obligated to assist the GON in carrying out its national population strategy (Integrated Rural Health/Family Planning Services I and II). Of this amount, an estimated \$1.6 million will purchase contraceptive commodities. In addition, \$.5 million will assist population programs of U.S. private sector agencies (PVO Co-Financing).

In the Health sector, \$8.9 million will be obligated to meet basic health needs at the village level and related decentralized institutional capability (Integrated Rural Health/Family Planning Services I and II). In addition, approximately \$.5 million will support rural health programs implemented by U.S. private sector agencies (PVO Co-Financing).

Under the Education and Human Resources appropriation account, a total of \$5.9 million will be utilized for teacher training, education, and participant training in priority sectors. This is a significant increase over the amount proposed for Education and Human Resources in our FY 1985 CDSS. Female education in particular is a new area of emphasis. (Radio Education Teacher Training II, Female Education I and II, Development Training and Technical Services.).

We have not earmarked funds for a PL-480 Title II Program at this time. However, we plan to initiate special studies in FY 1984 to assess options for Title II programming and implications in terms of our country strategy and management capacity.

B. Peace Corps

AID and Peace Corps collaborative efforts will continue throughout the CDSS period. At present, 38 Peace Corps Volunteers (PCVs) are providing direct assistance to AID funded projects. We are pursuing discussions with Peace Corps staff with an aim to enlarge this number to approximately 50 PCVs per year through the CDSS period in the following sectors:

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Agriculture, Rural Development (including Energy and Forestry)	33	30	33	33	33
Health/Family Planning	10	10	12	12	10
Education/Human Resources	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>6</u>
TOTAL	51	48	53	53	49

Discussions with Peace Corps staff will be on-going and will relate to location of assignment, scopes of work and technical requirements.

C. Staffing

AID's anticipated U.S. Direct Hire staff needs for the remainder of the decade will have to remain at least at the present level of 21 FTE, plus 1 FTE part-time and one or two IDIs in any given year.

The majority of AID's projects involve large technology transfer and institution building components. This requires detailed management and

attention to monitoring, supervising, and reporting systems, with an emphasis on evaluation. Therefore, the U.S. Direct Hire staff requirements must remain at least at the present workforce level to provide adequate project management coverage. AID will continue to rely on long-term personal services and institutional contracts to supply basic implementation oversight and technical assistance.

The current Foreign National Direct Hire (FNDH) workforce level, when coupled with Foreign National Personal Services Contract (FNPSC), is adequate to provide administrative project support. Further reduction in our FNDH levels will require proportionate FNPSC increases.