A WORLD BANK COUNTRY STUDY

Nepal

Policies for Improving Growth and Alleviating Poverty

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The report is based on the work of two missions. The main mission, in April 1988, consisted of Mateen Thobani (Mission Leader), Eric Cruikshank (Industry, Power), Soon-Hee Heu (Donor Coordination), Anand Rajaram (Directed Credit and Fiscal), Hisan Shishido (Macroeconomics), W. James Smith (Social Sectors) and Herman van Wersch (Agriculture). A second mission, in May 1988, looked at institutional issues and consisted of Nigel Roberts (Mission Leader), Duane Kissic, Peter Nicholas, Jacob Pfohl and David Walker. The report also drew on the work of a social sector strategy review mission comprising W. James Smith (Mission Leader), Howard Barnum, Jack Duloy, Frank Farner, Ian Morris and C.Ok Pannenborg.

CURRENCY EQUIVALENTS

Year	US $1 Equivalent (Avg.)
1982/83	Rs 13.9
1983/84	Rs 15.3
1984/85	Rs 17.8
1985/86	Rs 19.8
1986/87	Rs 21.5
1987/88	Rs 22.1
September 30, 1988	Rs 24.2

Since November 30, 1985, the Nepali rupee has been floating with respect to a basket of currencies in which the Indian rupee has high weight.

Fiscal Year (FY)

July 16 - July 15

All years refer to the Gregorian calender.

List of Abbreviations and Acronyms Used

ADB	-	Asian Development Bank
ADBN	-	Agriculture Development Bank of Nepal
AIC	-	Agricultural Inputs Corporation
ASC	-	Agricultural Service Center
BNP	-	Basic Needs Program
CIDA	-	Canadian International Development Agency
CPR	-	Contraceptive Prevalence Rate
DOA	-	Department of Agriculture
DOI	-	Department of Irrigation
EPF	-	Employee Provident Fund
EPI	-	Expanded Program of Immunization
FP/MCH	-	Family Planning/Maternal and Child Health
FPAN	-	Family Planning Association of Nepal
GDP	-	Gross Domestic Product
HMG	-	His Majesty's Government
HYV	-	High Yielding Variety
IATA	-	International Aviation Transport Association
IDA	-	International Development Association
IFC	-	International Finance Corporation
IMR	-	Infant Mortality Rate
INGO	-	International Non-Governmental Organization
IRDP	-	Integrated Rural Development Project
KOE	-	Kilograms of Oil Equivalent
LRMC	-	Long Run Marginal Cost
MOEC	-	Ministry of Education and Culture
MOF	-	Ministry of Finance
MOH	-	Ministry of Health
MPLD	-	Ministry of Panchayat and Local Development
NARC	-	National Agricultural Research Committee
NARSC	-	National Agricultural Research and Services Center
NB	-	Nepal Bank
NEA	-	Nepal Electricity Authority
NFC	-	National Food Corporation
NGO	-	Non-Governmental Organization
NHFC	-	National Housing Finance Company
NIDC	-	Nepal Industrial Development Bank
NPC	-	National Planning Commission
NRB	-	Nepal Rastra Bank

O&M	-	Operations and Maintenance
OGL	-	Open General License
PBPM	-	Program Budgeting and Project Monitoring
PCRW	-	Production Credit for Rural Women
PDLT	-	Panchayat Development and Land Taxes
PE	-	Public Enterprise
PFP	-	Policy Framework Paper
PHC	-	Primary Health Care
PM	-	Program Budgeting
QR	-	Quantitative Restriction
RBB	-	Rashtriya Banijya Bank
SAF	-	Structural Adjustment Facility
SAL	-	Structural Adjustment Loan
SAP	-	Structural Adjustment Program
SC	-	Service Centers
SFDP	-	Small Farmers' Development Program
SLC	-	School Leaving Certificate
SSNCC	-	Social Services National Coordinating Council
SWER	-	Single Wire Earth Return
T&V	-	Training and Visit
TA	-	Technical Assistance
TFR	-	Total Fertility Rate
TP	-	Town Panchayat
UNDP	-	United Nations Development Program

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SUMMARY AND CONCLUSIONS

1. Nepal faces a critical juncture in its modern economic history. Despite developmental efforts spanning several decades, sustained economic growth in excess of that of population has yet to be achieved. Thus, scant progress has been realized in alleviating the poverty situation. In recent years, the Government has launched a number of major initiatives to reorient policies and institutions to accelerate growth and meet basic needs. These efforts represent a more coordinated and intensive approach than past programs and thus the opportunity for achieving structural reforms is that much greater. However, these initiatives, as in the past, may run into resistance. If the pace of reforms is not maintained, this period may be viewed as yet another lost opportunity. This report reviews the economic developments in the 1980s which precipitated these major policy initiatives, particularly in the context of Nepal's basic needs concerns, and presents a policy agenda for the coming years.

I. RECENT GOVERNMENT INITIATIVES

The Context: Poverty and Past Economic Performance

2. Nepal's per capita GDP of US$160 places it among the very poorest countries in the world, a situation perpetuated by accelerated population growth. Other health and social indicators confirm Nepal's degree of poverty and deprivation. The National Planning Commission (NPC) has estimated that 42.5% of the population are absolutely poor. The limited on-farm opportunities due to small fragmented land holdings, combined with the low productivity of land, causes many Hill and Mountain people to seek low-paying off-farm employment and to migrate to the Terai or India--such migration has been proceeding for well over a hundred years. Many of the reasons for continued poverty can be attributed to problems in the agriculture sector. Between 1974/76 and 1985/86, grain production increased by only 1.5% p.a., while population growth was in excess of 2.5% p.a.; consequently, per capita food production fell from 92% of requirements in 1976 to between 80-85% at present. Simultaneously, the productive potential of the natural resource base has been undermined by human and livestock pressures--resulting most critically in extensive degradation of the country's forest and pasture land, particularly in the Hills.1/

3. This disheartening poverty situation has persisted despite several decades of concerted efforts to accelerate development. Few countries, however, began their development as late and with such a meagre resource

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1/ Nepal can be divided into three ecological zones: the mountains of the Himalaya, bordering Tibet to the north, the middle Hills, and the Terai plains to the south, bordering India.

endowment -- a situation compounded by Nepal's land-locked location, rugged terrain and weak institutions. Nepal emerged from self-imposed isolation in the early 1950s with practically no infrastructure and with less than one percent of the school-age children attending school. Not surprisingly, basic infrastructural development, particularly roads, emerged as the priority investment during the first four development plans (1956/57-1974/75). Development in the productive sectors, however, was constrained by this very lack of infrastructure, weaknesses in public administration, and Nepal's low absorptive capacity for foreign aid. Moreover, because of the capital-intensive nature of the investment and its focus on infrastructure, little direct impact was registered on incomes and living standards with annual per capita income growth averaging less than one percent. Although the Fifth Plan (1975/76-1979/80) substantially increased public investment, gearing it towards quicker yielding investments and social services, economic growth barely exceeded population growth due to a series of poor agricultural harvests.

4. During the Sixth Plan (1980/81-1984/85) growing frustration with past economic performance manifested itself in surging public expenditures to accelerate the pace of development, causing the overall budget deficit to rise from 6.1% of GDP in 1980/81 to 12.3% in 1982/83. This led to strong demand pressures reflected in higher domestic prices, a doubling of the current account deficit and a substantial fall in international reserves. While GDP growth was higher than in past years, it became clear that the growth was not sustainable. Consequently, towards the beginning of the Seventh Plan, the Government implemented a stabilization program, which was supported by a Fund Standby Arrangement in December 1985. Realizing that macroeconomic stability by itself would not lead to accelerated growth, the Government implemented a structural adjustment program (SAP) to address some longer-term constraints to growth. Simultaneously, the Government launched a far-reaching initiative to meet the basic needs of the populace.

The Structural Adjustment Program

5. Together, the stabilization policies initiated in 1985, combined with the institutional and sectoral reforms supported under the World Bank Structural Adjustment Loan (SAL) and the IMF Structural Adjustment Facility (SAF) form the crux of the Structural Adjustment Program (SAP). The major theme of this program is to strengthen macroeconomic and sectoral development policies and improve the efficiency of public sector investments and institutions. The stabilization measures included actions to relieve pressures on the budget by restraining public expenditures, especially in the regular budget; increasing revenues; and tightening monetary policies. To strengthen Nepal's external position, the rupee was devalued by about 15% in rupee terms and several procedural and institutional reforms were taken to liberalize the import regime. The structural measures addressed constraints to growth in the agricultural and industrial sectors in addition to improving development administration. The program for agriculture focused on improving the availability of inputs and services by improving the effectiveness and efficiency of public institutions providing the services, liberalizing the pricing and distribution of inputs while increasing the role of the private sector, and

improving irrigation services. In forestry, the Government enacted appropriate legislation to permit community-level forest user groups to manage and retain their earnings from these forests to control further deforestation. Industrial policies were aimed primarily at partially liberalizing the industrial licensing and trade regime while correcting discrimination against exports. This was done by introducing tariff reform, a system of duty drawback and bonded warehouses for exporters, an OGL/passbook system for industrial importers and a system of auctioning import licenses for commercial items. Improvements in development administration were introduced by a program budgeting and project monitoring system to help establish a sound portfolio of "core" projects and to improve project implementation and budget release procedures. Efforts to improve the performance of public enterprises included identifying enterprises to be privatized and to begin a process of divestiture.

6. Macroeconomic performance during the last three years has been encouraging. GDP is estimated to have continued to grow by over 4% annually despite erratic weather. There is an upward trend in foodgrain production due largely to acreage expansion and the index of industrial production is estimated to have increased by as much as 70%. More significantly, the growth is likely to be more sustainable because of a build-up on international reserves which, prior to the SAP, had fallen to precariously low levels, threatening a clampdown of imports. International reserves grew from 3 months worth of imports coverage in 1984/85 to almost 6 months by 1987/88, reflecting strong growth in exports of carpets and garments (146% in dollar terms) following the liberalization of imported raw materials, a more than doubling of tourism receipts and an increase in aid disbursements (79%). Carpets and garments accounted for 50% of merchandise exports in 1987/88 as compared to 26% in 1984/85.

7. Under the SAP, the overall budgetary deficit fell only sightly from 10.1% of GDP in 1984/85 to 9.3% by 1987/88. At the same time, gross domestic borrowing fell from 4.1% to 1.6% of GDP, thus allowing more resources to flow to the private sector. This outcome reflects strong growth in revenues which increased by 1.9% of GDP coupled with a jump in aid disbursements which increased by 2.5% of GDP due to quick disbursing adjustment lending accounting for 1% of GDP and some improvements in budget release procedures. The growth in revenues was attributable to reforms in tariffs, discretionary tax measures and substantial proceeds from the auctioning of commercial import licenses, which transferred economic rents to the budget. Regular expenditures were kept in check because of tight wage and employment policies while development expenditures grew briskly in line with developmental needs. External financing (both grants and loans) almost doubled during this period; consequently credit expansion to the public sector was cut by one-half. Although the current macroeconomic balances are sustainable, Nepal will need to continue its adjustment measures to accelerate growth, while ensuring continued macroeconomic stability. These measures fall broadly into three areas: (i) macroeconomic policies, including specific measures to improve the efficiency of the tax system and implement financial sector reforms; (ii) sound sectoral policies to accelerate growth and satisfy basic needs; and (iii) strengthened institutions and processes to serve the above two objectives.

The Basic Needs Program (BNP): A Description

8. While an emphasis on basic needs has been a major theme for at least the last two development plans, the current effort is unique in its longer timeframe and its focus on a subset of development objectives. It has received high visibility and support since His Majesty's speech in December 1985, when he identified 2000 as the year by which the Nepalese people would attain a standard of living "commensurate to lead a life with human dignity by Asian standards." Aimed no less than at the eradication of absolute poverty by the year 2000, BNP seeks to provide goods or services in six areas: food, clothing, shelter, health, education and security. The program assumes that self-sufficiency in the production of these goods and services is required to provide these goods. Based on accepted national and social indicators, production targets were calculated down to the district level and input and financing levels identified using fixed input-output coefficients.

9. The focus of BNP is on identifying sectoral production targets and input requirements. In food, self-sufficiency implies that foodgrain production would need to grow at 4.8% annually as compared to 1.5% during 1974/75-1985/85, At the same time, foodgrain productivity would need to increase by 3.7% annually versus an annual decline of 0.5%. To do so, irrigation coverage would need to expand by 68,000 hectares annually, about three/four times past levels. In order to meet per capita clothing needs, cloth and footwear production would need to rise by 15% and 7.5% p.a. respectively. In housing, since 93% of Nepalese own their houses, the focus is on housing improvement and provision of essential utilities. In education, universal primary education is established as the goal requiring an increase in primary enrollments from 1.8 million in 1985/86 to 2.9 million by 2000, and an increase in teachers from 51,000 to 88,000. In health, the emphasis is on the expansion and improvement of primary health services. As a result, the growth rate of population is to be reduced from 2.7% to 1.9% p.a., life expectancy increased from 51 to 65 years, and infant mortality from 111 to 45 per thousand.

10. Recognizing that the Government alone cannot achieve these ambitious targets, participation of the private sector is emphasized, as is the role of community groups and NGOs. While the strategy of achieving the increases in agricultural production focuses on areas with the highest potential for output increases, mainly the irrigated fertile areas, the Government has a number of targeted subsidy programs to try to reach the absolute poor in the rainfed marginal Hill areas. It also stresses the need for labor intensive production technologies and the need to redistribute assets through land reform, though it does not get into specifics. In order to achieve the target income level by the year 2000, GNP growth rates of 4.5% p.a. (1985/86-1989/90), 5.7% (1990/91-1994/95) and 7% p.a. (1995/96-2000) are required. The public investment levels required to achieve this growth are high. These are to be financed in part by increased domestic resource mobilization, including the introduction of an agricultural tax, but mainly by foreign financing which is to increase its contribution from about 50% of development expenditures in the past to an average of 70% in the period covered by the BNP.

II. SECTORAL POLICIES FOR MEETING BASIC NEEDS

Agriculture

11. Because 90% of Nepal's population live in rural areas, the key to alleviating poverty lies in improving agricultural performance. The reasons for the poor agricultural growth reflect numerous problems in the agricultural system, many of which have proven thus far to be intractable. These include the inadequate transport infrastructure; a large number of poorly-fed livestock with low productivity; an inadequate and declining forage base; declining soil fertility due to environmental degradation, particularly in the Hills; and adverse and erratic weather. Nepal has not followed inappropriate producer pricing and trade policies and therefore these cannot be blamed for agriculture's poor performance. The major constraint to agricultural growth has been ineffective irrigation delivery, particularly in public irrigation schemes where only a small part of the command area actually receives reliable delivery. Other factors that have contributed to low growth and productivity include problems in the delivery of fertilizer, slow progress in developing yield-increasing technologies, and weak research and extension.

12. The Basic Needs Program for agriculture correctly recognizes that significant increases in output can only come from improved irrigation and concentrating investments and programs (fertilizer distribution, improved seeds, research and extension) in areas with high production potential. At the same time, several programs to target the poor, such as directed credit programs, as well as research and extension for rainfed areas are to be expanded. The emphasis on small- and medium-scale irrigation with strong farmer participation is appropriate. There are, however, some issues that need to be addressed in implementing the BNP, many of which arise as a result of the top-down planning approach which takes as a starting point the premise that self-sufficiency in foodgrains is necessary to fulfill basic needs.

13. In the Nepal context, the priority given to food security is understandable. Trade may provide one means of securing adequate food supplies but domestic production has and will undoubtedly continue to meet the bulk of local food requirements. For the majority of the poor farmers living in remote areas with limited transport infrastructure, producing foodgrains for home consumption may be essential. Moreover, much of the Terai is a food surplus area and in fact exports food to India. For parts of the Hills and the Terai, where transportation and marketing facilities exist, however, some farmers may be better off producing cash crops. The recent expansion in cash crop production suggests that this process may already be occurring and should be nurtured. Thus, the priority given to food self-sufficiency in the BNP needs to be sensitive to the benefits gained from diversification in areas where it is clearly profitable.

14. To give local implementors commitment to the program, the Government program should involve them and not use top-down targets mechanistically to achieve goals which may result in detailed input and output targets inconsistent with realities at the field level. If the targets are calculated without regard to implementation capacity or what

can be effectively absorbed, the resulting high investment allocations may put such pressures on implementing agencies that spending targets become an end in themselves. This may be the case in the proposed construction and staffing of the Agricultural Service Centers (ASC). Similarly, the ambitious irrigation targets are unlikely to be achieved given the implementation capacity of the recently reorganized Department of Irrigation.

15. An alternative approach, which is used in this report, would begin by identifying the well-known reasons for low agricultural productivity and performance and why past Government efforts have been unsuccessful. The policies devised and investments prepared on this basis would better address the sector's problems. Such an approach would lead to a more flexible interpretation of irrigation targets to focus more on consolidating past investments and improving irrigation intensity. The priority would need to be on investments of short to medium gestation. Emphasis should be given to: (a) groundwater development, especially shallow tubewells; (b) completion of ongoing public sector irrigation projects; (c) improvement of farmer-managed schemes; and (d) new construction of farmer-managed schemes.

16. Another important factor would be to accord priority to those projects which maximize farmer responsibility for O&M. This approach would reduce the fiscal and managerial burden on Government, as well as the level of water charges that would be required to support public sector management of irrigation systems. Recognizing the problems with past approaches, the Government has recently initiated a sector program for irrigation development and investment which emphasizes direct farmer involvement and participation, in contrast to the top-down, project-by-project approach of the past. Under this program, farmer-managed schemes would be constructed or improved, construction costs would be shared by both government and farmers and a program for cost recovery would be devised.

17. In fertilizer, efforts should focus on continuing with a pricing policy that discourages deflection, while simultaneously taking measures to further liberalize distribution and encourage private sector participation by equalizing incentives between private dealers and Sajhas. In research and extension, the strategy would result in increased funding for research while unifying the diverse and uncoordinated extension systems in Nepal. The above approach, while increasing investment requirements for agriculture from past levels, would need significantly less resources than those envisaged in the BNP.

Industry

18. Because Nepal's industrial sector depends so heavily on imported inputs, its restrictive industrial licensing and trade regime has been a serious constraint to industrial growth. Nepal's trade regime is unique: the Nepali rupee is fully convertible vis-a-vis the Indian rupee but inconvertible against other currencies. In addition, the border between the two countries is long and porous, through which both goods and people move freely. Nepal is limited in its ability to liberalize the import regime. If it adopts the Indian structure of protection, trade between

India and Nepal would be harmonious but the restrictions would be inappropriate for Nepal's development. If Nepal liberalizes differently from India, liberalization would immediately lead to large-scale smuggling of goods imported from third countries to India. If Nepal met the hard currency demands for these imports, it would run down its reserves; if it auctioned the currency, the exchange rate against India could not remain fixed. Nepal's import regime is thus an attempt to balance these goals and maintain a protective structure appropriate to its needs. However, this has distorted the structure of Nepali industry in favor of rent-seeking activities involving little value-added and established primarily to exploit the highly protected Indian market.

19. Under the SAP, the Government has instituted several reforms to liberalize the industrial and trade regime. For commercial imports, the Government introduced a system of import license auctions, which, in effect, resulted in a protection structure for commercial imports being similar to that in India. For selected raw materials, on which the Government wished to keep low protection, an OGL/Passport system was introduced, which, while more liberal than the old license system, still retained controls to minimize smuggling. In addition, the Government introduced legislation to remove discrimination against selected exports. The Government should continue this process by expanding the number of items under the OGL/Passbook system so as to include some intermediate and capital goods, liberalizing the number of items under the auction system for import licenses, and expediting implementation of the measures already introduced, especially on incentives for export.

20. In meeting the BNP's target for providing clothing, the Government has assigned primary responsibility to the private sector, limiting its own involvement to that of creating a favorable business climate through liberalizing industrial and import licenses, granting tax concessions and providing supporting services. Given the existing excess capacity, these measures should allow attaining the targets for footwear and clothing, at least for the next few years. If Nepal's comparative advantage truly lies in these industries, significant new investments would be needed to sustain the required growth rates in the longer-term.

21. There are, however, two caveats to this strategy. First, the newly introduced tariff exemptions and increased foreign exchange availability for inputs could lead merely to their re-export to India. Second, self-sufficiency in domestic production is unlikely to be the best way of providing cheap cloth to the poor--reducing the tariffs and taxes on imported cloth would have a more pronounced effect. On the other hand, such an approach would not help develop a domestic industry. There is an obvious short-term conflict here between promoting a new industry and meeting consumer interests, although if Nepal is a competitive producer, the trade-offs may not be substantial or permanent.

Power

22. Although Nepal is endowed with vast hydroelectric potential, theoretically of some 83,000 MW, less than 200 MW have been tapped to date, and Nepal remains a country with inordinately low consumption of energy.

After an in-depth review of options, the Government and major donors have agreed on the Arun-3 hydropower project as the appropriate next investment in new generation capacity to meet Nepal's forecast domestic demand for power. Arun-3 is a 402 MW run-of-the-river project to be commissioned during 1995-2003, and could be accelerated to accommodate bulk export sales to India. It is now important for Nepal to avoid undertaking other large power projects over the next decade unless financing for the projects are strictly additional, highly concessional and the projects can be implemented without excessively burdening Nepal's existing institutions and administrative capacity. In addition, in order for the project to be implemented effectively, the Government needs to take a number of steps to strengthen the Nepal Electric Authority's (NEA) ability to carry out this enormous investment program as well as continue to raise electricity tariffs--presently electricity tariffs are less than half the long-run marginal cost of electricity generation and distribution.

23. Given Nepal's huge hydropower potential and India's stated desire to import any available quantity of power exports over the medium-term, Nepal needs to continue its effort to develop this export market. To do so it needs to develop a position on several complex issues and then to enter into serious negotiations with India. At the same time, it needs to carry on with its technical and related studies. Negotiations on the export of power of about US$60 million annually from Arun-3, which is smaller and does not involve additional water resource issues, is a useful starting point for entering into bulk export arrangements from mega-projects.

24. Rural electrification (RE) is considered by some to be the answer to both generating rural income and employment as well as mitigating the environmental degradation caused by the preponderant reliance of rural Nepalis on fuelwood. Although there is some experience with small hydroelectric systems and with grid extensions passing through rural areas, concerted efforts to introduce RE have not yet taken off in Nepal. However, work undertaken by a special task force suggests that anticipated rural electrification benefits have not yet materialized; in rural areas of Nepal that have been electrified, its impact on generating income and employment has been small compared to the cost of providing the power, and electrification has yet to generate significant fuelwood savings. If the Government wishes to increase rural electrification, the appropriate starting point would be to connect communities already electrified by the Indian grid or served by diesel or small hydro. Beyond this, priority should be assigned to those areas where the scope for productive use of electricity has been market tested. Additionally, for RE to provide maximum contribution to developmental and environmental objectives, it should be undertaken as part of a broader set of rural development activities. Technical assistance is about to be initiated to provide guidance on the best strategy for RE.

Education

25. While enrollments have risen more than five-fold between 1965 and 1986, two-thirds of Nepal's population remains illiterate with major implications for the potential pace of development and for the success of health and population programs. Enrollments, which are officially

estimated at 82% for primary schools are overstated, partly due to high drop-out rates and the fact that many students enrolled do not actually attend. Low attendance and high drop out rates are directly related to the poor quality and lack of relevance of the education currently offered -- problems that stem from policies which have concentrated on expansion of facilities and have somewhat neglected quality considerations. A period of consolidation in which quality issues are attended to as a major priority appears to be necessary in order to reduce waste in the system, and to ensure that enrollment growth will surge once again.

26. Both primary and secondary schools could usefully absorb additional funds. For this reason, BNP's orientation toward primary schools is appropriate. Expanding capacity, however, will require significant improvements in quality in order to generate demand. To do so would need a significant expansion in teacher training, especially for women, and an improvement in the curriculum and teaching materials. At the university too, there is a need to improve the quality of instruction and facilities while restricting the growth of overall enrollments and altering budget priorities in favor of science, engineering and technical subjects. In addition, beneficiaries need to pay a larger share of expenses. While the shares of Government expenditure devoted to secondary and higher education have been falling, the share going to university (25%) is still high given that it accounts for less than 3% of enrollments. Furthermore, despite a sizeable student grant system, annual fees of Rs 240-360 ($10-15) are less than those in secondary schools if in-kind payments are included.

Population and Health

27. Nepal's demographic situation is serious. However successful efforts to curb fertility during the next decade may prove, the country's population will still reach about 24 million in the year 2000, compared to an estimated 17.5 million today, and will double by the year 2015. Although little can be done to change events in this generation, prompt action is nonetheless needed to lessen demographic damage to the next. Realizing the dangers inherent in continued rapid population growth, the Government formally adopted a National Population Strategy in 1983 and has endorsed it in the Seventh Plan and BNP. The strategy provides for a broad mix of contraceptive services and demand motivation and recognizes the important interactions between fertility, education and income. Despite this strong commitment, little success has been achieved in curbing population growth. While sterilization attempts have been successful and now account for about 85% of contraception, temporary methods have not been successfully delivered. The reasons have to do more with difficulties in organizing sustained and motivated outreach work in village communities than with a lack of political will, weak demand or inadequate funding.

28. Health coverage has expanded considerably and several health indicators have improved during the last forty years. To an extent, this is the result of successful health programs in immunization and home oral rehydration techniques. The picture today, however, remains bleak, with widespread diarrheal and parasitic diseases and malnutrition that results in high rates of goitre and cretinism. While successes would significantly benefit from economic development leading to better education for personal

and domestic hygiene, and the availability of safe drinking water and sanitary excreta disposal, the Government needs to improve its efforts in the sector.

29. Since 1975, Government health policy has been directed towards providing minimum services to the maximum number of people. The BNP in health, which is essentially a full-fledged primary health care (PHC) policy statement with an appropriate emphasis on family planning and child care, in effect, endorses a continuation of this strategy. Although the strategy is sound, as in many other areas, there is a need to consolidate existing programs and improve their quality before embarking on a major increase in coverage. Most of the improvements need to be concentrated in institutional areas that affect the civil service as a whole; other issues that need immediate attention are problems of inadequate medical supplies and training for extension workers, absenteeism, and a paucity of house-to-house visiting, especially by female workers. Apart from general administrative reforms, improved health service delivery will require a sustained increase in funding, the development of supervision and management systems at the district level, a significant increase in the hiring of female health workers, and the introduction of systematic rural residency and in-service training for rural health workers.

III. EFFICIENT RESOURCE MOBILIZATION

Public Revenues

30. Nepal's tax system has suffered from a number of structural flaws that have inhibited economic growth and caused inequities. These flaws have related mainly to gaps in the tax base due to tax exemptions and tax holidays and also to the use of specific rather than ad valorem rates, and problems with tax administration. Because of the gaps in the tax base, the tax elasticity is low. As a consequence, the Government has relied on ad hoc discretionary interventions in the tax system to generate revenue growth. By needing to announce new tax measures each year just to keep revenues growing in line with economic activity, this has contributed to economic uncertainty, discouraging private investment. Government policies to promote certain sectors or activities through tax concessions have not only caused economic distortions but have also led to additional wasteful rent-seeking activities whereby interest groups spend resources to try and obtain similar exemptions. That large components of the economy are virtually tax exempt has also been inequitable. The problem has been worsened by the weak institutional base for tax collections. With the passage of the new Industrial Enterprises Act and tariff reforms in 1987/88, the Government has done much to reduce tax concessions and improve tax administration. However, the Government has also introduced new tax exemptions in its 1988/89 budget in connection with the BNP. Furthermore, the bulk of tax revenues still comes from indirect taxes, mainly sales and trade taxes, which are subject to high variance depending on exogenous factors. Thus, measures to improve the tax system must continue to focus on broadening the tax base and improving tax administration. These measures are likely to result in a more elastic tax system, diminishing the need for disruptive new tax measures in the future.

31. To improve tax administration, the Government is in the process of unifying the three revenue departments to create a specialized career path. Other steps include increased use of regular field audits, the extension of training programs for revenue officers, a substantial increase in penalties for tax evasion and late filing of returns, the introduction of audits for tax assessors, and the strengthening of the information base. To broaden the tax base the Government needs to reduce tax exemptions for companies. In addition to a loss of revenues, these tax concessions tend to have a high economic cost and are often inequitable. A major inequity in the tax system and a reason for the low tax base is that the share of agricultural taxes in total tax revenues has fallen from about one-quarter in the 1960s and 1970s to 2.5% today. Therefore, the Government's announced intention of reintroducing the Panchayat Land Development Tax (PDLT), a proxy of an agricultural income tax, is to be welcomed.

32. Although opportunities to raise non-tax revenues significantly are limited, there are areas where revenues could be increased and others that impose hidden costs on the economy and the Government. User charges, when they exist, are typically low due to inadequate indexation of charges and often uncollected due to poor administration and a lack of willingness to pay because of the poor service quality. While virtually all public enterprises show only marginal profits or losses, this is largely due to inadequate accounting procedures that disguise losses, and hidden subsidies, such as Government guarantees on loans to loss making enterprises. Recent Government efforts to strengthen accounting procedures in key public enterprises, and to conduct an external audit of the public financial institutions, are therefore appropriate. Similarly, its program of public enterprise divestiture should help both in obtaining revenues from the sale of enterprises and in reducing subsidies, explicit or implicit, to their enterprises.

Financial Sector Issues

33. Nepal's financial system faces a number of serious problems. The most critical threat involves the financial status of the two largest commercial banks, Nepal Bank (NB) and Rastriya Banijya Bank (RBB), and the two development banks, National Industrial Development Corporation (NIDC), which lends to medium-and large-scale industry, and the Agricultural Development Bank of Nepal (ADBN), which lends to small-scale industry and agriculture. All four banks would almost certainly show losses and even possibly negative equity (except NIDC) if they were to take provisions and suspend accrual of interest on non-performing loans using internationally accepted accounting practices. The main factor responsible for the serious position is financial indiscipline. Many borrowers, both in the public and private sectors, are unable or unwilling to repay their loans, while banks continue to accrue interest, showing profits and paying out dividends. This problem is exacerbated by inadequate Central Bank supervision and regulation which does not adequately penalize either banks or borrowers for non-payment of loans such that even when some borrowers are able to service their loan, insufficient pressure is applied to coerce payment. In addition, the Government has used its control over the institutions, formally and informally, to direct credit to preferred sectors and borrowers. These directed credits misallocate investment into less

profitable uses; this manifests itself in the lowered profitability of these banks. Furthermore, ADBN and the two large commercial banks have been coerced into opening many branches in recent years, most of which do not cover costs.

34. To increase the level of credit going towards production rather than the more traditional trading activities, the Government has required commercial banks to lend 25% of their total credit to productive sectors, of which 8% has to be lent to priority sectors, comprising agriculture, small-scale industry and services. A portion of these administratively costly and higher risk loans have to be at concessional rates. At a minimum, these rates should be increased substantially. In addition, banks often are forced to open unprofitable branches in rural areas, where even one bank is likely to be unprofitable. More autonomy thus needs to be given to commercial banks over branching policies.

35. The Government has recently proposed to gradually but sharply expand the scope of its directed credit to meet dramatically increased credit targets to the priority sectors and to the absolute poor. To facilitate the process, it has introduced a Lead Banking Scheme. This concept assigns a number of complex planning and coordinating functions to the lead bank. While there are some merits to the scheme, the banks probably do not have the capacity to carry out their new functions, some of which are questionable. Furthermore, the increased administrative burden would add to their high operating costs when banks are already overextended. In addition, the credit targets need to be reconsidered given the likelihood that if the targets are enforced, they could trigger a collapse of the financial system because of the high costs of lending to such groups, and leave virtually no funds available for lending to others.

36. Although most interest rates have now been freed, the Government can and does influence their level. The current level of deposit rates is slightly positive in real terms and probably not out of line with where it would be set by market forces. However, the system by which rates are set is not responsive to market forces and the term structure of deposit rates appears steep, with real term deposit rates being high. Until a market for long-term Government securities is available, the Government might consider linking the rates paid on its savings certificates and development bonds to its short-term market-determined bill rate that the Government plans to introduce shortly. At the same time, it may reconsider its decision to grant these instruments tax-free status. Presently, the tax-free interest rates of 10.5% and 13% on Government bonds and savings certificates force commercial banks to offer 12.5% to 14% on their term deposits, thereby driving up lending rates, reducing the profitability of banks and discouraging private investment.

37. To improve supervision of banks, the NRB needs to be able to assess and quantify the problem of delinquent loans in the banks and the extent to which these problems have undermined the state-owned banks' viability. An efficient continuous supervision based on bank returns should be developed to gradually replace the heavy emphasis on periodic on-site inspection, which is becoming increasingly less effective as a means of gaining insight into the financial problems. At the same time, NRB

needs to strengthen regulations and their enforcement by (a) setting limits on a bank's maximum loans outstanding to any one borrower and minimum capital requirements in relation to total assets; and (b) improving accounting and reporting systems to better monitor Government guaranteed loans and loans to public enterprises and to enable banks to assess the quality of their portfolios and to provide for possible bad debts.

38. As a result of improved supervision and regulation, the four large banks will need to adjust. To facilitate recapitalization of NB, the Government may consider reducing its share below the current 50%. RBB, which is 100% Government-owned, requires major restructuring--options include recapitalization, sale, down-sizing or merger with another institution. While continuing to experience collection difficulties, ADBN has been recently instituting more satisfactory accounting policies for provisioning and suspension of interest accrual and has initiated legal action as part of a successful program to improve collections. It needs time to consolidate these gains before taking on significant new burdens under the lead bank scheme, and so it is important that ADBN's growth be restrained to the agreed 15% per annum and that it not be required to open up many new branches. NIDC, which is more heavily capitalized, needs to enhance its autonomy and commercial orientation by allowing private sector participation in its management, and possibly, ownership. In addition, it needs to increase its interest rates on new and newly rescheduled loans to match commercial bank term lending rates and to restructure its portfolio.

IV. STRENGTHENING INSTITUTIONS

Development Administration and Civil Service Performance

39. Weak public administration is one of the root causes of Nepal's disappointing development performance in the modern era; sectoral growth has been hampered more by institutional deficiencies and ineffective service delivery than by sheer resource shortages or by distortionary economic policies. Although specific policy reforms are not suggested, the BNP stresses the need to improve public administration, recognizing that the Government's institutional shortcomings must be addressed if economic and social service delivery is to improve to the extent required by BNP.

40. The unsatisfactory performance of public administration stems from four causes. First, given the poor communications, the heavy concentration of decision-making personnel and processes in Kathmandu leads to serious implementation problems at the district level. Second, there are problems of staff motivation, incentives and terms of service: salaries are typically inadequate; technical staff find opportunities for promotion are limited; field staff are not compensated adequately for the high incremental costs of fieldwork; and personnel evaluation systems offer little basis for merit assessment. Third, the planning and resource allocation mechanism, with its restriction that only projects in the Five Year Plan may be funded, leads to a lack of prioritization, over-commitment, underfunding, especially where O&M expenditures are concerned, and ad hoc arrangements for obtaining resources during implementation. Fourth, stringent accounting requirements and bureaucratic procedures

arising from elaborate rules governing procurement and contract supervision result in slow implementation of projects, leading to cost overruns.

41. The Government has sponsored much excellent analytical and prescriptive work to address these problems. Commissions entrusted with this responsibility as far back as 1968 and 1975 have advocated the introduction of a merit-based reward and promotion system based on rigorous job-classification, the adoption of program budgeting and the strengthening of planning cells in line ministries, an overhaul of budget release procedures, and revamped administrative processes and structures. Implementation, however, has been slow. Recently, there has been significant headway in many of these reforms under the 1982 Decentralization initiative, the SAP, and more recently, the BNP, but the major structural deficiencies remain.

Decentralization

42. The Government has long recognized that effective grass-roots development in Nepal requires a strong measure of local participation in the cultivation of self-reliance: poor communications, limited central budgetary resources and a weak civil service all place strict limits on the capacity of central government to cater to local needs. Building on earlier initiatives, the 1982 Decentralization Act devolves considerable authority in planning and implementation of projects to the elected bodies in the districts and empowers the Village and District Panchayats to levy taxes and tolls for development purposes. Centrally managed projects, however, which account for three-quarters of development expenditures, do not fall within the district's purview.

43. There have been teething problems with decentralization, but also some promising signs of progress. Devolution of authority to local bodies will inevitably be a slow process, given the weak technical and managerial capacities of local bodies. There are many examples of the successful use of local planning and implementation procedures to mobilize effective participation in the construction of roads, water systems and rural infrastructure. Similarly, technical assistance and training in 33 town panchayats has strengthened the delivery of municipal services and the management of local financing. There are, however, several problems that need addressing.

44. One problem is that the Act fails to define district-level and central projects with a sufficient degree of financial specificity leading to ambiguity in ultimate responsibilities. In light of the Government's commendable commitment to decentralization, donors should consider avoiding project arrangements which bypass the district-level planning and implementation process, even if the arrangements are conducive to short-term efficiency and productivity gains. Local resource mobilization remains another area of weakness. There is still a high degree of local budgetary dependence which reinforces perceptions created by the top-down planning process, that development projects are central government projects to be implemented and maintained by the central government. Therefore, the Government announcement in the 1988/89 budget speech of once again activating the PDLT is to be welcomed. Presently, there is a perception

that BNP, which reinforces certain line agency functions, may run counter to the decentralization process. In fact, BNP relies on an efficient decentralized structure for its implementation. It is therefore recommended that the HMG issue a clarification to line agencies, emphasizing the interdependent nature of the two initiatives. Finally, to ensure the success of decentralization and improve district-level planning and implementation of projects, it will be necessary to improve the calibre of district staff.

The Role of Non-Governmental Organizations (NGOs)

45. BNP acknowledges that NGOs have an important role to play in the delivery of economic opportunities and services, particularly in rural service delivery and poverty alleviation work. The NGOs fall under the purview of the Social Services National Coordinating Council (SSNCC) which serves as a regulatory body registering NGOs and coordinating their efforts, and as a support agency, extending technical and financial support to local NGOs. The technical capacity of SSNCC is correctly being enhanced. At the same time, international NGOs (INGOs) should be responsive to HMG concerns about the use of expatriates and about costly overheads. INGOs would do well to concentrate direct project implementation on a few key pilot activities, and to focus their energy on supporting central or local government activities and on providing catalytic support to Nepalese NGOs by providing modest sums of program assistance to the sector. These funds should be routed through SSNCC in the form of block grants, to be passed on both to national NGOs (particularly to enable them to assist smaller grassroots-level NGOs) and directly to local NGOs.

V. BASIC NEEDS, GROWTH AND EXTERNAL ASSISTANCE

The Basic Needs Program: An Overview

46. BNP is the country's first full-fledged poverty alleviation program; it elevates the issues to the importance it deserves over a timeframe more appropriate to the nature of the problem and with a tighter thematic focus than the more conventional five-year plans. It recognizes that increasing the incomes of the poor is the only sustainable route to poverty alleviation and that growth must be driven largely by a private sector which is permitted to respond positively to market signals. The temptation to create new government economic entities in order to force the pace of growth is wisely avoided--in fact, BNP states that the Government will privatize certain of the more inefficient parastatals. Furthermore, in recognition of the limited capacity of the Government to deliver goods and services, the program assigns appropriate roles to local government, community user groups and NGOs.

47. The designers of BNP faced a quandry in trying to target their programs to the absolute poor. The very poorest are concentrated in the Hills and Mountains, often on steep and infertile rainfed soils and with little or no access to advice, credit or inputs, and limited scope for raising agricultural productivity. Increases in incomes of most of the

poor in the Hills and Mountains can only come as more and more of them emigrate to faster growing areas, thereby reducing the pressure on Hill agriculture. Rather than being drawn by the plight of these people to propose a massive on-site poverty alleviation campaign of uncertain prospects with large elements of explicit or implicit subsidy, BNP instead correctly stresses the development of the more fertile farmland through the intensified use of production inputs. This may be the only alternative under known technological conditions. At the same time the Government has introduced or expanded a number of programs targeted directly on the poor. However, such interventions are typically costly and thus limited in scope.

48. While the orientation of BNP is correct, the Government needs to give further thought to a number of planning and implementation issues inherent in the design of the program, particularly to the premise that the way to get basic needs goods to the poor is by producing them domestically. Given the open border with India and limited ability of the poor to buy goods, self-sufficiency in production is neither necessary nor sufficient to meet basic needs. In some cases, the poor could buy the goods more cheaply from India; producing them domestically, with the support of high protection, would only make the goods less accessible to the poor. What has been correctly identified by the Government is the need to raise incomes and employment; self-sufficiency in production is not likely to be the best way to do so.

49. The self-sufficiency goal and fixed input-output coefficients lead to physical and financial input targets that may bear little relation to demand or the ability to implement or finance the proposed investment targets. While BNP acknowledges that weak implementation of the development program is a major and persistent problem in Nepal, it does not come to grips with the reasons for the past poor performance; nor does it propose specific reforms or tailor its targets in recognition of these constraints. A number of basic needs programs are highly ambitious in quantitative terms when viewed against recent past achievements. Increasing pressures are thus likely to be brought to bear on line agencies to deliver outputs that will deviate further and further from the attainable as the year 2000 approaches. This, in its turn, would heighten the possibility of managerial and budgetary neglect of important non-BNP programs, and could dissipate the potential impact of the program budgeting process and other resource allocation mechanisms. It could also strengthen the inclination of line ministries to pursue more interventionist policies. Eventually a situation might arise in which quantitative shortfalls seriously discredit the BNP in the eyes of the public, to the point where success itself is obscured by the failure to achieve some original target.

50. It will be important to review previous constraints to achieving basic needs goals, and to revise policies, make investments, or strengthen institutions in order to address the constraints. While many of the policies envisaged under the BNP are in line with the recommendations in such an approach, in some cases this approach would lead to greater flexibility in interpreting targets, and focus more heavily on getting the institutional and policy framework right before embarking on an ambitious investment program. Analysis in this report shows that the economic returns, of a strategy that focuses on consolidating past investments and

improving its efficiency are likely to be higher than those associated with rapidly expanding investments or services. Such an approach would also reduce financing needs to levels that could be financed from projected foreign disbursements and domestic resource mobilization.

Growth Prospects and Foreign Aid

51. If the Government continues with its structural adjustment program, Nepal's GDP could realistically grow at 4-5% on a sustainable basis. This would require agriculture to grow at 3-4% partly as a consequence of improved availability of input supplies and better irrigation. Manufacturing could grow rapidly following the ongoing industrial licensing and trade reform. Construction activity also should continue to grow rapidly as a result of increased private and public investments.

52. Fiscal policy needs to emphasize improving the quality of Government expenditures rather than raising the level of either Government spending or of taxes. At the same time the Government needs to ensure that adequate financial resources to flow to the private sector. At the aggregate level, this scenario would require containing the domestic financing of the fiscal deficit to below 1.5% of GDP. To limit domestic financing of the budget to prudent levels while increasing public savings to finance the increased investment efforts, public revenues would need to increase by about 0.4% of GDP annually in the medium-term. These should follow readily from the ongoing reforms to improve tax administration and broaden the tax base, which is expected to result in a more efficient and equitable tax system. Given projected fiscal expenditures, this scenario would be consistent with a fiscal deficit (before grants) limited to 8-9% of GDP. At the same time, in order to improve financial discipline in the private sector while strengthening institutions and allocating credit more efficiently, the Government needs to improve Central Bank supervision and regulate, slow down on its policies of directed credits and forced branching, rationalize interest rate policies and reform the large financial institutions. Also, to ensure more productive public investments, the Government needs to continue its efforts on program budgeting and monitoring as well as improve budget release procedures and continue with institutional reforms.

53. Given this scenario, there will be no major changes in the balance of payments situation. Merchandise exports and tourism are projected to grow strongly; the former mainly as a result of increased exports of carpets and ready-made garments; and the latter due to strengthened promotion and marketing measures, improved access through the purchase of two new commercial aircraft and the development of new areas of mountaineering and trekking. Because of the comfortable reserve position and good export prospects, the Government is considering pre-paying during 1988/89 one of its aircraft loans that was contracted on commercial terms. Imports are projected to grow at 8% to 10%, slightly more than economic activity, because of improved budget release procedures and import liberalization. Despite the faster growth of exports, the current account deficit, after a spurt in 1988/89 caused by the aircraft purchase, is projected to stay just under 7% of GDP. In dollar terms, this would imply

an increase in the current account deficit from US$240 million in 1987/88 to over US$300 million in 1991/92.

54. Since donors have financed about half of Nepal's development efforts in the past and that there are now opportunities for adjustment finance, it should be possible for external financing to sustain such a current account deficit, while allowing amortization payments and a modest build-up of reserves. Between $310 and $380 million in aid disbursements are projected annually for the next few years, of which about $70 million are likely to come as adjustment lending. In addition to augmenting foreign exchange resources, adjustment operations can provide an appropriate policy framework for donors to continue with project-related operations.

55. Aid commitments need to be linked to Government development strategies: (i) policy and institutional adjustment; (ii) the Basic Needs Program; (iii) major infrastructure; (iv) decentralization; and (v) public administrative reform. In particular, in order to improve the quality of individual projects, more attention needs to be paid to improving policies and strengthening institutions both through project-related finance as well as through adjustment operations. In the past, the degree of reliance on external resources has had some unintended consequences; in combination with the imperfect planning mechanisms and weak institutional structures, it has sometimes led to inconsistent sectoral strategies and investments, and has contributed to an excessive number of projects in the Government portfolio (over 1300 active in 1987). The Government and donors need to carefully scrutinize each new investment to ensure not only that it fits with strategic priorities, but that it is economically sound and can be implemented under current institutional conditions. The on-going reforms in development budgeting should facilitate this effort. Similarly, programmatic approaches to sectoral development as are being followed in the irrigation, forestry and power sectors are working well and could be extended to other sectors. In addition, projects could be further reduced by merging similar projects at the design stage and encouraging cofinancing. Recent Government attempts to delegate an individual bilateral donor as having the lead in a given sector for small projects would also help ensure coordination and reduce the number of projects.

56. The sectoral composition of aid should reflect the following priorities on investments and the policy and institutional framework. Agriculture needs to be given priority through investments in irrigation (rehabilitation and completion of existing works, increased development of ground water, and promotion of private and public farmer managed schemes), financing for fertilizer imports, support for research and extension systems, increased agricultural credit and improving the delivery mechanisms for inputs. Key policy measures in this area would be to encourage increased participation of farmers in the development and management of public irrigation schemes, to continue measures to facilitate private distribution of fertilizer while ensuring that fertilizer prices follow those in India, and to strengthen AIC to better carry out its role. In industry, technical assistance should continue to support measures to streamline export and import procedures and to privatize or improve the efficiency of public enterprises. In addition, the trade liberalization

measures need to be continued while announced measures need to be implemented quickly and efficiently. In the education and health sectors, initial emphasis should be on consolidating gains in coverage by improving the quality of service through training, management, improved delivery system and supplies, including drugs. This would improve the productivity of existing infrastructure and prepare for a much-needed expansion in expenditures and facilities. In hydropower, donor attention should be given to ensuring the rapid implementation of the Arun-3 project, in order to ward off power cut backs in the mid-1990s and to develop export revenues.

I: RECENT GOVERNMENT INITIATIVES

A. The Context: Poverty and Past Economic Performance

Poverty in Nepal

1.01 Nepal's per capita GDP of US$160 places it among the very poorest countries in the world, a situation perpetuated by a population growth rate which accelerated from 1.6% in the 1950s to 2.7% by the late 1970s. Other statistics confirm Nepal's degree of poverty and deprivation; life expectancy at birth (54 years for males, 51 for females) and infant mortality rates (111 per 1000) are comparable with the world's least developed countries as a group.

1.02 Nepal is extremely dependent upon agriculture, which contributes about 55% of GDP and employs 93% of the work force. The agriculture sector, moreover, is afflicted by mounting population pressure on limited arable land resources, by a falling trend in productivity and by accelerating environmental deterioration. Rapid population growth has largely offset the income opportunities presented by the virtual elimination of malaria in the Terai by the 1960s;1/ as a result, about seven people are currently dependent for their livelihood on each hectare of arable land, a figure similar to population densities in the more fertile Asiatic delta regions (e.g. 8.5 per hectare in Bangladesh); the ratio of population to arable land in the Hills is considerably higher. Between 1974/75 and 1985/86, as increasingly marginal Hill and Mountain land has been brought under cultivation, grain production has risen by only 1.5% p.a., while productivity has fallen by 0.5% p.a.; in consequence, per capita food consumption fell from 92% of requirements in 1976 to between 80-85% at present. Simultaneously, the productive potential of the natural resource base has been undermined by human and livestock pressures - resulting most critically in extensive degradation of the country's forest and pasture land, particularly in the Hills. Over the past fourteen years alone, national forest crown cover has been reduced by 25%--contributing to soil erosion, fuelwood shortages and the increasing use of animal dung as fuel, to the growing detriment of soil fertility.

1.03 Equally, Nepal has not witnessed the growth in non-agricultural income needed to help relieve pressures on the agricultural sector. Non-agricultural labor increased from 0.24 million persons in 1960 to only 0.52 million by 1980, while those employed in agriculture increased by 2.6 million. Levels of rural underemployment are as high as 40-50%, and the off-farm earnings of the agricultural poor are comparable to or less than their on-farm earnings. Migration, principally from the Hills into the Terai or India, has been proceeding for well over a hundred years and

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1/ Nepal can be divided into 3 broad ecological zones: the mountains of the Himalaya, bordering Tibet to the North, the middle Hills and the Terai plains to the south, bordering India. Approximately 42% of the population live in the rural areas of the Hills, and a similar number in the rural Terai; 8% live in the Mountains, and 7% in urban areas.

provides the only major vent for population growth; between 1971-81, the Terai population as a whole grew by over 4% annually, Terai urban areas by 8-12%, and the Hill and Mountain population by 1.5%.

1.04 Using minimum daily caloric requirements as a basis, the National Planning Commission (NPC) has estimated a poverty line income of Rs 1971 (US$110) per person per annum in 1984/85 prices.2/ It is estimated that some 42.5% of the population fall below this stringent floor, a figure that would rise to about 60% if a poverty line income equivalent to US$200 were used. Thus a significant proportion - and probably the majority - of Nepal's population can be classified as absolutely poor.

1.05 Using the more conservative NPC measure, the majority of the Hill and Mountain population and a quarter of the Terai population fall below the poverty threshold. Poverty is also predominantly a rural phenomenon in Nepal. Even adjusting for higher urban living costs, only some 15% of Nepal's small urban population fall below this poverty line, while about 50% of the rural population do; indeed, 97% of the absolute poor are found in rural areas, with a particular concentration in the Hills and Mountains, and only 3% in the cities and towns.

1.06 Poverty in Nepal is linked predominantly to a shortage of productive agricultural land; in general, the absolute poor in the Hills are those owning less than 0.5 ha (over 50%), and in the Terai, those owning less than 0.3 ha (about 30%). A composite profile of a poor rural family suggests a homestead of just under 0.5 ha producing grain sufficient to feed the family for less than six months of the year. It is likely that up to half of this meagre crop will be owed either to a landlord or to a better-off local villager as repayment for consumption loans taken out to meet social obligations (marriages, festivals etc.) or crises (crop failures, medical emergencies). In such families, undernutrition is commonplace, provoking the virtual certainty that one or more children will die from the gamut of illnesses affecting the family. Hanging over this inherently unstable situation is the prospect of further subdivision of the family farm among the children; typically, the family is only sustained on its land by off-farm labor, which provides up to a half of total family income (principally through portering and laboring, often from family members who have in effect migrated in search of work elsewhere in Nepal, or in India). With returns to off-farm labor of less than a healthy subsistence wage for those from poor families, leaving the farm is more of an expression of despair than a pursuit of opportunity.

2/ The poverty line for the Hills is considered to be higher, due to greater caloric requirements and higher prices. The national figure of Rs 1971 is a weighted composite of Rs 2277 for the Hills and Rs 1438 for the Terai ("Programme for Fulfillment of Basic Needs 1985-2000", NPC, 1987).

1.07 Data on per capita income indicates a fairly egalitarian distribution of earnings in Nepal (Gini coefficient of 0.25).3/ Incomes are also distributed fairly evenly by area and by rural/urban category, with the exception of the Mountains - where an almost uniform level of poverty prevails (Table I.A.1). Nepal thus demonstrates a flat distribution of income around a very low average. Poverty in Nepal is primarily a function of severe population pressure on limited land resources, and of sluggish compensatory growth in off-farm productivity. The country's income profile suggests that there is little scope for a redistribution of earnings. The principal asset in Nepal is land; although land ownership is highly skewed, it is a very limited resource and thus the scope for land redistribution programs is limited. The key to the future lies with accelerating economic growth with a concerted effort to control population growth.

Table I.A.1 : PER CAPITA INCOME DISTRIBUTION IN NEPAL
(Percentage Share of Income)

Income Group	All Nepal	Rural			Urban	
		Terai	Hills	Mountain	Terai	Hills
Bottom 40%	23	24	23	33	27	24
Middle 50%	54	53	56	54	52	56
Top 10%	23	23	21	13	21	20

Source: Based on Multi-Purpose Household Budget Survey, Rastra Bank Vol. I Tables XIV and XVI, 1987.

The Beginnings of Development

1.08 The disheartening poverty situation just depicted has persisted despite several decades of concerted efforts to accelerate development. Few countries, however, began their development as late and at such a natural disadvantage as Nepal. The country emerged from self-imposed isolation in the early 1950s with practically no infrastructure. Transportation and communications over the hilly terrain were almost exclusively by foot. There were fewer than 300 university graduates in the country; less than one percent of the school-age children attended schools; public health services were virtually non-existent. Not surprisingly, basic infrastructural development, particularly roads, emerged as the

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3/ The Gini coefficient of total household income, at 0.57, is a less appropriate measure than per capita income, and disguises the fact that in Nepal wealthier households support significantly larger numbers than do poor households. For Nepal as a whole, average household size increases monotonically with total household income, ranging from less than four members per household at the lowest income class to more than thirteen at the highest. With this exceptionally wide range, it can readily be appreciated that correcting for household size reduces the skewness of the income distribution and strongly influences estimates of the proportion of the population in poverty.

priority investment during the first four development plans (1956/57-1974/75). New ministries were also established and modern budgeting and accounting practices introduced. Major emphasis was placed on education, especially higher education, and at the same time liberal use was made of technical assistance to alleviate the severe shortages of trained manpower. Development in the productive sectors, however, was constrained by this very lack of infrastructure, weaknesses in public administration, small market size, and Nepal's low absorptive capacity for foreign aid. Despite rapidly increasing development expenditures, investment remained low--less than 10% of estimated GDP during this period. Over these two decades, growth of real per capita incomes averaged probably less than one percent per annum.

1.09 The Fifth Plan (1975/76-1979/80) marked a change in strategy. The major thrust of a substantially increased public investment program was towards smaller, quicker-yielding investments and the social services. Despite significant progress in increasing development expenditures, which rose by about 17% annually in current prices (6-7% in real terms) and were facilitated by a rapid growth in aid, economic performance under the Fifth Plan did not live up to expectations, with real GDP growth barely exceeding the growth in population. The primary cause was a shortfall in agricultural production which then comprised over 60% of GDP (Statistical Appendix Table 2.2A), and stagnation in agricultural value-added. Rice exports which once exceeded 200,000 tons in the mid-1970s, fell to negligible proportions by the end of the decade, in the process driving down total export earnings. Performance in other sectors was mixed. Agro-related industries primarily rice and oilseed mills suffered from poor agricultural harvests. Industrial performance was also hindered by power shortages as major hydroelectric investments were significantly delayed. Efforts to develop social services met with only partial successes. Education enrollments exceeded expectations, but the achievement indicators associated with health and family planning were particularly disappointing.

Table I.A.2 : GDP Growth
(Percent per annum in 1974/75 prices)

	Fifth Plan a/ 1975/76-1979/80	Sixth Plan a/ 1980/81-1984/85
GDP	3.1	4.5 b/
Agriculture	-0.1	4.0
Non-Agriculture	8.8	5.2 b/

a/ Since 1979/80 was an exceptionally bad year for agriculture, the base year 1979/80 was normalized by averaging the data for 1978/79, 1979/80 and 1980/81.

b/ See footnote 4.

Source: Statistical Appendix Table 2.1.

The Sixth Plan 1980/81-1984/85

1.10 Erratic Growth. Performance during the Sixth Plan is more difficult to characterize.4/ After adjusting for an abnormal base year, the GDP estimates suggest that growth averaged over 4% per annum during this period. There were, however, wide fluctuations from year to year as poor weather led to negative growth in agriculture followed by major recoveries when agriculture output was estimated to have increased by as much as 10% (Table I.A.3). Furthermore, if the recent revisions to the GDP series are discounted (see footnote 4), growth averaged closer to 3.5% p.a. There is some evidence of improved performance in agriculture, particularly outside of foodgrains in cash crops such as potatoes and sugarcane, which benefited from the better services available in the Terai; however, physical output indicators as well as trade data suggest that while crop production likely grew faster than in the previous decade, agricultural growth was probably not much more than 3% per annum. Progress in the forestry sub-sector also fell far short of what was hoped for or required. Under its many afforestation programs, the Government achieved annual planting rates of only 2,500 to 5,000 ha during the Sixth Plan. This was grossly inadequate relative to the scale of environmental degradation and to the country's long-term energy needs.

1.11 The manufacturing sector continued to expand, but still accounts for less than 5% of GDP. General improvements in raw material supplies and availability of power facilitated production in key industrial sub-sectors such as sugar and jute manufactures; over time, however, the relative importance of these activities have declined in favor of a small group of emerging new industries producing textiles, beverages and minor consumption items such as soap and biscuits. Whereas manufacturing sector production in the 1970s was adversely affected by the stagnation in agriculture, since about 70 percent of industrial production is derived from processing agricultural commodities, the pattern in the 1980s shows evidence of diversification into products which depend more on minerals and imported raw materials.

4/ Part of the problem reflects long-standing weaknesses in the availabiilty and quality of statistical information. This applies, inter alia, to estimates of production by sector, to budget accounting practices which inter-mingle current and capital spending, to lack of reliable data on aid commitments, disbursements and the pipeline and to the scarcity of price indices. Complicating the analysis are major revisions in the historical series for GDP growth, the basis for which is unclear. For example, GDP growth for 1984/85 was revised upwards just a few months ago from 3.0% to 7.9%, due to an increase in the estimated growth of non-agriculuture value-added from 4.0% to 16.6%. However, an examination of the sectoral components components which suggest that most of the increase ostensibly came from upward revisions in construction and government services, does not support the results. An upward adjustment is also reflected in the growth numbers for 1983/84 based solely on a change in deflators.

Table I.A.3 The Sixth Plan - Key Performance Indicators

	1980/81	1981/82	1982/83	1983/84	1984/85
GROWTH PERFORMANCE			(Annual % Change)		
Real GDP Growth	8.3	3.8	-3.0	9.7	7.9
Agriculture	10.4	4.6	-1.1	9.5	2.4
Non-agriculture	5.5	2.6	-5.8	9.9	16.6
BUDGETARY PERFORMANCE			(Rs. Million)		
Revenue	2419	2680	2842	3409	3917
Expenditure	4092	5361	6979	7437	8395
Regular	1361	1634	1997	2274	2906
Development	2731	3727	4982	5164	5489
Overall Deficit	1673	2682	4138	4028	4478
Financed by :					
Foreign Grants	869	993	1090	877	923
Gross Foreign Borrowing	693	730	986	1671	1755
Gross Domestic Borrowing	111	959	2062	1480	1800
			(Percent of GDP)		
Revenues	8.9	8.6	8.4	8.7	8.8
Expenditure	15.0	17.3	20.7	18.9	19.0
Regular	5.0	5.3	5.9	5.8	6.6
Development	10.0	12.0	14.8	13.1	12.4
Overall Deficit	6.1	8.7	12.3	10.2	10.1
Gross Domestic Borrowing	0.4	3.1	6.1	3.8	4.1
BALANCE OF PAYMENTS PERFORMANCE			(US$ Million)		
Exports of Goods & Non Factor Services	294	278	249	273	301
Imports of Goods and Non Factor Services	446	451	520	499	523
Current Account Balance	-96	-120	-217	-179	-179
Intl. Reserves (end of period)	196	233	230	203	142
MONETARY PERFORMANCE			(Annual % Change)		
Money and Credit					
Credit to Government	0.4	63.3	98.4	23.0	29.1
Credit to Nonfinancial Public Enterprises	34.8	-11.2	35.4	-16.2	22.0
Credit to Private Sector	25.8	6.4	3.9	17.7	27.4
Broad Money	20.0	18.2	23.6	13.4	17.6
Consumer Prices	13.4	10.4	14.2	6.2	4.1

Source : Statistical Appendix Tables 2.1, 3.1, 5.1, 6.1 and 9.1

1.12 The power sector expanded rapidly under the Sixth Plan at an annual average rate exceeding 10%. This was largely due to completion of the 60 MW Kulekhani hydroelectric project. In road transport, the groundwork for a basic road network was established with completion of the last portion of the East-West Highway in 1984/85 and priorities have now begun to shift in favor of feeder roads. Perhaps the most visible growth during the Fifth and Sixth Plans came from tourism where foreign exchange earnings quadrupled from the mid-1970s to about $60 million in the early 1980s. Earnings then fell sharply because of the international recession but has since more than recovered.

1.13 Developments in the social sectors continued to be mixed. Both in education and in population and health, expenditures increased rapidly (with annual development expenditures rising by 21% and 29% respectively, in nominal terms), and infrastructure was significantly expanded, leading to greater access of the population to basic education and primary health care. In response, enrollments in the education system rose by a third, literacy increased from a quarter to a third of the adult population, life expectancy rose from 45 years (1977) to 52 years, and contraceptors rose from 7% to 15% of the fertile population, largely through sterilization. Despite these impressive achievements, illiteracy and ill-health remained at very high levels and the uptake of family planning methods was still unacceptably low; in the meantime, education and health programs were beginning to show signs of institutional stress from their rapid period of expansion.

1.14 Excessive Fiscal Expansion. While growth performance during the Sixth Plan was probably moderately better than in the previous decade, it was nevertheless erratic and, in terms of the stimulation provided by public outlays, was unsustainable. Growing frustration with the lack of tangible progress through successive five year plans manifested itself in a surge in public outlays during the Sixth Plan Period, far outstripping the growth in revenues, progressively reducing revenue surpluses and generating large domestic borrowings financed primarily through the banking system. The overall budget deficit rose from 6.1% of GDP in 1980/81 to 12.3% in 1982/83 and domestic borrowings, negligible in 1980/81, shot up to 6.1% of GDP in 1982/83 (Table I.A.3). This led to strong demand pressures reflected in higher domestic prices and a deterioration in the balance of payments. The rapid growth of public expenditures from 1980/81-1982/83 reflected sharp increases in regular expenditures due to periodic major salary adjustments as well as civil service employment growth of 3% annually, and an increase in development expenditures of about 35% per annum. While the magnitude of these budgetary deficits fell toward the end of the Sixth Plan, the pressures on the monetary system persisted. Domestic credit expansion, which peaked at 40% in 1982/83, was still running at about 25% in 1984/85.

1.15 Deteriorating Balance of Payments. The excessive demand pressures emanating from fiscal deficits also manifested themselves in substantial losses of foreign reserves (Table I.A.3). With the jump in imports, the current account deficit more than doubled between 1980/81-1982/83, reaching almost 9% of GDP and gross reserves which averaged around $200 million at the beginning of the Sixth Plan (equivalent to 5-6 months of imports) fell to about $140 million (equivalent to about 3 months coverage) by 1984/85.

1.16 In the remaining years of the Sixth Plan, the precarious macroeconomic situation began to threaten the viability of Nepal's development effort. Consequently the Government took steps to implement a stabilization program supported by an IMF Standby Arrangement in December 1985. Recognizing that a stabilization program by itself could not of itself lead to sustained and more rapid growth, the Government subsequently embarked on a structural adjustment program to address the long-term constraints that have contributed to low growth. This was supported first by a Structural Adjustment Loan (SAL) financed by IDA in March 1987 and later by an IMF Structural Adjustment Facility (SAF) for 1987/88. Simultaneously, His Majesty launched a far-reaching initiative to meet the basic needs requirements of the populace. These programs are discussed in the rest of this chapter.

B. The Structural Adjustment Program

Background and Program Summary

1.17 Together, the stabilization policies initiated in 1985 combined with the institutional and sectoral reforms supported under the SAL and SAF form the crux of what has become known within Nepal as the Structural Adjustment Program (SAP). The major theme of this program is to strengthen macroeconomic and sectoral development policies and improve the efficiency of public sector expenditures. The measures instituted to stabilize the economy concentrated on addressing weaknesses that had emerged in the management of fiscal and monetary policy as well as reforms in the trade and exchange regime. Specific actions were taken to relieve pressures on the budget by restraining public expenditures, especially in the regular budget; increasing revenues; and tightening monetary policies. To strengthen Nepal's external position, the rupee was devalued by 15% and several procedural and institutional reforms were taken to liberalize the import regime.

1.18 Having established an appropriate macroeconomic framework, the Government turned its attention in the ensuing years towards implementing a broad range of sectoral and financial measures to effect the much needed structural reforms in the system. These reforms which from the core of HMG's Policy Framework Paper, finalized in late 1987, have two major objectives. First it was recognized, that the highest priority has to be placed on accelerating growth if a sustained basis for alleviating poverty is to be established, and that critical to this effort is increasing production in agriculture. In addition, development in other key sectors, particularly industry, had been adversely affected by an overly restrictive trade regime and inappropriate incentives. Thus a major feature of the SAP was to address the major structural constraints to growth in these two sectors. Second it was recognized that in order for the public sector to become more effective in managing the development process, particularly in terms of financial control functions and implementation of the development program, that new processes had to be devised, institutions strengthened, and the range of areas where the government was heavily involved scaled back. Special consideration was given to the need to improve the performance of public enterprises which have been a major burden on the

banking system. A number of specific actions were taken over the past three years in fulfillment of the above objectives.

1.19 Macroeconomic Policy. The principal focus of macroeconomic policy has been to improve budgetary management, carefully control net credit expansion and non-concessional external borrowing and maintain a realistic exchange rate. On the resource generation side, efforts have been made to increase revenues through the tariff reforms, introduction of an auction system for import licences, broadening of the sales tax base, introduction of a flat corporate tax, reduced tax exemptions and increases in the use of ad valorem duties. Regular expenditures were to be restrained through moderation in general salary increases and a near freeze on hiring. The financing of development expenditure was to be strengthened through generation of larger budgetary surpluses, improved aid absorption and reduced bank borrowing. With the reduction of fiscal pressures, combined with a more flexible exchange rate policy and trade reforms, it was hoped that the balance of payments position would improve.

1.20 Agricultural Policy. As discussed in more detail in Chapter II, the program for agriculture focused on increasing the effectiveness and efficiency of public sector institutions in supplying inputs and supporting services, providing adequate price incentives to producers, liberalizing the distribution of inputs while also increasing the role of the private sector, and improving irrigation services. Much of the initial efforts were concentrated on strengthening the financial position and management of the National Food Corporation (NFC) and the Agricultural Inputs Corporation (AIC). NFC activities have now been redefined. Its procurement from domestic production is now done at market prices rather than through obligatory concessional sales, and in place of subsidized foodgrain sales concentrated in the Kathmandu valley, a price stabilization scheme has been substituted. AIC is the major government entity encharged with the import and distribution of fertilizer, the latter function relying heavily on the cooperatives (sajhas) at the wholesale/retail levels. Fertilizer prices have now been adjusted to reflect rough parity with India, thus effectively curbing unofficial exports and alleviating supply problems. Considerable progress has also been made in registering private dealers to operate at the retail level. In addition, extensive technical assistance has been utilized to strengthen the financial and management capabilities of both institutions.

1.21 More recently, attention has also been given to the limited returns realized from past irrigation development. Public sector irrigation development has been hindered by the very high costs of medium and large-scale gravity schemes, which have been aggravated by inefficient management and unsatisfactory water charge collections. HMG is now rethinking its irrigation strategy so as to rely more on increased farmer participation in public scheme management and more consistent and uniform cost recovery policies.

1.22 In the forestry subsector, HMG has intensified efforts to heighten public awareness of the consequences of deforestation and enacted appropriate legislation to permit committee-level forest user groups to manage and retain their earnings from these forests.

1.23 Industrial Policies. In support of the growth orientation of the SAP, the Government restructured the trade and industrial regime to provide Nepalese producers with improved incentives for both exports and import substitutes. Aside from the exchange rate adjustment, a system of duty drawback and selective sales tax rebates was introduced. Many of the quantitative restrictions were removed, and more reliance has been placed on a new simplified tariff system. The Government also introduced an import passbook system for industrialists, placed several important raw material imports under OGL, and established an auction system for import licenses. To reduce excessive regulatory controls, the number of items which are subject to industrial and export licensing has been significantly reduced as has the number of procedural steps involved in making an export shipment.

1.24 Managing Development Expenditures. While HMG recognized that more fundamental reforms in the performance of the public sector would require major changes in the public administrative systems, implementing such reforms would be difficult and time consuming. Thus initial efforts have concentrated on improving the budgeting and monitoring of development expenditures. Extensive technical assistance efforts, supported by the UNDP and ADB, are underway to help establish a sound portfolio of "core" projects selected on the basis of their economic efficiency, foreign aid content, nearness to completion and strategic importance to the overall development program. In addition, the Government has established special units in the Ministry of Finance and line ministries to monitor the funding and implementation status of projects with the view to accelerating implementation. The focus of these efforts was initially concentrated in the Ministry of Finance but is now shifting to strengthening the Planning Commission and line ministries to improve project identification and selection.

1.25 A related initiative has been the effort to address the poor performance of public enterprises. The 60 fully state-owned public enterprises have suffered from rapid staff turnover, political interference in their operations, and a lack of clear guidance concerning their role. The Government has begun to tackle these problems at the general level by classifying PEs into those which will remain fully or partly under Government control and those which will be privatized because of the absence of any strong rationale for continued public sector involvement. The initial efforts to privatize some PEs, however, were unsuccessful because of inadequate bids, political sensitivities, and public opposition. HMG has now decided to draw on IFC assistance to help make this program a reality. In addition, long-term assistance is being provided to improve the performance of selected enterprises, in particular, NFC and AIC.

Macroeconomic Developments Under the SAP

1.26 Production Trends. Macroeconomic performance under the SAP has been encouraging. Although reliable estimates of value-added by sector are not yet available, the evidence thus far suggests that GDP growth during the three years 1985/86-1987/88 exceeded 4% per annum. Agricultural production and exports, however, remained vulnerable to the vagaries of the weather as evidenced in the drought affected harvest in 1986/87. Production appears to have recovered in the past year. There is an upward

trend in foodgrains production due largely to acreage expansion. Much of this expansion, however, is occurring on marginal lands; consequently yields have remained constant. Productivity of cash crops has increased over the past five years. Part of the success is reflected in increased fertilizer sales which are 30% higher in 1987/88 compared with 1984/85. Acreage under improved seeds, however, has not changed much in the 1980s suggesting limited success in extending reliable irrigation services. Industrial growth accelerated under the SAP. The index of industrial production is estimated to have increased by about 70% during the SAP period. Much of this expansion reflects a surge in production of textiles, cement, beverages and sugar. Trade liberalization has significantly improved access of industrialists and small enterprises to much needed imported raw materials and intermediate goods. Jute manufactures which still account for the largest share of industrial production at about 20%, however, continues to stagnate. The contribution of public expenditures to growth was also substantial. Public consumption and investment may have increased by more than 5% in real terms during the SAP period, but in contrast with the first half of the 1980s, this growth was financially sustainable and did not generate excessive demand pressures.

1.27 Fiscal Performance. Under the SAP, the overall budgetary deficit fell from 10.1% of GDP in 1984/85 to 9.3% by 1987/88 (Table I.B.1). At the same time, gross domestic borrowing fell from 4.1% to 1.6% of GDP. This outcome reflects strong growth in revenues which increased by 1.9% of GDP coupled with a jump in aid disbursements which increased by 2.5% of GDP due to quick disbursing adjustment lending equivalent to 1% of GDP and some improvements in budget release procedures. The growth in revenues was attributable to reforms in tariffs, discretionary tax measures and substantial proceeds from the auctioning of commercial import licenses. Regular expenditures were kept in check because of the tight wage and employment policies while development expenditures grew briskly in line with developmental needs. Because of the increase in external financing, credit expansion to the public sector was cut by one-half. Inflation did not fall over this period due both to higher drought-induced inflation in India and the devaluation. Because of the open borders between Nepal and India and a bilateral exchange rate that tends to remain fixed, Nepal's inflation tends to parallel India's. Similarly, Nepal's interest rates follow those in India; presently real deposit rates on savings are about zero, although term deposit rates are significantly positive.

1.28 Balance of Payments. Despite a deterioration in Nepal's terms of trade, the balance of payment position improved steadily during this period. It is difficult to determine the impact of devaluation in this process, which some observers believe generated mostly inflationary pressures because of supply rigidities in agriculture, but enhanced incentives has undoubtedly contributed to the encouraging growth in non-traditional exports, particularly garments and carpets in addition to tourism, which were helped by measures that liberalized charter flights, developed new areas for mountaineering and trekking, restored historical sites and improved air access to Nepal through the acquisition of a commercial aircraft. Exports of garments and carpets grew from $40 million

Table I.B.1 Structural Adjustment Program - Key Performance Indicators

	1984/85	1985/86	1986/87	1987/88
GROWTH PERFORMANCE		(Annual % Change)		
Real GDP Growth	7.9	3.9	2.4	7.1
Agriculture	2.4	4.3	1.0	8.7
Non-agriculture	16.6	3.5	4.4	5.0
BUDGETARY PERFORMANCE		(Rs. Million)		
Revenue	3917	4645	5975	7320
Expenditure	8395	9797	11513	13678
Regular	2906	3584	4135	4789
Development	5489	6213	7378	8889
Overall Deficit	4478	5153	5538	6358
Financed by :				
Foreign Grants	923	1173	1285	2078
Gross Foreign Borrowing	1755	2501	2706	3191
Gross Domestic Borrowing	1800	1479	1547	1088
		(Percent of GDP)		
Revenues	8.8	9.0	10.2	10.7
Expenditure	19.0	18.9	19.7	20.1
Regular	6.6	6.9	7.1	7.0
Development	12.4	12.0	12.6	13.0
Overall Deficit	10.1	10.0	9.5	9.3
Gross Domestic Borrowing	4.1	2.9	2.6	1.6
BALANCE OF PAYMENTS PERFORMANCE		(US$ Million)		
Exports of Goods & Non Factor Services	301	329	348	421
Imports of Goods and Non Factor Services	523	559	596	731
Current Account Balance	-179	-194	-194	-239
Intl. Reserves (end of period)	142	165	202	337
MONETARY PERFORMANCE		(Annual % Change)		
Money and Credit				
Credit to Government	29.1	15.5	16.2	8.5
Credit to Nonfinancial Public Enterprises	22.0	48.4	7.5	13.2
Credit to Private Sector	27.4	24.6	18.6	19.6
Broad Money	17.6	23.3	15.4	20.4
Consumer Prices	4.1	15.9	13.3	11.6

Source : Statistical Appendix Tables 2.1, 3.1, 5.1, 6.1 and 9.1

in 1984/85 to $98 million in 1987/88 while tourism receipts grew from $41 million to $120 million. Because of the long open border with India, it is difficult for Nepal to effect a sustained real depreciation against the Indian rupee and by the end of 1987/88, the bilateral real exchange rate between Nepal and India was virtually restored to its pre-devaluation level; however, the Nepalese rupee has depreciated in real terms vis-a-vis third countries. Imports, excluding the purchase of a $55 million aircraft in 1987/88, grew by 31% over this period due to revived growth, a larger development expenditure program and trade liberalization. Buoyed by greater aid inflows and an increase in private transfers which doubled over 3 years to almost $100 million in 1987/88, international reserves rose by about $100 million. Reserves at the end of 1987/88 stood at $337 million or almost 6 months imports coverage as compared to $142 million or 3 months imports coverage in 1984/85.

1.29 Development Expenditures. Reflecting the growth orientation of the program, development expenditures expanded by 17% annually under the SAP (Table I.B.2). While data on private investment are not very reliable, private investment's share of GDP was estimated to have remained virtually constant at 10.4%. As compared to the end of the Sixth Plan period, the most significant increases in Government development expenditures occurred in the social sectors, communications and electricity while the share of agriculture (including irrigation and forestry) fell substantially. For the 1988/89 budget, in an attempt to compensate for agriculture and transport's declining share of the development budget and reflecting agriculture's prominence in the BNP (see below), the Government increased their allocations dramatically while proposing expenditures that were 50% higher than the 1987/88 level. Based on experience, it is unlikely that these levels will be realized; however, even if the historical utilization of 85% of allocations is realized, it remains to be seen whether the funds could be utilized effectively.

Table I.B.2
Development Expenditures by Sector

	Average	Actual							Budget
	1975/76-1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	(percent of total)								
Education	11.5	11.1	12.1	13.1	11.7	14.2	14.0	13.1	10.9
Health	5.1	4.1	4.3	3.9	4.6	4.1	4.2	5.6	6.1
Drinking Water	2.9	2.9	4.9	4.3	3.7	3.7	3.7	3.6	3.9
Agriculture	10.9	12.6	13.4	10.6	12.8	13.8	9.2	8.4	10.1
Irrigation	9.4	9.6	9.8	10.6	11.9	13.6	11.5	8.1	13.0
Forestry	3.5	5.0	4.6	4.5	5.3	5.9	5.3	4.6	4.8
Industry & Mining	6.4	7.1	7.5	12.6	6.3	6.4	5.1	6.6	7.2
Communications	0.9	1.3	1.5	1.9	1.6	1.4	1.9	5.8	2.5
Transportation	26.1	20.0	16.1	14.5	16.8	11.5	13.4	13.2	17.9
Electricity	13.2	10.3	8.9	12.6	9.2	16.7	16.8	17.4	10.4
Other	10.1	16.1	16.9	11.4	16.0	8.7	14.9	13.7	13.2
TOTAL DEVT. EXPENDITURE	1652	3727	4982	5164	5489	6213	7378	8889	13368
Nominal Growth (%)	18.9	36.5	33.7	3.6	6.3	13.2	18.7	20.5	50.4

Source: Statistical Appendix Table 5.3.

Impact on Poverty

1.30 The SAP has had a generally favorable impact on poverty. This stems from three factors. First, the program was designed to be growth oriented rather than one of fiscal austerity; public expenditures have continued to expand in real terms. This has been possible because of enhanced foreign assistance including SAL/SAF resources coupled with intensified tax efforts. Consequently, major programs including social expenditures have not been cut back but have grown in line with developmental needs.

1.31 Second, sectoral policies have led to increased production, particularly in agriculture where the bulk of the poor are located. The abolition of compulsory procurement at concessional prices has enhanced production incentives while the policies to liberalize distribution of fertilizer and prevent leakages to India have improved the domestic supply situation. Although official prices of some fertilizers have increased to bring them to parity with Indian prices, they are unlikely to affect the price paid by small farmers, who, in the past paid exorbitant prices because of distributional bottlenecks which led to periodic shortages. The improved supply situation through private sector distribution and diminished smuggling would benefit most farmers, especially the smaller ones. The new regulations governing revenues from Panchayat Protected Forests will have an immediate and direct benefit for the poor. Previously forest revenues were collected by the Ministry of Finance, to be returned, if at all, only with considerable delay. Now the community will retain these revenues, some of which will provide employment for nursery staff, watchmen, and other forest workers. In the longer-term the new regulations should also encourage communities to preserve what is a crucial and irreplaceable resource.

1.32 Third, outside of agriculture, the adjustment reforms are largely concerned with liberalizing investment and import licensing procedures and thus reducing economic rents or transferring them to the budget. This will hurt primarily those (generally higher income people) who had been receiving the economic rents. But the incomes of many of the urban poor will increase as improved incentives generate productive employment. Already carpet and textile production, which employ lower income urban workers, has increased, largely as a result of the more liberal trade regime. Similarly, private investment in small-scale industry, which predominantly employs poorer people, will benefit from the improved incentives.

1.33 Fourth, the very poor are largely outside the cash economy, whereas to the extent the SAP has led to cuts in benefits, these have been concentrated on the monetized sectors and activities where the benefits were being accrued by the better off groups in society. The abolition of the public subsidized food distribution program and the creation both of more targeted programs for the poor and a price stabilization scheme will on balance confer greater benefits to the poor. The previous food subsidy scheme largely benefitted the Kathmandu Valley which is relatively better off. The thrust of the financial sector reforms also will not have any significant adverse effects on the poor, since their economic activities lie primarily in subsistence agriculture. Moreover, the creation of viable

financial institutions should, in the longer-run, allow more credit to flow on a sustainable basis to a wider range of productive activities.

C. The Basic Needs Program

Background and Objectives

1.34 HMG's concern with poverty and income distribution issues received initial prominence in the Fifth and Sixth Five-Year Plans (1978-85). The Basic Principles of the Seventh Plan (March 1984) echoed this theme, pointing to a need to "focus the entire attention and endeavor of the nation on the tasks of increasing production and employment opportunities, and fulfilling the minimum basic needs of the common man". The Principles then went on to define as minimum basic needs "foodgrain, clothing, fuelwood, drinking water, primary health care and sanitation, primary and skilled-based education, and minimum rural transport facilities". Fulfillment of minimum basic needs was conceived of primarily in terms of a selective intensification of existing mainline sectoral and sub-sectoral programs in both the productive and the social sectors, with stress placed upon enabling the poor to purchase essential goods and services. Thus, employment generation and income enhancement were emphasized. Despite the conceptual prominence given them in the Seventh Plan documents, however, basic needs concerns represented but one among several important themes in the national development program in the early Plan years, and were not singled out at that point out for exceptional attention. This situation has now undergone a dramatic change, with the Basic Needs Program (BNP) coming in the past year to dominate discussion of Nepal's future both in the press and in National Assembly meetings. Two events in particular brought about this transformation: most importantly, His Majesty's call on Constitution Day (16 December) 1985 for the attainment by the year 2000 of a standard of living for the Nepalese people "commensurate to lead a life with human dignity by Asian standards"; and subsequently, the definition in quantitative form of a set of basic needs indicators on a per capita basis, and the translation of these indicators into national program targets.

1.35 His Majesty's speech identified six basic needs areas: food, clothing, shelter, health, education and security. Following the speech, a task force was constituted by the Palace with participation from the Planning Commission, Ministry of Finance and Central Bank; this task force established a 'basket' of basic needs targets, quantified where possible. In June 1987 a detailed program including prospective costs over the 15-year period (1985-2000) was endorsed by the National Development Council, meeting under His Majesty's chairmanship. The 1987/88 budget discussions in the National Assembly in July 1987 revealed a certain discontent at the pace of implementation of BNP to that point, and created a climate of expectation to which the 1988/89 budget has been obliged to cater.

1.36 The line ministries responsible for BNP execution have in the past year been preparing BNP implementation documents; and their elaboration continues. The papers focus principally on the remaining years of the Seventh Plan (i.e. up to FY 1989/90). Other important preparatory activities undertaken since mid-1987 are a wide ranging structural

reorganization of line ministries involved in BNP and the creation of new assistant-ministerial portfolios to oversee BNP implementation (reviewed in Section IV.A); and the conduct on a crash basis in April-June 1988 of a survey, in every ward of the country, to identify the poor. BNP stresses the need for commitment at all levels of society, with leadership in the first instance due from the "political level". Monitoring of BNP implementation is thus entrusted not only to the Planning Commission and line Ministries, but also to those of the National Assembly represented on the National Development Council, whose periodic findings are to be made public.

1.37 Aiming at no less than the eradication of absolute poverty in Nepal by the year 2000, BNP reflects the approach to basic needs fulfillment advocated in the Seventh Plan - "increasing the income and purchasing power of the target population" rather than "direct distribution of goods and services" other than in the social sectors. The strategy proposed is to selectively intensify ongoing sectoral development programs as well as to expand or develop special "targeted" employment or income generation programs. Due to the profile of the BNP target population (predominantly rural, largely in the Hills and Mountains) and its dispersion, and to the disaggregated nature of rural development, stress is laid on the need for community participation in accordance with HMG's decentralization policies; the need for private sector and NGO participation is also emphasized, in further recognition of the limited ability of government to shoulder the program alone. Nonetheless, the critical importance of more dynamic development administration is alluded to at several points in the document.

Sectoral Programs and Targets

1.38 The bulk of the BNP document is devoted to a discussion of sectoral development programs. At the aggregate level, these simply derive from scaling up the per capita basket of basic needs goods and entitlements in accordance with projected population figures (it is assumed that population growth rate will fall from 2.66% (1985) to 1.9% by 2000, giving an overall population of 23.2 million at that date); they also assume that production of most items would take place entirely within Nepal. The programs are summarized below, and analyzed in more detail in Chapter III.

(a) Food. A national per capita calorie consumption level of 2250 per day (2340 Hills, 2140 Terai) is to be achieved by the year 2000; some 87% of this would be provided by grains, pulses and potatoes, and the rest by vegetables, milk products, meat etc. Self-sufficiency in food is to be pursued, requiring substantial annual production and productivity increases. Grain production, for example, is slated to grow by 4.8% p.a. between 1985-2000 (compared with 1.5% p.a. from 1975-85), and grain productivity by 3.7% p.a. (cf -0.5% p.a. in 1975-85). BNP's production strategy emphasizes the expansion of irrigated areas (68,000 ha annually as compared to 15-20,000 ha in the past) and the widespread dissemination of modern inputs and associated practices. Recognizing that this orientation does not capture many of the poorer farmers, BNP also proposes a special emphasis on the Hills

- with a stepped-up rainfed research and extension effort and through unspecified "intensive" programs in food-deficit areas.

(b) Clothing. Minimum per capita cloth consumption of 11 meters per annum is targeted by 2000, as well as the purchase of one pair of shoes per person each year. Once again, it is assumed that domestic production should meet the needs stipulated. This requires raising annual cloth production from 29 million meters to 255 million meters by 2000, and shoe production from 58 million to 232 million pairs p.a. In pursuit of this program, reliance is to be placed on the private sector, regulated in such a way as to ensure the use of labor-creating technologies. In order to attract private investment, "appropriate protection policies and initiatives will be adopted", including priority access to credit and foreign exchange and a liberalization of manufacturers' licensing procedures. Cotton, wool and hides production would also be "encouraged", and rural cottage industries would receive technological support and access to imported inputs.

(c) Housing. Since 93% of Nepalese own their own houses, the focus of this program is on the improvement of housing and of essential utilities, though credit would be made available for new construction: a Housing Finance Company would be established in the private sector with concessional loans available to low-income families; a Housing Fund would also be established for the poor. Urban sites would be acquired by the Government and developed with private sector and local government participation, while urban roads, water and sewerage would be developed and systematically maintained by the town panchayats; special attention would be paid to cost recovery on urban services.

(d) Education. Universal primary education is established as the goal for the year 2000. This will require an increase in primary enrollments from 1.8 million (1985/86) to 2.9 million, in the number of schools from 11,900 from 17,700, and in teachers from 51,000 to 88,000. Associated measures would aim to improve the selection, training and career streaming of teachers, to establish a school inspection system, and to provide incentives to schools and families to increase female enrollment. Adult literacy and education programs would also be stressed.

(e) Health. Population growth is to be reduced from 2.7% to 1.9% p.a., life expectancy increased from 51 to 65 years, and infant mortality reduced from 111 to 45 per 1000. This is to be achieved by the expansion and improvement of primary health services. Particular measures in the program include the nationwide integration of the country's "vertical" primary health services; the creation of sub-health posts and the selection of health volunteers in each panchayat; attention to health personnel careers and incentives (to include improved living facilities and compensatory training opportunities for those serving in rural areas); and national self-sufficiency in "essential drugs".

(f) Security. BNP includes among its security-related proposals the care of Nepal's handicapped and disabled, and the provision of "smooth supplies of essential commodities - such as rice, pulses, sugar, firewood, salt, kerosene oil, and edible oil", to include maintaining buffer stocks through the country.

Employment, Distribution and Finance

1.39 BNP urges special attention to the alleviation of unemployment (some 5% of the work force) and underemployment (41% of person-days available in rural areas and some 25% in urban areas) and to the channeling of income generation opportunities towards the poor. At the macroeconomic level, special consideration would be given to employment issues in the formulation of taxation, exchange rate, interest rate and wage policy. In the agriculture sector, where "much of the required employment will by necessity have to be generated" work would result from the expansion of irrigation facilities, while labor-intensive crops and multiple cropping would be "encouraged" and mechanization "generally discouraged". In the non-agricultural sectors, small/labor-intensive industries would also be encouraged. In addition, rural public works programs (including afforestation) would be intensified to create employment.

1.40 BNP lists a number of special (or targeted) programs designed specifically with the poor in mind, many of which are to be expanded under the program. These include the following:

(i) Among the credit programs, the Small Farmers' Development Program (SFDP) and Production Credit for Rural Women (PCRW) lend money to the rural poor and, in the case of PCRW, also support a range of community initiatives. There is also a pilot Women's Development Program within SFDP. So far these programs only reach a small proportion of the poor (about 1 percent in total), but present plans call for a three-fold expansion over the next 5-7 years. Some of the features of these schemes are similar to those of the Lead Bank Scheme, another initiative introduced under the BNP.

(ii) The Basic Needs Program includes the establishment of special Sajhas for the poor. Sajhas are local government-sponsored cooperatives whose membership is, in effect, compulsory for landowners and tenant farmers. Decision-making within the Sajha reflects the power-structure of the village.

(iii) In the Afforestation and Tree Tenure Schemes introduced under the BNP, consumption loans are to be provided to families who temporarily loose income as a result of tree planting.

(iv) Food Distribution. National Food Corporation (NFC) runs a program which aims to provide food at subsidized prices to 50 districts, mostly in the hills. In addition, the World Food Program (WFP) supports, amongst others, food-for-work and nutrition supplement schemes, although these schemes do not reach the remote areas. Total food aid is currently $7-8 million, and may rise in the next few years to $14-15 million.

1.41 BNP also advocates changes in asset distribution. It is argued that programs to promote small business and rural private sector activity (e.g. production and sale of improved livestock) will effectively redistribute assets. BNP, moreover, advocates "strengthening" the Land Reform program to make it "more effective vis-a-vis its stated objectives", though it does not offer any specific guidance beyond this.

1.42 In order to achieve the target Basic Needs per capita income of Rs 1971 per annum, GNP growth rates of 4.5% p.a. (1985/86-1989/90), 5.7% p.a. (1990/91-1994/95) and 7% p.a. (1995/96-2000) are required, in combination with a shift in the share of the bottom 42.5%'s personal income up to 23% of the national total. Attainment of the basic needs growth rates is estimated to require Rs 50,410 million development expenditure in the Seventh Plan period, Rs 80,640 million in the Eighth and Rs 134,000 million in the Ninth, of which 42% would be provided by the private sector. It is noted that expenditures, and thus Government income, must increase steeply if the requisite growth is to be achieved (Table I.C.1). BNP accordingly enumerates a series of domestic resource mobilization measures, including the introduction of "appropriate taxation measures" in agriculture, the activation of the Panchayat Development and Land Tax, and the reform of revenue administration methods. External resource mobilization is to be accomplished by promoting exports and tourism and by efforts to mobilize additional foreign assistance.

Table I.C.1
Financing of Government Development Expenditures
(in millions of 1984/85 rupees)

	7th Plan Period (1985-90)	8th Plan Period (1990-95)	9th Plan Period (1995-2000)
Revenue	23990	35110	56010
Normal Growth	22060	30710	47550
Additional Efforts	1930	4400	8460
Regular Expenditures	18970	26750	35800
Development Expenditures (inc. subsidies & loans)	29000	46600	77500
Financing:			
Revenue Surplus	5020	8360	20210
Foreign Aid	20480	33550	52100
Deficit Financing	3500	4690	5190

Source: Programme for Fulfillment of Basic Needs, National Planning Commission, September 1987.

The Future Agenda

1.43 Meeting the objectives of the BNP will be an enormous challenge. By correcting the macroeconomic imbalance that threatened the viability of Nepal's development efforts, the structural adjustment program has paved the way for sustained growth that is essential to meeting basic needs. In the process, the Government has demonstrated a strong commitment to implementing appropriate actions. However, as discussed in subsequent chapters, much more still needs to be done and the pace of actions accelerated. If these efforts are sustained and provided donors continue to be supportive of this effort, Nepal could make significant headway in its fight against poverty.

1.44 The proposed agenda covers broadly three areas: (i) macroeconomic policies; (ii) sound sectoral policies to accelerate growth and satisfy basic needs; and (iii) strengthened institutions and processes to serve the above two objectives. This report is structured as follows: Chapter II analyzes issues in selected sectors, ones that are most directly related to the basic needs program. While recognizing that transport, forestry, and tourism are key to the development effort, these are excluded from this report in order to make the task more manageable and to allow the focus described above. Similarly, environmental issues, which affect many of the sectors and the livelihood of virtually all Nepalis, are not addressed here; they are being taken up in an ongoing policy-oriented study of natural resource management for sustainable development. Chapter III discusses in greater depth specific measures to improve the efficiency of the tax and financial systems. Chapter IV addresses institutional concerns that most observers perceive to be a major constraint to development. Chapter V outlines the broad macroeconomic framework in addition to providing an overview of the Basic Needs Program and external assistance requirements.

II: SECTORAL PROGRAMS FOR MEETING BASIC NEEDS

A. Agriculture

Structure, Performance and Constraints

2.01 Agriculture dominates Nepal's economy. Although largely rainfed and characterized by small-scale subsistence farming, agriculture accounts for about 55% of GDP and provides employment to more than 90% of the working population. Crop production contributes about 60% of total agricultural output, livestock 30%, and forestry 10%; fisheries is limited to catches in rivers and streams and some aquaculture activities in the Terai. Foodgrains account for about 84% of the gross cropped area with paddy accounting for almost half the area under foodgrain cultivation. The bulk of the sector's output is consumed domestically; however, modest quantities of rice, maize, oilseeds, timber and wood products, and jute and jute products are exported, mainly to India. Until recently, agricultural exports accounted for about 70% of merchandise exports; however, due to declining exportable surpluses and a sharp increase in exports of carpets and garments, the share of agricultural exports has fallen to about 30%.5/ Recognizing that the agricultural sector is not only the major producer and an important source of foreign exchange, but also the primary employer and the sector most able to absorb the growing labor force, HMG has, since the early 1960s, given high priority to the development of agriculture, allocating 21% of its development expenditures over the period 1975/76-1987/88. But the results have been mixed at best.

2.02 Forestry is intimately linked to agricultural production, especially in the Hills, because of the symbiotic relationship between subsistence farming and forest resource use (fodder, grazing, mineral nutrients and fuelwood). Forests are essential to protect the environment, particularly in the Hills. Fuelwood is the country's main source of energy. Overutilization had led to a steady decline in Nepal's forest resource. It is recognized that public sector management of forests has failed and the Government has a policy of handing over management of most forests to the local communities under the community forestry concept. The recently completed Forestry Sector Master Plan provides a perspective for integrated development and management of all forest resources and inter alia fully endorses the community forestry approach.

2.03 The resource base for crop production is severely limited by the rugged terrain. Of the 147,484 sq. km of land in Nepal, only about 20% is cultivated, and topographic conditions do not permit cultivation expansion of a significant scale. Understanding Nepal's agricultural resource base requires an appreciation of the country's physiographic structure consisting of three main zones which differ greatly from one another in topography, climate, agricultural productivity and population density. A little over one-third of the cultivated land is in the Hills which presents

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5/ At the same time, Nepal imports substantial quantities of agricultural goods; on net terms, Nepal is likely to be only a marginal exporter of agricultural products.

a highly dissected topography and a wide range of altitudes and exposures over which agriculture is practiced. Most of the cultivated land (54%) is located in the humid tropical lowland of the Terai which stretches along the east-west border with India. Finally, the Mountain zone comprises only 8.6% of the cultivated land. Besides cultivated land, the other major land use categories are grassland (12%), forest land (38%) which is in part highly degraded, and shrubland (5%). Agricultural production takes place on about 2.2 million farms, but land ownership is highly skewed, with 16.1% of the farmers owning 62.8% of the land. Half of the farm holdings consist of less than 0.5 ha each, averaging a mere 0.15 ha per farm, and only 3.4% of the holdings have 5 ha or more. Farm holdings are typically very small by international standards. A large farm in the Terai is defined as one in excess of 5.4 ha, while a large farm in the Hills is one with 1.05 ha or more. Farming is practiced under vastly different conditions in the Hills and in the Terai.

2.04 Terai Agriculture accounts for about two-thirds of Nepal's total crop production. There are few agronomic constraints to crop production in the Terai but its very substantial potential remains significantly underutilized due to poor use of available water resources, poor accessibility and limited farmer services including input supplies. Food crops, mainly rice, wheat and maize, comprise about three-quarters of the gross cropped area, and pulses, sugarcane, tobacco and oilseeds are the main cash crops. Average yields are low due to uncertain water availability and poor cultivation practices. Irrigation is the key to increased production and productivity in the Terai. Apart from doubling the yields of most foodgrains, it enables introduction of a wide variety of second crops. Most importantly, it induces farmers to make intensive use of modern inputs. Roughly 670,000 ha (51% of cultivated land) in the Terai receive some form of irrigation, including about 540,000 ha of farmer-managed schemes. However, performance of most public irrigation schemes has been disappointing for reasons discussed below.

2.05 Hill Agriculture, by contrast, is subject to serious constraints and difficulties and is almost totally subsistence-oriented. Limited by the topography to valley bottoms, small plateaus along the river banks and terraced slopes, the cultivated area covers about 0.9 million ha (37% of the country's total crop land). Climate and soils vary greatly over short distances because of topography, and this has resulted in numerous micro-climatic pockets. The traditional methods of farming in the Hills involve continuous and exhaustive cropping of the limited crop land. The rugged terrain and the rudimentary road network restrict the supply and use of chemical fertilizers; consequently, productivity is low and maintained from a small supply of livestock manure and mineral nutrients obtained in the forest. These factors, combined with limited transport and communication facilities, have led to farming systems which are characterized by substantial diversity and a high degree of self-reliance. Because of population pressure, more and more marginal areas are being cultivated while many adult males leave the Hills in winter for temporary employment in the plains. Even though over 90% of the cropped area is devoted to foodgrain production, mainly maize, wheat and millet, the overall picture is one of growing dependence on foodgrains imported from other areas.

2.06 Production and Productivity Trends. Agricultural value added from 1974/75 to 1985/86 6/ has only increased at an average rate of 2.2% per year as compared to population growth of 2.7% over the period. Furthermore, most of this increase has been due to an increase in area rather than productivity. With the exception of wheat, oilseeds and sugarcane, average cropping productivity (as reflected in average yields) has not increased measurably over this period (Statistical Appendix Tables 7.1 and 7.2) -- or has in fact declined (e.g., maize, millet, barley). Per capita food production has fallen significantly over time, especially in the Hills and Mountains, reducing average farm and per capita incomes in these areas and leading to accelerating migration. Cash crop production, on the other hand, has fared much better; these crops are mainly grown in the Terai where the prevailing price relationships have favored their cultivation over that of foodgrains, and farmer access to crucial inputs, credit, support services and markets is significantly better than in the Hills.

2.07 The reasons for the low rate of agricultural growth reflect numerous problems in the agricultural system, many of which have proven thus far to be intractable, particularly those problems which reflect the technical and economic viability of agricultural systems. These include the inadequate transport infrastructure, a system of absentee land ownership and share-cropping which has left cultivators with little incentive to adopt improved practices, small fragmented land holdings, a large number of poorly-fed livestock with low productivity, an inadequate and declining forage base, declining soil fertility due to environmental degradation and adverse and erratic weather. One view advanced is that actual performance has, in fact, been better than that reflected in the production statistics.7/ Other explanations for the dismal productivity record include: failure to develop yield-raising technologies, weak extension coverage, inadequate levels of modern inputs and services,

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6/ Since 1987/88 figures are still provisional and 1986/87 was an unusually poor crop year, this period is appropriate on which to base recent long-term performance.

7/ A serious problem is the very poor statistical data base--for example, different surveys give widely divergent data on farm holdings and cultivated area. The reliability of most other data such as crop area, yields, production, HYV coverage, and livestock numbers is equally suspect. Most officially reported agricultural statistics are obtained either through small and--given the enormous diversity in the country--unrepresentative sample surveys or through eye-estimates of field staff poorly trained and equipped for this task. Moreover, since departments and their field staff are continuously operating with administratively determined program targets, strong biases tend to creep into the data reported by these same departments and staff. This poor data base makes meaningful analyses of developments difficult, if not impossible, virtually precludes program monitoring and evaluation, and renders the planning base for developmental interventions extremely weak. The Government is concerned about this problem and is considering accepting technical assistance in this area.

increased cultivation of marginal lands particularly in the Hills, and poor progress in the irrigation sector. Probably, all of these factors have contributed, but there is a lack of hard evidence with which to evaluate most of these.

2.08 Unlike many other developing countries, Nepal has not followed inappropriate producer pricing and trade policies and therefore these cannot be blamed for agriculture's poor performance. This is because given the open border with India, it is not possible to set producer prices different from those in India or to carry out an independent trade policy effectively. Even when the Government has tried to impose policies that impinged negatively on farmers, their impact has been small because they were unsuccessful; they have since largely been discontinued. These included bans on exports of certain foodstuffs, a fertilizer price below the Indian price which encouraged smuggling to India and caused shortages at home, and obligatory foodgrain sales to the Government at slightly below market prices to subsidize urban consumers.

2.09 Irrigation. Perhaps the main factor responsible for unsatisfactory agricultural growth has been the slow and ineffective development of irrigation. Public irrigation schemes developed during the past three decades have the potential to supply assured irrigation to only about 140,000 ha, about 5% of the cultivated land. The actual area receiving reliable irrigation is much smaller. Many of these projects were constructed in the 1970s on the basis of minimal design standards, did not include a tertiary distribution network and could not serve the nominal command area. This combined with inadequate operation and maintenance (O&M) has led to unreliable water deliveries and rapid deterioration of facilities, thus failing to achieve the stated objective in terms of increased crop production. Most of these systems are now being rehabilitated, at a high cost per ha, to standards which rectify the earlier deficiencies. Private irrigation schemes, which account for about four-fifths of all areas under irrigation, cost about one-fifteenth the per hectare cost of public schemes, and work well from a management point of view. As these schemes are operated and maintained by communal efforts, the O&M requirement are generally adequately met. However, these schemes, consisting largely of simple run-of-the-river diversions with temporary headworks, sometimes have to be rebuilt every year. In addition, their hectare coverage tends to be smaller and intensification lower than the public sector capital-intensive schemes. Furthermore, since they rely on forest products (wood to set up the weirs), they contribute to deforestation and are increasingly difficult to rebuild or maintain as farmers have to travel further and further for their wood.

2.10 Another cause of low crop productivity has been the slow adoption of improved farming practices, particularly in the Hills. Less than 40% of the area cropped with foodgrains is under high-yielding or improved varieties. Fertilizer nutrient consumption, which more than tripled from 1975/76 to 1984/85, nevertheless still averages only 16.1 kg per ha of net cropped area, about one-fifth to one-third that in neighboring countries. Moreover, about 90% of the fertilizers and other agro-chemicals are used solely in the Kathmandu Valley and the Terai. In addition, the use of organic fertilizer is declining, as more and more livestock manure is burned as fuel.

2.11 The low fertilizer consumption is partially attributable to supply constraints. Imports have been restricted due to foreign exchange and fiscal constraints, the latter because of the large subsidy on fertilizer sales. For many years, Nepal's fertilizer price was below that in India which led to widespread smuggling and therefore an even lower fertilizer consumption level. The situation was exacerbated by inefficient distribution mechanisms, primarily through the Agricultural Inputs Corporation (AIC) and the Sajhas (cooperatives); until recently, there were very few private dealers and they were subject to both volume and territorial restrictions.

2.12 Soil Erosion has also contributed to the stagnation in crop yields. In the Terai, increased silting and floods are gradually eroding the production base, though at a lesser rate than in the Hills. Loss of productivity due to soil erosion has driven farmers to use additional land, which in turn accentuates the degradation process.

Recent Government Initiatives: The Basic Needs Program

2.13 Nepal's current agricultural policies and programs stem from three separate initiatives--the Seventh Plan, the Structural Adjustment Program and the Basic Needs Program. Although each has a slightly different focus, there is considerable overlap in objectives and policies between these initiatives. Each stresses the need to increase foodgrain production through better availability of agricultural inputs, services and infrastructure while stabilizing the ecological resource base. Unlike the other two initiatives, the Structural Adjustment Program does not delve into investment priority issues but restricts itself to policy issues and institutional strengthening for more effective delivery of inputs and services. Since the Basic Needs Program (BNP) supersedes the Seventh Plan and essentially preempts the direction and scope of the Eighth and Ninth Plans, it will be the focus of the following discussion of sector strategies, policies and investment needs.

2.14 The BNP aims at lifting 42.5% of the population from their present absolute poverty status to the basic needs income level of Rs 10,367 (1984-85 prices) per family per year by the year 2000. This target is based on information from food balance sheets and household expenditure studies. On the basis of estimates of per capita calorie requirements and population projections, supply targets for food commodities have been calculated which have been translated into an agricultural production program for the period 1987/88-1999/2000. This program calls for average annual production increases of 4.8 percent in foodgrains, 6.6 percent in pulses, 5.5 percent in potatoes, as well as substantial increases in other food commodities. These targets are significantly higher than those in the Seventh Plan which called for increases of 4.1, 1.2 and 4.5 percent respectively. Thus, the core production program aims at increasing the supply of staple foods (grains, pulses, and potatoes) to meet fully the national nutritional requirements as well as to generate substantial animal feed supplies, domestic foodgrain reserves and exportable surpluses. Supplementary production programs are concerned with other food crops and non-food cash crops to: (a) meet the incremental food requirements of those above the poverty line, (b) produce raw materials required to meet

the basic needs targets for textiles and shoes, (c) create additional employment and income for farmers, and (d) generate exportable surpluses.

2.15 As presented, the implementation of the BNP in the agricultural sector would rely on some modifications in existing agricultural policies and a restructured institutional environment. The Program emphasizes the importance of employment-intensive technologies, the need for redistribution policies (agrarian reform) and participation of beneficiaries in the development process in line with the Government's decentralization policies, and the role of the private sector which is to be enhanced through liberalization of economic policies. Developmental efforts would continue to be concentrated on areas of high production potential, the so-called "intensive" and "pocket" areas with irrigation capabilities. The BNP calls for a substantially greater effort in generating additional irrigation command area--68,000 ha annually for the balance of the Seventh Plan period as opposed to 47,100 ha annually under the Seventh Plan. Greater reliance would be placed on the private sector in the areas of production and storage of seeds and seedlings and through farm-level demonstrations of improved technology packages. Agricultural research and extension workers would collaborate closely on location-specific research trials and on-farm demonstration work. To cater to the incremental financing requirements of farmers, institutional credit is expected to play an expanded role through the introduction of the Lead Banking Scheme and expansion of the Small Farmer Development Program (see Section III.B).

2.16 Public sector development expenditures allocated to the agriculture sector under the BNP are far in excess of those provided for in the Seventh Plan. Proposed expenditures in agriculture excluding irrigation in 1984/85 prices are Rs 3,350 million for the first three years of the BNP as against Rs 3,983 million for the five years of the Seventh Plan. For 1988-89, however, an agriculture budget has been approved in the amount of Rs 1,350 million, amounting to an increase of 81 percent over last year's expenditures. In the irrigation sector, this year's budget allocation of Rs 1,741 million represents a staggering increase of 140 percent over last year's expenditures. Much of these expenditures are for small- and medium-scale surface irrigation and groundwater development; however, funds are also allocated for initiating the larger-scale Babai project and completing the Bagmati project. Other allocations are made for O&M, rehabilitation of flood-damaged projects, improvement of farmer-managed canals, river training works and institutional strengthening. The large increases in these categories provide a clear indication of HMG's intent to proceed with BNP implementation in accordance with the original schedule.

An Assessment of the BNP

2.17 An important aspect of the agricultural strategy in the BNP is self-sufficiency in foodgrains. In the Nepal context, the priority given to food security is understandable. Trade may provide one means of securing adequate food supplies but domestic production has and will undoubtedly continue to meet the bulk of local food requirements. For the majority of the poor farmers living in remote areas with limited transport infrastructure, producing foodgrains for home consumption may be essential. Moreover, much of the Terai is a food surplus area and in fact exports food

to India. For parts of the Hills and the Terai, where transportation and marketing facilities exist, however, some farmers may be better off producing cash crops. The recent expansion in cash crop production suggests that this process may already be occurring and should be nurtured. Thus, the priority given to food self-sufficiency in the BNP needs to be sensitive to the benefits gained from diversification in areas where it is clearly profitable.

2.18 While the BNP rightly identifies accelerating agricultural growth as the top priority, the ambitious targets arising from the planning process have some potential dangers. One operational implication is on investment levels. The self-sufficiency targets coupled with mechanistic input-output coefficients result in investment requirements which are far in excess of what can be absorbed effectively given the available manpower and institutional constraints. Budgeted development expenditure in agriculture, excluding irrigation, have been increased by 81% over the levels in 1987/88, when the sector was only able to absorb 78% of the budgeted amount. With the exception of one year, agriculture has only absorbed between 62 and 82% of amounts allocated during the eighties. Although some increase in budget allocation is desirable, to budget such a high amount now could put such pressures on implementing agencies that spending targets may become an end rather than the means to reach production goals. The situation is even worse in irrigation where the budgeted increase of 140% is excessive given the implementation capabilities of the Department of Irrigation and sectoral priorities; investments should be phased in more gradually as the implementation capacity of the line agencies improves.

2.19 As an overall recommendation for BNP implementation, it may be useful to regard the balance of the Seventh Plan period as being a stage for focussing on improvements in policies and institutional strengthening and the Eighth Plan period as the one for major increases in investments. This would reduce investment needs in the agriculture and irrigation sectors to more manageable levels, somewhat higher than those called for under the Seventh Plan, but significantly less than the 56% annual increase implicit in the BNP. Such levels of investment would also correspond with what can be realistically expected to be financed (see Section V.B). It is also important that input and output targets be consistent with realities at the field level in order to ensure commitment to the program by local implementors. This would occur through an iterative process with substantial input from local levels in formulating targets, making full use of the planned strengthening of district level planning and implementation capability. During the planning exercise for the balance of the Seventh Plan, there has been considerable interaction and most targets are roughly as envisaged in the Seventh Plan. It is important that this process be continued even if it leads to targets somewhat below those in the top-down BNP. If not, in addition to potentially losing the commitment of local implementors, there is also a risk that implementors who are unable to meet targets that have been imposed on them may choose to fabricate data more favorable than warranted by results.

2.20 One area where significant new investments are being proposed is the speeding-up of construction of a large number of agricultural service centers (ASCs) and their staffing. The Ministry of Agriculture's plans

under the first three years of the BNP call for some 5,450 additional staff positions in the agricultural extension alone, almost all in the field. While some of the centers are needed, many of these expenditures could be rephased and others may not be required at all. It makes more sense to construct ASCs in districts after acceptable district-level agricultural plans have been drawn up and adopted. Similarly, additional field staffing requirements should only be determined on the basis of acceptable district-level plans. Redeployment of existing staff combined with serious efforts to make better use of staff through (a) systematic and detailed work programming, (b) effective supervision and performance evaluation, and (c) provision of such essential means as adequate transport, daily expense allowances, and professional tools and equipment may be a superior and lower-cost alternative to adding massive numbers of new and untrained individuals to the Ministry's payroll.

2.21 The BNP seeks to address the needs of the poorest 42.5% of the population who live below the poverty line. At the same time its implementation program, with its heavy emphasis on irrigation development, is clearly aimed at achieving the targeted production increases by continuing the strategy of concentrating investments on high return "intensive" or "pocket" areas. These areas, mainly irrigated areas in the Terai, are already better-off, thus leading one to question whether the BNP is indeed capable of reaching the very poor. While at first sight this appears to be a contradiction, the BNP strategy of concentrating on the higher return areas is probably the best that one can do given the extreme difficulty of trying to target this remote population living on marginal lands with limited transportation and irrigation infrastructure. Improvements in the incomes of these people can only come as more of them emigrate to other faster growing areas, thereby reducing the pressure on Hill agriculture while at the same time carrying out measures directly targeted at these areas. These measures, which are presently underway, include detailed district-level planning as well as laying the policy and institutional groundwork for effective delivery of appropriate farm technology and related services to the rainfed areas, especially in the Hills.

2.22 Despite some of the shortcomings of the BNP, the directions of change in investment levels are appropriate as are the underlying policies including those encouraging the private sector to participate in the production and distribution of inputs and farmer-managed irrigation. While the broad policy framework for these efforts has been set, the more detailed action plan is still being prepared. The following section suggests some specific measures to improve the delivery of inputs and services for the agriculture sector through changes in economic policies and institutional strengthening. These measures are basically consistent with directions in the BNP, SAP and Seventh Plan.

Improving Irrigation Facilities and the Delivery of Inputs and Services

2.23 A major cause of poor performance in the crop sub-sector has been the poor delivery of irrigation water, agricultural inputs and services. As a result, yields in the Indian Terai are much higher than those in the Nepali Terai, which has similar topography. Thus, one can be optimistic regarding the possibility of significant increases in yields in the Terai.

While more difficult to achieve, agricultural production in the Hills could also increase significantly, both through increased yields of the present subsistence crops and introduction of cash crops, with effective delivery of appropriate technology and inputs. This section considers specific measures to improve the delivery of irrigation services, input supply and agricultural research and extension; most of these measures are under active consideration by the Government.

(i) Irrigation

2.24 The expansion of irrigated area has been the major factor behind the growth in agricultural production in South Asia. The Government has therefore placed high priority on water resource development since the Third Plan (1965-1970). During 1974/75-1987/88, about 10% of public development expenditures have been allocated to irrigation. Under the Seventh Plan, this ratio was raised to 14% in order to develop an additional 47,100 ha of irrigated area annually. The BNP increased this annual target to 68,000 ha, which is three to four times greater than the present rate of actual generation of new irrigated area.

2.25 These targets, in the short term, are unattainable and unrealistic. Furthermore, the targets, which are exclusively defined in terms of additional area under irrigation, have focused priorities entirely on construction activities. This narrow emphasis on generating additional irrigated area without commensurate attention on O&M and on improving system performance and efficiency may lead to adoption of uneconomic or unsustainable investment options. The BNP irrigation targets will need to be adjusted to recognize present implementation and managerial constraints, and reformulated to give due emphasis and recognition to improvements in irrigation intensity, which certainly contributes toward attainment of overall BNP production objectives. If the BNP targets were interpreted flexibly so as to include areas where irrigation intensity was significantly improved, the targets become much more feasible, especially in the medium-term. In this regard, the ongoing Irrigation Master Planning exercise can provide valuable direction for medium- and long-term planning and target-setting for the sector.

2.26 In spite of these concerns about the nature and magnitude of the targets, irrigation development is nonetheless a prerequisite for any significant increase in agricultural production. In order to address the fundamental objective of increasing food production within the next 12-15 years, the focus would need to be on investments of short to medium gestation including:

a. Groundwater development, especially shallow tubewells;
b. Completion of ongoing public sector irrigation projects;
c. Improvement of farmer-managed schemes; and
d. New construction of farmer-managed schemes.

2.27 Another important factor to consider is the impact of the type of irrigation investment on the government finances, given that budget resources for operation and maintenance (O&M) are limited. An effective strategy would be to accord priority to those projects which maximize farmer responsibility for O&M, and which aim at limiting government

involvement to the O&M of the headworks and main systems of larger projects. This approach would reduce the fiscal and managerial burden on Government, as well as the level of water charges that would be required to support public sector management of irrigation systems. Moreover, it would be important for the Government to focus investments in those areas where clear farmer demand exists and where farmers are willing both to share in the capital costs and to bear the full burden of O&M. The supply-side approach, where government irrigation projects are built without farmer consultation and involvement, must give way to a more demand-based investment strategy.

2.28 Recognizing the problems with past approaches, the Government has recently initiated a sector program for irrigation development and investment which emphasizes direct farmer involvement and participation, in contrast to the top-down, project-by-project approach of the past. Under this program, farmer-managed schemes would be constructed or improved, and construction costs would be shared by both government and farmers.

2.29 As part of the effort to ensure adequate O&M, the Government has taken steps to improve the recovery of O&M costs from farmers. A task force established for this purpose is considering: (1) measures to strengthen assessment and collection, including possibly payments in kind; (2) a system to "wholesale" water to organized user groups; (3) procedures to hand over full responsibility for small- and medium-size public irrigation schemes to farmer organizations; and (4) procedures to revise water charge rates periodically to maintain full O&M cost recovery. At the same time, in order to promote farmer management, the Government intends to establish a legal framework that supports an expanded role for water user groups in irrigation development and system management, promotes their independence and self-reliance, and provides for orderly regulation and adjudication of water rights.

2.30 The success of these initiatives will clearly depend on the ability of the Department of Irrigation (DOI) to undergo and complete a reorientation process in the next few years. Several key steps are evident. It will be important for DOI to accord high-level management attention to four key areas -- farmer participation, operation and maintenance, cost recovery and sectoral planning. Central level management units will need to be established and held responsible for overall technical supervision, monitoring and control of these areas.

2.31 Finally, the Government will need to establish effective coordination mechanisms between the Ministry of Agriculture and DOI, in order to ensure that access to credit, inputs and technical support services are adequate in irrigated areas where production potential is greatest.

(ii) Input Supply

2.32 Given Nepal's low usage of fertilizer and excess demand for fertilizer reflected in severe shortages and prices well above the official prices, there appears to be a strong case for action in the form of increasing fertilizer imports and improving the delivery system. In the past Nepal followed a policy of encouraging fertilizer use by farmers

through price and transport subsidies which kept wholesale prices of fertilizer below those in India. This resulted in a sizable outflow of fertilizer. Under the SAP, most fertilizer prices were revised so that now there is less incentive for smuggling to India. Fertilizer imports could now be increased significantly provided that: (a) prices continue to be adjusted in line with Indian prices prevailing in the border areas, (b) imports are timed to be available for distribution during the planting/growing season, partly through improved demand forecast and stock management by marketing zones, and (c) the fertilizer distribution system is improved through further liberalization. Availability of foreign exchange is not the principal constraint. However, since the fertilizer must be subsidized given the Indian subsidy and Nepal's higher transportation costs, this implies a significant fiscal burden. If the Government indeed gives a high priority to this activity, it should be prepared to bear this burden. However, the Government could minimize the fiscal burden by making efforts to obtain additional grant-financed fertilizer; by selling this fertilizer to the AIC, Sajhas (cooperatives) and private wholesalers, it would obtain additional fiscal revenues.

2.33 With regard to fertilizer pricing, there is a need to establish a transparent and automatic mechanism for adjusting Nepal retail prices to be, at all times, in line with prices prevailing in the Indian border areas. Such a mechanism would need to be based on intensive monitoring of both fertilizer price and availability at key locations in India along the border with Nepal, and on adjusting Nepal prices automatically once the divergence between Indian and Nepali prices exceeds a specified acceptable range.

2.34 A related issue is the improvement of fertilizer distribution. Under the SAP, the licensing of private distribution of fertilizer at the retail level was liberalized and dealer margins increased, which resulted in a large increase in private dealers. However, significant impediments to a more efficient distribution system still exist. To allow more effective private distribution, the following additional measures need to be undertaken: (a) control on the number of dealers per trading area should be relaxed, (b) spatial restrictions on a dealer's business activities should be removed, (c) private dealers should be allowed to participate in wholesale distribution without restrictions and (d) private dealers should be allowed to function on equal footing with the Sajhas in terms of credit and dealer margins. Thus far, the Government has been reluctant to allow private sector competition on an equal basis because of pressures to protect Sajhas and AIC. However, this has imposed a high cost to farmers and to the country in terms of shortages of fertilizer during key periods.

2.35 The delivery of other inputs is also expected to be improved through further liberalization and the consolidation and extension of institutional strengthening measures taken under the SAP. In addition to improving public sector delivery of seeds, one of the goals of the process is to encourage private seed production, storage and distribution. As a result, a National Seeds Board has been established to regulate the seeds industry and trade and a draft Seeds Act is awaiting parliamentary approval. Among other things, the Seeds Act allows freedom from regulation of informal seed production and marketing in less accessible areas. At the

same time, AIC's Seeds Division has been granted greater financial autonomy. To improve the delivery of pesticides and farm implements, it is suggested that AIC's functions in this regard be discontinued and that the marketing of these inputs be left to the private sector. However, an appropriate regulatory framework would need to be set up simultaneously to protect farmers and the public from unsafe pesticides.

(iii) Research and Extension

2.36 Agricultural research has been seriously underfunded, receiving only about 0.25 percent of agricultural GDP, about half that in most developing countries. Furthermore, its share in total government expenditure for agriculture has declined as expenditures on agricultural research increased only 3.9 percent p.a. over the period 1970/71 to 1980/81 compared to 7.7 percent for agricultural extension and 10.9 percent for total government expenditures for agriculture. Moreover, nearly two thirds of the research budget is spent on production of improved seeds and on extension activities. The result is that the bulk of the funds go to salaries with little left to finance actual research, transport to visit farmers' fields, or publication of research findings. With the recent revitalization of the National Agricultural Research Committee (NARC) and the setting up of the National Agricultural Research and Services Center (NARSC), the Government has strengthened the institutional structure for research. In addition, the 1988/89 budget increased the amount allocated to research by 31% over the budget amount for 1987/88. It is important that the Government continue giving priority to research. Research efforts need to be refocused on two areas--the testing and adaptation of technical packages that have already been successfully applied in the Indian Terai, and the development of technologies appropriate for the diverse environment of the Hills and Mountains. In particular, technologies need to be developed to increase productivity in rainfed agriculture and research work should be made more relevant by reflecting actual farming conditions.

2.37 As a result of the inadequate attention to research, agricultural extension workers have had limited practical advice to extend. In addition, the Department of Agriculture's field crop extension work has suffered from lack of proper organization, training, financial and technical support. However, perhaps the biggest problem in extension is in the large number of uncoordinated extension systems operating in Nepal. Extension support has been received under a large number of donor-directed projects with different geographic foci and institutional arrangements. Consequently, six major different crop extension systems are in operation in Nepal today with generally no overlapping nor coordination among them, except in the case of the Training and Visit (T&V) and Block Production program where they operate in the same area. This multiplicity has not been conducive to the development of a uniform national extension system and approach. Full-fledged specialized extension structures operating in parallel are not appropriate for Nepal, especially in the Hills. Two types of extension approaches need to be developed, one for the Terai and one for the Hills, each combining the best elements of the systems currently in use. However, as mentioned earlier (para 2.20), the expansion of the extension system through the use of ASCs needs to proceed cautiously.

2.38 One proposal under consideration is for the T&V approach to become the foundation of a unified extension system throughout the Terai and to eliminate all traditional extension activities of the Department of Agriculture (DOA). In the Hills, a modified T&V approach could be introduced gradually. Building on the past project experience, the Government plans, as a next step, to adopt such a system in the Western Region. This system would have a strong working relationship with Hill agricultural research stations and a denser network of local-level extension workers operating under more intensive guidance and supervision than will be the case in the Terai. If designed and implemented well, this would imply development of technological improvements that require minimal or no cash inputs, judicious resource management and sustainable resource use, emphasizing upgrading locally-proven varieties and farming techniques, private seed production, organic manuring, farm forestry, and vegetative soil conservation.

B. INDUSTRY

Structure, Performance and Constraints

2.39 Industrialization in Nepal began only after the country opened its border to the outside world in 1951. The first rudimentary industries were in agro-processing (grain husking, oil seed extraction, jute processing, tea production and lumber milling) followed in the sixties by basic construction material production and some import substitutes such as beverages, cigarettes, textiles, agricultural tools, furniture and domestic implements. Recently, an export-oriented carpet industry and a nascent mining industry, based primarily on magnesite extraction, have emerged and show potential for continued growth. Yet industry's contribution to Nepal's GDP has been officially estimated at only 4% (although this is likely to be an under estimate because many informal activities may not be included in official statistics). Furthermore, the sector generates only limited employment.

2.40 The industrial structure is characterized by myriad small establishments, highly disbursed geographically, dwelling in a penumbra between the formal and informal sectors of the economy. About 95% of all manufacturing establishments are cottage industries which employ about 90% of the persons engaged in manufacturing but contribute only about 20% of manufacturing output. The bulk of value-added in manufacturing comes from medium to large-scale licensed enterprises, many of them in the public sector and mostly concentrated in the Kathmandu Valley or the Terai.

2.41 Nepal's industrial sector depends to a great extent on imported raw materials, and capital and intermediate goods. As such, Nepal's exchange rate and trade policy regime crucially influences the availability of imported inputs. Its trade regime is unique: the Nepali rupee is fully convertible vis-a-vis the Indian rupee but inconvertible against other currencies. In addition, the border between the two countries is long and porous, through which both goods and people move freely. Given this situation and because India gives high protection to many industries producing intermediate and capital goods, Nepal is faced with a dilemma. It could choose to follow India's protective structure and allow free and open trade between India and Nepal or it could choose to follow a different

structure, more conducive to their development efforts. In the latter case, Nepal's protective structure would be much lower than India's but there would exist the possibility of large-scale smuggling of goods imported from third countries to India and a consequent rundown of Nepali hard currency reserves.

2.42 Nepal has followed a variant of the second approach to trade policy where tariffs between India and Nepal have been kept at relatively low levels while tariffs to third countries vary tremendously. Imports of raw materials are essentially tariff-free,8/ although they may bear some license fees or premia, and import tariffs and taxes on many other third-country imports are below those in India; hence some of these goods are reexported to India. Payment for these smuggled goods is received in Indian rupees and indirectly ends up financing the current account deficit of the balance of payments with India. The rest of the deficit with India is financed directly by converting hard currencies into Indian rupees. To ensure that Nepal has a surplus in hard currencies to cover the remaining deficit with India, the hard currency budget is managed to yield a surplus. This management has been in the form of industrial and trade licensing, quantitative restrictions and foreign exchange controls --- a regime which has distorted the structure of Nepali industry in favor of rent-seeking activities involving little value-added and established primarily to exploit the highly protected Indian market. This system has repressed Nepal's rate of industrial growth.

2.43 Several other constraints to the growth of Nepal's industrial sector have been cited in earlier Bank reports. These include a limited natural resource base, small domestic effective demand, collaterized credit, lack of a skilled managerial work force, lack of reliable power supplies, and an isolated landlocked location coupled with a rugged terrain that constrains access to inputs at a competitive price. While many of these constraints are typical of less-developed countries, some of them are particularly serious in Nepal. For example, imported inputs entering Nepal by surface must be transshipped via Calcutta, the only point of entry for Nepal permitted in India. From the ship in Calcutta to the factory loading docks in Nepal, goods may require handling as many as 15-17 times for reasons such as the need to change rail systems in India, trucking arrangements between the countries requiring separate handling on both sides of the border, delays in customs in both countries and lack of adequate handling equipment, particularly in Nepal.

Policies to Alleviate Constraints

2.44 In attempting to address the above constraints, the Government has taken a variety of measures, mostly under its structural adjustment program. As discussed in Section I.B, these actions focused on liberalizing the industrial and trade regime and privatizing public enterprises. Given the long open border with India and the current system

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8/ Under the new Industrial Enterprise Act, with the exception of goods on a "negative list", the maximum duty payable on imported raw materials by an industry registered under the Act is 5%.

of exchange and payments, Nepal is limited in its ability to liberalize the import regime. If it adopts the Indian structure of protection, trade between India and Nepal would be harmonious but the restrictions would be inappropriate for Nepal's development. If Nepal liberalizes without adopting the Indian structure of protection, liberalization would immediately lead to large-scale smuggling of goods imported from third countries. If Nepal met the hard currency demands for these imports, it would run down its reserves; if it auctioned the currency, the exchange rate against India could not remain fixed and the Nepali currency would appreciate vis-a-vis the Indian rupee but depreciate against other currencies. The appreciation against the Indian rupee would hurt the tradeable sectors by much more than the gains from liberalization. Against this backdrop, the Government's measures under the SAP are quite substantial. However, measures to further liberalize the trade regime and industrial licensing system in the short-term are still possible. These measures include:

(i) Expanding the number of items under the OGL/ Passbook system.9/ While the number of items in this category would remain small, the scheme could be expanded to include some intermediate and capital goods and the tariff rates on these goods increased to mitigate incentives for deflection.

(ii) The auction system for import licenses on commercially traded items should be expanded to cover more items and the workings of the auction mechanism changed to allow a fuller utilization of the foreign exchange allocation. Under the present system, there have been significant shortfalls in utilization because of the manner in which premiums are calculated and licenses allocated.

(iii) The duty drawback and prior exemption scheme as well as the bonded warehouse scheme for exporters should be extended from ready-made garment exports to other exports as practicable. In addition, while the design of the current scheme is good, its implementation needs to be improved by streamlining the procedures. Presently, exporters often choose to pay the duty rather than undergo the red tape and delays in order to obtain the exemption.

(iv) By using the results of ongoing technical assistance in this area, the number of procedural steps in making an export shipment could be reduced further. In addition, reforms in customs administration are needed to simplify the complexity in existing procedures. To promote greater confidence in exports, the possibility of introducing statutory guarantees for the exporter should be introduced. With the prospect of legal comfort, exporters would feel less susceptible to unpredictable and

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9/ The bulk of third country industrial raw material enter under an OGL/Passbook system. Under this system, an annual import licence is issued after which the importer is free to import quantities throughout the year subject to monitoring by a passbook in order to verify that earlier allocations had indeed been utilized domestically.

seemingly erratic shifts in the policy environment. At the same time, the Export Promotion Committee should be reactivated to help resolve difficulties arising from economic policies and procedures.

(v) Industries with less than a 40% imported raw material requirement are now automatically granted industrial licenses that are necessary to secure an import license and the associated foreign exchange. Further increases in this 40% rate could be considered in the short-term. Moreover, the coverage of industrial licenses could be expanded to include a wider range of related manufacturers under a single license to allow industrialists to respond more quickly to changing business conditions.

2.45 While there has been substantial progress in the trade and industrial licensing regime, the privatization effort has had a slow start. As part of a program to improve the efficiency of the public sector enterprises and reduce the drain on the budget, the Government has announced its intention to sell 20 of its approximately 60 public enterprises, of which about half would continue with majority public sector participation. Although several enterprises have been offered for sale, no bid has yet been accepted. Initially, efforts at privatization were unsuccessful because of a lack of pre-sale management improvement prior to selling some loss-making enterprises and a ban on block share sales and private sector majority shareholdings. Without handing over management decision-making to the new shareholders, it was difficult to obtain private sector interest. Recently the Government has decided to allow block sale and private majority ownership for selected enterprises. However, these efforts have also been bogged down in problems: in one case the two highest bidders were non-Nepalis; in another, negotiations over the assumption of liabilities and payment terms are stuck; in a third the Government reservation price proved too high. Partly as a result, the Government is rethinking its policy and considering introducing a 6% ceiling on individual holdings for selected enterprises with majority private sector ownership. If the Government indeed would like to give priority to its public enterprise divestiture program, it would be wise to obtain technical assistance to resolve these and other policy issues as well as remove factors that impair the financial attractiveness of the enterprises. Recent indications are that the Government plans to do so.

2.46 To address the longer-term problem of excessive handling and transportation costs for industrial inputs, the Government is preparing a multi-modal transport project which would build on the procedural reforms described above, as well as pave the way for Nepal to enter the containerization era. Other areas where the Government may try to reduce transport costs is to obtain concessions with major international air carriers in the form of special commodity rates and to exploit existing modern telecommunications infrastructure to link into major international computer information networks so as to have, for example, on-line access to cargo and passenger reservation systems. Although Nepal is somewhat restrained by not being a member of IATA, opportunities to seek improved cargo arrangements are now emerging with the recently introduced direct service to Frankfurt and Singapore.

Basic Needs and Industry's Role

2.47 The provision of clothing textiles and footwear comprise two important items for which targets have been established under the BNP. Based on social norms, climate and geography, the Government has estimated minimum per capita requirements of cloth for the terai, hills and mountains, yielding a national average of eleven meters per person per year. The requirement for footwear is one pair per person per year. It is estimated that 24% of clothing and 46% of footwear requirements are presently met through domestic production. The rest is imported, mainly from India. To be self-sufficient by the year 2000, domestic production of clothing would need to increase by over 15% annually while that of footwear by 7.5% annually.

2.48 The Government has assigned primary responsibility for meeting the program's targets in these two areas to the private sector, limiting its own involvement to that of creating an appropriate business climate and providing supporting services. Among the policy changes that have been attributed to the BNP in these areas are the (i) waiving of industrial licensing requirements for entrepreneurs entering into the production of textiles or footwear; (ii) provision of an effective rate of protection to this sub-sector of about 30% in accordance with past policy statements setting a target of about 30% across all industries; (iii) income, excise and customs tax exemptions; (iv) provision of adequate amounts of credit and foreign exchange in line with projected growth; (v) introduction of supply arrangements through existing public institutions for distributing improved handlooms; and (vi) provision of training programs commensurate with projected skill requirements in line with production targets.

2.49 With the above measures and given the existing excess capacity, it should be feasible to attain the targets for footwear and clothing, at least for the next few years. In the longer-term, significant new investments would be needed to sustain the required growth rates. If Nepal's comparative advantage truly lies in these industries, the growth rates should follow readily since the recent measures have provided adequate protection, freed up impediments to firm entry or access to imported inputs while providing for adequate levels of credit and training.

2.50 There are however, two caveats to this strategy. First, the various tariff exceptions and increased foreign exchange availability for all inputs could lead merely to their re-export to India. This is particularly true for synthetic yarns, raw hides and tanned leathers, for which a pent-up demand in India has frequently given rise to smuggling. To avoid the situation, the Government may consider exempting duties on raw materials originating from India or China but imposing tariffs equivalent to those in India on third country imports of raw materials.

2.51 Second, self-sufficiency in domestic production is unlikely to be the best way of providing cheap cloth to the poor. While the measures implemented so far in support of the BNP are not likely to result in higher prices, they are not expected to lower them appreciably either since the price of imported cloth (including duties and taxes) acts as an effective lower bound, as long as cloth continues to be imported. Reducing the tariffs and taxes on imported cloth would immediately make cloth, mainly

from China and India, more available to the poor. On the other hand, such an approach would not help develop a domestic industry. Attempting to stimulate domestic production through additional protection in the form of higher import tariffs or quantitative restrictions would make cloth less accessible to the poor and go against the grain of broader BNP objectives. There is an obvious short-term conflict here between promoting a new industry and meeting consumer interests, although if Nepal is a competitive producer, the trade-offs may not be substantial or permanent.

C. Power

Overview

2.52 Although Nepal is endowed with vast hydroelectric potential, theoretically of some 83,000 Mw, less than 200 Mw have been tapped to date. On a per capita basis, Nepal remains a country with inordinately low consumption of energy. Despite robust growth in per capita energy consumption in recent years, the average amount of energy of all forms consumed by each inhabitant annually has barely reached 230 kilograms of oil equivalent (KOE), a level well below those of other Asian countries. The consumption of traditional fuels, mainly fuelwood but additionally dung and other forms of biomass, is currently 92 percent of total while commercial energies account for only 8 percent. Although per capita consumption of commercial energy increased from 9 KOE in 1971 to 17 KOE by 1985, Nepal still has the lowest commercial energy consumption per capita of any developing country for which data are available. This is attributable to a variety of factors, including the high private cost of providing electricity, especially in remote areas, relative to what has become the traditional practice of "mining" the forests, the extremely low purchasing power of the bulk of the population and the slowness with which tradition and cultural attitudes and practices can change. Unless a major shift in energy consumption patterns can be brought about whereby the current heavy reliance on traditional energy can be shifted to greater use of commercial energy, it would be difficult to control further degradation of the environmentally fragile and endangered natural resource base. This, in turn, would have serious consequences on agricultural productivity.

2.53 Nepal is the upstream Riparian with respect to India and Bangladesh and while Nepal has agreements with India on several of the rivers, these have tended to be limited agreements, pertaining primarily to resource use within the vicinity of specific projects rather than comprehensive basin-wide agreements. This has limited Nepal's options to run-of-the-river hydropower plants instead of the more economical plants with storage.10/ In addition, because donors have been reluctant to finance these megaprojects in the absence of an agreement, Nepal has been limited in the nature and size of water resource developments it has been able to undertake.

10/ In some cases, this is due to excess sedimentation in rivers which necessitates run-of-the-river projects.

Future Investments and Policies

2.54 As background to underpin a decision on the next major hydropower project, the Government and World Bank undertook a detailed subsector review 11/ in collaboration with CIDA and the ADB which demonstrated that Arun-3, combined with a brief period when some load management may be necessary, represents the least cost solution for Nepal. Arun-3 is a run-of-the-river project to be commissioned during 1995-2003, and could be accelerated to accommodate bulk export sales to India.12/ The project was endorsed at an aid group meeting in Paris in May at which donors indicated their willingness to finance the foreign exchange component estimated to be over $500 million. However, a number of issues need to be resolved to assure financing and successful implementation.

2.55 Having agreed on the Arun-3 as the appropriate next investment in new generation capacity to meet Nepal's forecast domestic demand for power, it is important for Nepal to avoid undertaking other large power projects concurrently with the power subsector investment program over the next 10 years unless definite safeguards transferring financial and administrative risk away from the Government can be taken. Thus, if other large capital projects are not to involve deleterious effects, mainly in the form of "crowding out" important investments, then either they must be postponed or alternatively undertaken with resources that are strictly additional, highly concessional, with external provisions for covering contingencies and involving methods of implementation that do not excessively burden Nepal's existing institutions and administrative capacity.

2.56 The Government agency responsible for implementing Arun-3 is the Nepal Electricity Authority (NEA), which was created in August 1985, by amalgamating a number of different public entities. NEA faces an immense challenge: over the next 10 years, it expects to manage a US$1.06 billion (in current terms) development program, which would be the largest ever undertaken in Nepal in any sector. To succeed, NEA needs to address three key issues: (a) improvement of NEA managers' understanding and application of basic utility management concepts and tools through a twinning arrangement with a suitable utility, preferably in a developed country; (b) preparation of a corporate development plan to set flexible, realistic targets for its integrated institutional development and the Government to monitor NEA's progress in achieving them; (c) improvement of conditions of service for its employees focusing on the compensation package, and establishing criteria for measuring and rewarding staff performance, as appropriate.

2.57 A crucial issue to future power development is pricing. The Government's policy regarding electricity pricing is to reflect the

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11/ Nepal: Power Subsector Review, World Bank, Report No. 6879a-NEP.

12/ If, as is likely, Nepal would succeed in obtaining an export agreement with India, Arun-3 would be a 402 Mw project costing over $600 million; if not, only the first phase of 201 Mw would be constructed.

economic cost of supply to consumers while satisfying the Government's social objectives and taking into account NEA's financial viability and financing requirements. Presently, existing tariff rates for all consumer classes are a fraction of the long-run marginal cost (LRMC), ranging from 16% to 34% for low voltage residential consumers to a high of 56% to 70% for high voltage (11-66 Kv) industrial and commercial users. One of the serious outcomes of the low tariff structure is that NEA's financial rate of return has been at unacceptable levels, threatening its ability to raise resources to finance the local cost component of the Arun-3 project. Although the financial position of NEA (or its predecessor) has improved with tariff increases of 56% in 1983, and 35% and 22% in March and August of 1985, and 17% in 1988, it is important to continue with tariff increases and improve the tariff structure to reflect the true opportunity cost of electricity. The recommended tariff increases should increase the average revenue per Kwh from 42% to 60% of LRMC over the next two years when the results of a comprehensive tariff study become available. These measures should include time-of-day metering and two-part tariffs at any level above low voltage. The latter would be an integral part of the load management strategy, which would also include a program to reduce technical and non-technical system losses, an O&M program aimed at optimizing system operation and reliability and an action plan for monitoring and utilizing autogeneration capacity when needed.

2.58 In addition, while load forecasting and generation planning are of a high standard at NEA, more attention needs to be paid to the development of the transmission and distribution system. The unclear division of responsibility between headquarters and regional units hampers the preparation and updating of distribution plans. This is aggravated by the lack of design criteria, standard costing data and an up-to-date registry of distribution system plans and configurations. Because NEA does not have the capability to resolve these issues promptly, it is recommended that NEA engage technical assistance to help upgrade its capabilities in distribution system planning by preparing the first annual rolling five-year distribution plan, using inputs from headquarters and regional units, and training NEA staff responsible for distribution planning. This activity should be closely coordinated with the preparation of the transmission and distribution master plan. It is likely that these would be undertaken in the context of the twinning arrangements currently underway.

Power Exports to India

2.59 Power exports should be viewed under two sets of arrangements: (i) existing energy exchange arrangements between Nepal and India, and (ii) potential bulk export arrangements. Under existing arrangements for power exchange, power exports to India are currently limited to 25 Mw (with a similar arrangement for power imports into Nepal) at a net exchange price of approximately US$0.01/Kwh that has remained unchanged since 1971. Although bulk export of competitively priced hydropower to India represents Nepal's most attractive medium and long-term foreign-exchange earning option, HMG does not yet have a detailed strategy to achieve this goal. The prospects for a hydropower-led export strategy are particularly good in view of India's estimates of load growth (more than 5,000 Mw per annum in the foreseeable future) and its stated desire "to import any available

quantities of power imports (from Nepal) over the medium term." The Arun-3 project could provide an opportunity for much larger bulk exports to India, and because of the complexity of the issues involved, Nepal should move from the informal, ad hoc approach used at present to develop a more coherent strategy to develop this export market.

2.60 To formulate an appropriate strategy, however, involves resolving extremely complex issues. For example, it involves deciding on principles regarding the sharing of rights, responsibilities and net benefits associated with the water resources of Nepal as they relate to the broader Gangetic Basin and the co-basin states thereon. These principles clearly apply to more than hydroelectric potential alone as they affect other uses of the water resource--such as water supply, irrigation, navigation and even recreation. In addition, there is the issue of the degree of policy linkage that would be both practicable and desirable for Nepal. For example, guidance is required as to whether Nepal should discuss power and/or water resource issues with India in isolation or in relation to other matters of mutual interest such as broader energy policies and arrangements, questions of access (e.g. trade and transit, reciprocity of air route and other concessions, etc.), and broader exchange and payments arrangements. There is also the issue of whether Nepal should seek to discuss and agree on water resource matters, including power, within a bilateral or multilateral forum. Finally, a set of issues exists related to the form and degree to which Nepal either treats exports of power residually (i.e. after it meets its own requirements) or undertakes to provide dedicated exports to India in parallel with meeting domestic requirements.

2.61 In practice, many of the above mentioned issues are currently being addressed implicitly, if not explicitly, as a consequence of Nepal undertaking a study of major development on the Karnali River (Chisapani) and preparing to undertake additional studies of potential development on the Mahakali River (Pancheswar). These projects are large and have high estimated rates of return; the Chisapani Multipurpose Project alone could be as large as 11,000 Mw and be expected to generate several hundreds of millions of US dollars in net foreign exchange earnings annually. While there are enormous potential benefits, there are also enormous risks in such a large under under-taking and these need to be studied carefully. The risks range from cost-overruns and macroeconomic consequences to implementational constraints and environmental consequences. Given the potential magnitude of the benefits, however, the studies need to be pursued and there needs to be a more formal assessment of the full range of issues both with India and with international institutions that may play a key role in the financing. As the export opportunity inherent in the construction of Arun III does not involve other water resource issues, this is a useful starting point for entering into bulk export arrangements. Success in concluding agreement in this area would not only annually provide the country with foreign exchange earnings estimated to be as high as $60 million at its peak, but, through a "demonstration effect", could greatly enhance the prospects for reaching successful agreement on larger developments.

Rural Electrification

2.62 Rural electrification (RE), which has been assigned priority in the Seventh Plan, is considered by some to be the answer to both generating rural income and employment as well as mitigating the environmental degradation caused by the preponderant reliance of rural Nepalis on fuelwood. Although there is some experience in Nepal with grid extensions passing through rural areas as well as with small isolated hydroelectric systems, concerted efforts to introduce RE have not taken off yet within the country. However, a body of literature on RE experience internationally, as well as the work of a task force within Nepal, suggest that clearly discernible benefits from past RE investments have not as yet materialized on the scale anticipated. In some cases, the disappointing results can be attributed to the lack of initiatives in closely related areas, required for rural electricity supplies to be channeled effectively into productive uses; in other cases, the benefits, ex ante, may simply have been overstated. Electricity has yet to make a significant economic contribution in rural areas, only 1 percent of all shallow tubewells are operated by electricity and few other uses in the agricultural sector offer the scope for energy substitution from traditional fuels to electricity. The main need, apart from lighting, is for motive power for running motors for grinding, milling and, to some extent, cooling. However, because of problems with raw materials availability, transportation and other problems related to market access, industrial uses of electricity in the remote areas have been poorly developed even where electricity has been supplied. Poor reliability of electricity supply, however, was also found to be an important factor explaining apparent reluctance to electrify. While tourism could provide a good base load for electricity projects, more study is needed of the kinds of tourism Nepal should seek and their related energy requirements.

2.63 Electricity has yet to generate significant fuelwood savings. For the most part, electricity is still too expensive to replace wood for cooking and heating. For rural households, making the switch from fuelwood to electricity for cooking (by far the most energy-intensive household use) is not easy because of the extremely high cost of electrical appliances, given the low purchasing power and the lack of suitable cooking technology for households needing to cook large and diverse quantities of food simultaneously for an extended family or for paying guests (large wood-fired hearths can accommodate 5 or 6 large cauldrons at the same time).

2.64 Rural electrification by small hydro plants below 500 Kw is still very costly and for plants between 1 Mw and 5 Mw, although capital costs of between US$2,000 and US$7,000 per Kw of installed capacity are not inordinately high by international standards, the operating costs alone have been found to average about Rs. 3.5/Kwh while average revenue is less than Rs. 1/Kwh partly due to very high losses (up to 34%) and unreasonably high operating costs. Considering that some 29 small hydro plants are planned to be in operation by 1990, the Rs. 22 million subsidy that this would imply would suggest that, unless there are significant externalities, ways need to be found to lower operations and maintenance costs and to increase cost recovery at these sites. However, with an adequate tariff structure, careful design, and increased emphasis on improving operating efficiency, certain schemes could be made cost effective. Two types of

rural electricity supply show promise. Grid extension using low cost single wire earth return (SWER) systems promises to be especially cost effective. SWER systems would be especially appropriate for productive uses such as tubewell pumping where more expensive three phase supplies are not required. And microhydro systems under 25 Kw in capacity and serving about 250 households have been sufficiently economical to attract private investors. Owners of private microhydro plants have been able to charge rates varying between Rs 1 and Rs 6 per Kwh as compared to the current lifeline electricity rate of Rs 0.44/Kwh used by about 50-70 percent of the consumers. Households should be willing to pay at least the marginal cost of kerosene lighting, which is estimated to range up to Rs 8.5/Kwh in the hills. Thus, there is a need to analyze the tariff schedule as it applies to rural consumers.

2.65 Ongoing plans to connect communities already electrified by the Indian grid or served by diesel or small hydro would be the appropriate starting point in a sequence for introducing rural electrification. Beyond this, priority should be assigned to those areas where the scope for productive use of electricity has been market tested. Additionally, for RE to provide maximum developmental and environmental objectives, it should be undertaken as an integral part of a broader set of rural development activities. It is expected that technical assistance about to be initiated in this area will provide guidance for the best strategy for RE.

D. Education

Status and Key Issues

2.66 Nepal has made considerable investments in education, as illustrated by growth in enrollments since 1965:

Table II.D.1: Growth in Enrollments, Selected Years, 1965-1986
(In Thousands)

Level of Education	1965	1975	1985	1987
Primary (Grades 1-5)	386	459	1,812	2,079
Lower Secondary (Grades 6-7)	--	174	254	275
Secondary (Grades 8-10)	58	67	242	285
Total	444	700	2,308	2,639

Source: Ministry of Education

The country's achievement is all the more remarkable in view of the fact that only some 11,000 students were enrolled at all levels in 1951. Literacy, only about 2% in the early 1950s, was estimated at 25% in 1981, and may be about 35% today.

2.67 Nonetheless, two-thirds of the population are still illiterate, and this has major implications for the potential pace of development, and for the success of health and population programs. Of particular concern is the fact that literacy among females is only 18%. Despite enrollment

progress, the majority of children still remain out of school; the gross enrollment rates are officially estimated at about 82% for primary school and 20% for secondary school. However, because of a large number of overage and underage students, the gross enrollment rate is not an appropriate measure of the percentage of students enrolled within a specific age group. In addition, the gross enrollment rate is in itself overstated in Nepal due to over-reporting, high drop-out rates and the fact that many students enrolled do not actually attend. A recent survey suggests that about half of the boys and a third of girls between the ages of 6 and 10 are actually enrolled - and that of those initially enrolled, 35% drop out without completing the first grade, and over half drop out before completing primary school. It is estimated that only 12% of 13 to 15 year-olds have completed primary education, and that only 3% of females have completed secondary school (as opposed to 13% of males).

2.68 While no accurate data is available on attendance it is clear that many students notionally enrolled - especially girls - clearly do not actually attend, due to labor demands on their time, as well as to social perceptions of the value of education. It is also clear that low attendance and high drop out rates are directly related to the poor quality and lack of relevance of the education currently offered, problems that stem from policies which have concentrated on expansion of facilities and have somewhat neglected quality considerations. For all of these reasons, the rate of expansion of the primary school system has slowed considerably in the 1980s such that the current growth in primary enrollments (2.5% in 1985/86) is now falling below estimates of the primary age-specific population growth rate (2.6% for the 6-10 cadre for 1985-90). A period of consolidation in which quality issues are attended to as a major priority appears to be necessary - in order to reduce waste in the system, and to ensure that enrollment growth will surge once again.

2.69 At the same time, there are issues of appropriate balance between the various strata of education. Government policies have rightly given increasing emphasis to primary education, with budgetary allocations to the subsector rising from 26% of the total education budget in 1980/81 to 38% in 1987/88. At the same time, although claiming a reduced share of the budget (now 25% as opposed to 33% in 1980/81), Tribhuvan University's allocation has increased in real terms. Given that only 3% of total enrollments are at university level, that fees in many cases are less than in secondary schools and that the economy appears in greater need of artisans and skilled laborers than university graduates, there is a case for shifting relative allocations from tertiary to secondary education (where the budgetary share declined from 18.5% to 13.2% between 1980/85-86).

Internal Efficiency and Quality

2.70 School dropout rates are high, especially for girls, and repetition of grades is frequent. For every student who completes the supposedly 5-year primary school cycle, 13 years of schooling are provided; for the 5-year secondary cycle, 16 years are provided for every student passing the school leaving certificate (SLC) - although this to some extent reflects the difficulty of the SLC rather than failures in the school system. At the primary level, given an average budgetary cost per student

of Rs 184 a year, high repetition rates mean that each graduate actually costs the public purse Rs 2365 - compared to a notional cost of Rs 921.

2.71 Inefficiencies at the secondary level are also considerable. The continuation rate from primary (grade 5) to lower secondary (grade 6) is currently 83%. Once enrolled in the lower secondary system, dropout rates are about 11.5%, and in the secondary system about 10% for grades 8 and 9. In grade 10, dropouts are 53% when measured by success at the SLC examination - the key objective of secondary students, since a SLC pass guarantees entry into university. On the other hand, only about one quarter fail the internal grade 10 exam. This suggests that the SLC should be used solely as an entry exam for university, with appropriate revision and standardization; some version of the grade 10 exam might then be used as a new SLC.

2.72 The quality of education - both primary and secondary - needs to be improved. International evidence and data from within Nepal (e.g., from the World Bank Primary Education Project and from the Seti Zone Project) show how important quality inputs (including curriculum which better prepares students for possible future development, better-trained teachers, better teaching materials and superior physical facilities) are in contributing to enrollment growth and to decreasing dropout ratios: school is made more relevant to daily issues, and holds out more prospect of future financial benefits.

2.73 Perhaps the most important determinant of school quality is the quality of instruction; and to a significant extent, this requires that teachers be properly qualified and trained. At the primary level, this poses problems. Government guidelines for pupil: teacher ratios at the primary level (20:1 for the Mountains 30:1 for the Hills, 40:1 for the Terai) are generally adhered to in aggregate,13/ but achieving this in a rapidly expanding system has involved significant recourse to untrained teachers. The proportion of teachers in the primary system who have passed a recognized training program has in fact fallen over the last 10 years (from 39% in 1976 to 32% in 1985). Moreover, the incentive for teachers to acquire training has been reduced, since training is no longer required by HMG to secure permanent employment. While the number of qualified teachers with a SLC has improved (from 58% in 1976 to 73% in 1985), the supply of SLC teachers in the more remote areas has not kept pace with demand. There is need for a significant expansion of teacher training to meet current requirements, and also to provide for future enrollment growth. The number of teachers leaving the force has been low, but allowance for retirements from the profession in the future will become an increasingly important planning parameter and will add significantly to teacher training needs. Also of significance at the primary level is the low proportion of female teachers; less than 10% are women, of whom only 41% are trained. HMG has been trying to increase the number of female teachers through a special initiative for girls from remote areas with less-than-SLC qualifications. The recent requirement that all primary teachers have SLC places this scheme in doubt, and will make it very difficult to recruit females because

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13/ The overall national ratio is 33:1.

of a dearth of female SLC graduates (less than 20% of passes in 1986, for example). This in turn can be expected to impact further on female school enrollments. A continuation and reinforcement of policies and programs designed to bring more women into teaching is urgently required.

Institutions and Management

2.74 The Ministry of Education and Culture (MOEC) is responsible for the school system, and shares responsibility for technical/vocational training with several other Ministries. The 69-campus Tribhuvan University is responsible for all post-secondary education; though formally within MOEC, it has its own management structure and is in effect autonomous.

2.75 Serious attention needs to be given to service delivery and associated management problems in the education sector; these are becoming acute under the strain of rapid system expansion. Resource allocation in the Ministry of Education is still a centralized affair; budgetary and personnel decisions are made in Kathmandu with little local consultation, and are passed down through a regional and district administrative structure to the schools. As a result, local needs are often not reflected. Once resources are received from the center, school management is in contrast highly decentralized, with considerable power vested in local School Management Committees. Headmasters are responsible for the academic aspects of school administration; unfortunately, however, they are provided with no training in these matters and their role and the scope of their authority lack definition; they are not generally equipped or empowered to supervise their staff, who may be absent for long periods and who often do not teach their full program when present. Almost all headmasters would greatly benefit from management training, and from a clarification of their authority and responsibilities. At the next level, district education officers have neither the skills nor the incentive to monitor, support, and ensure sound management practices in the schools that come under them. Many of the district office staff are untrained in educational administration; they belong to a general administrative cadre and rotate between different departments of HMG. The staff in the regional offices are also inadequately trained and lack clearly defined responsibilities, the most important of which should be responsibility for school inspection. At present there is no effective inspection system, and schools are not visited on a regular basis; a supportive system incorporating on-site training would add greatly to the quality of instruction provided at both primary and secondary levels. Underlying these administrative and managerial problems, it should be noted, is a budgetary issue: spending on administration is insufficient and in decline. In addition, the school grade structure has undergone three changes since 1971, compounding system management problems.

Equity and External Efficiency

2.76 The main equity issue in education revolves around the share of the budget devoted to the University, which accounts for less than 3% of total education sector enrollments, but which absorbed a quarter of sectoral allocations in 1987/88. Some 8% of the University budget is devoted to direct student grants; although they have been raised by substantial proportions, fees range from Rs 240-360 per annum and are still only slightly in excess of those charged at the rural secondary schools (approximately Rs 170 per annum). In addition, student families and the community provide a significant share of the financing of education at the secondary level; communities are responsible for the construction of school buildings, the maintenance of school grounds, and part-payment of HMG teachers' salaries (25% at lower secondary, 50% at secondary). Moreover, it is reasonable under present policies to assume that secondary school fees will increase significantly in the future, given that HMG has not of late been approving new schools or new teacher salary subventions due to budgetary pressures from elsewhere in the system. HMG's decision to ration expenditures to the subsector is clearly related to the recent growth in private secondary education in Kathmandu and the Terai cities; to some extent, this spontaneous response to inadequate and insufficient secondary education has absorbed social demand, lessening pressures on the Government. Given average family incomes and family size, however,14/ it is difficult to see how secondary enrollments among the poorer will hold steady, unless the potential for rising costs is defrayed by greater allocations to the subsector. Equity considerations suggest this should be at the expense of University allocations.

2.77 External efficiency arguments also point in this direction. While it is extremely difficult to evaluate the supply of and demand for different skills in the Nepalese economy (due to a lack of reliable data), micro-level and anecdotal evidence suggests that manpower constraints are much more severe at basic/artisan skill levels15/ than at the tertiary level, where certain skill surpluses (particularly in the humanities) appear to have accumulated. At the same time, HMG has been de-emphasizing simple (i.e. lower secondary) technical/vocational education, and permitting significant growth in university enrollments. In 1981, compulsory vocational courses were withdrawn from the secondary system, due to a lack of qualified teachers, inadequate materials and poor curriculum; only recently has MOEC begun to reconsider the development of this part of the school system. University enrollments are slated to double from 61,000 in 1986 to 120,000 in 1991. If this occurs, it will clearly put pressure on budgets in other parts of the education system. Enrollment patterns also give cause for concern: 71% of current students are registered in law

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14/ For a rural household of average income with two children in secondary school, fees and charges amount to almost 10% of cash income; for the poorest rural families, they amount to more than two months' income.

15/ In 1981, for example 27% of paid employment in the industrial sector of 74,000 were non-Nepalese, mostly in semi-skilled/artisan occupation.

and the humanities, whereas engineering, medicine, agriculture and forestry combined account for only 7% of enrollments.

2.78 HMG should give serious consideration to restricting the future growth of the University; social demand should not continue to be the principal determinant of future enrollments at this level. At the same time, budget priorities within the university need to be altered in favor of science, engineering and technical subjects. Fees and charges also need to reflect future earning potential more accurately than at present: public sector finance should instead be directed more into the secondary system and should be used to restrain the growth in fees, to emphasize technical/vocational training at the lower secondary level and to improve the quality of instruction throughout the system.

Budgets and Donor Inputs

2.79 Since the mid-1970s, HMG has allocated about 11% of its development budget to education. This compares favorably with a 10.4% average for all developing countries in 1985, and with an average for the poorest group of countries of 7.6%. As a proportion of GDP, public expenditures on education amount to 2.1% as compared with 1.9% in Bangladesh, 2.3% in India, 2% in Pakistan and 3% in Sri Lanka.16/ The Government has clearly recognized the potential development benefits from investment in education; rapid expansion of the system has come as a direct result of government planning, and dates in particular from the adoption in 1971 of the National Education System Plan, and the Government's acceptance in 1975 of responsibility for a significantly greater share of education financing and the partial support of secondary education. As noted above, the overall growth in the sector has been attended by a shift in expenditures towards primary education, and by the gradual erosion of privilege in the University system. This general trend is appropriate and laudable and should be complemented by an increased emphasis on secondary education. Another area of budgetary concern is school administration, where budget allocations have fallen from 12% in 1980/81 to 6% in 1987/88, an amount inadequate to fund effective supervision and support facilities at the district and regional levels. It is noteworthy in the Nepalese context that absorptive capacity in the sector is good: between 1984/85 and 1986/87 the development budget for education rose 55% in nominal terms; expenditures as a proportion of allocations increased from 87% to 90% of budget over the period.

2.80 Although external assistance is less significant than in most other sectors, accounting for 21% of total sectoral development expenditures between 1981/82-1985/86, the donor presence is nonetheless important. A wide range of donors actively support education, particularly primary education (including primary teacher training), technical/vocational training and efforts to improve the quality of science and mathematics education at secondary level. The University has also

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16/ This situation can be contrasted with that of a decade ago: in 1976, Nepal's public expenditures on education as a proportion of GDP amounted to 1.5%, the lowest in the region.

received considerable support in the past. As in the health sector, donors have tended to exercise a significant influence on decision making in education, and have at times supported projects or advocated management structures without regard to overall sector policies and without paying due attention to questions of sustainability or replicability. This situation suggests the need for HMG to assert itself in pursuit of better HMG-donor and inter-donor coordination in the sector.

The Basic Needs Program

2.81 The Basic Needs strategy reconfirms HMG commitments to universal primary education, but introduces a specific timetable for its achievement. BNP thus consists first and foremost of an ambitious program of expansion in capacity. It also stresses improvements in the quality of primary education, aiming at improved supervision and work practices in schools, training for all teachers (who are to be SLC holders), a reformed and updated curriculum, the distribution of text books to all students, and improved school buildings. Attention is also given to the need to increase female enrollments; a significant expansion of the adult literacy program is also planned. The strategy envisages the construction of about 6000 new schools (an increase of 50% over the 11900 existing in 1985/86), and foresees that communities (as under current policy) will build these, in locations determined by the ongoing school mapping exercise. No government capital spending is envisaged, although a range of prizes are to be offered to encourage communities and staff to improve the physical conditions, enrollment ratios and academic quality of existing schools. Implementation of BNP in education began in 1987/88, when the primary education development budget was increased by 33% over the 1986/87 allocation; the new initiatives are being grafted onto Seventh Plan programs and will be fully integrated in subsequent national plans. The program represents a commendable commitment to improving general levels of education and literacy, and as such it deserves significant donor support. The proposals to introduce an inspectorate system, to provide a clear career and promotion structure for primary teachers and to extend the scheme for free text book distribution are all worthwhile, as is the emphasis on expanding MOEC's successful adult literacy program.

2.82 Some observations on the planning parameters are in order, however. The primary school age population in 2000 is projected at 2.9 million, and all subsequent analysis works backwards from this estimate to calculate requirements for teachers (given certain pupil: teacher ratios) and schools (given model school sizes), and hence resources over the implementation period. For enrollments to reach the specified target, 1.1 million additional students would need to enter and remain in schools relative to 1985 enrollments - the base year for the analysis. The document estimates that enrollment of boys would need to increase by 64%, while that of girls needs to increase by 241% over the period. Several points should be made. First, the World Bank's projection of the most likely population outcome 17/ shows that the 6-10 year old population will increase to 3.3 million by 2000. Second, repetition and dropout rates are

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17/ The "partial execution" scenario of Table II.E.1.

implicitly assumed to be zero in the BNP calculations. Third, an implicit assumption in the analysis is that access to school is a major constraint to enrollment growth, and this leads to a policy of building many new small schools. While access is a problem in some areas, school infrastructure coverage is in fact quite good, and the construction program required by BNP somewhat lavish. Fourth, universal demand for primary education is assumed - and this is clearly not an accurate reflection of reality, given enrollment trends of late. The projections therefore need careful revisiting.

2.83 The treatment of teacher requirements in the BNP appears to need more work. First, no allowance is made for attrition. BNP estimates that 37,000 teachers need to be added to the 1985 stock of 51,000 by 2000; assuming a very conservative 1% per annum attrition rate,18/ the requirement rises by 19,000. Second, no financial provision is made for teacher training in BNP. Training 56,000 new teachers will imply recurrent costs of up to US$1 million per year, depending on the approach used. In addition, some 68% of the current teacher stock are considered "less than trained", and will require in-service courses. BNP proposes a number of methods for handling the overall volume of teacher training required, but it is not clear that the enormous implications of such a program have been fully worked through. A serious re-evaluation of primary teacher training methods and provisions needs to be carried out; particular attention needs to be given the issue of female teachers. As it stands, teacher shortages are likely to act as a major constraint to enrollment growth, while the use of untrained teachers will continue to contribute to high dropout and repetition ratios.

2.84 The most serious issue, however, is the extent to which BNP's goal of universal primary education is best pursued by a strategy which gives such powerful emphasis to additions in capacity. As argued previously, internal inefficiency and declining enrollment growth appear strongly related to inadequate quality, itself the victim of previous rapid capacity expansion. This argues for a prime emphasis on consolidation of the existing infrastructure and on quality enhancement, at least in the early years of the Basic Needs Program.

E. Population and Health

Demographic Prospects

2.85 Nepal's demographic situation is serious. However successful efforts to curb fertility during the next decade may prove, the country's population will still reach about 24 million in the year 2000, compared to an estimated 17.5 million today, and will double by the year 2015. This is due to the fact that demographic trends can change only once the momentum effects of past population growth have played themselves out. In Nepal today, there are 4.1 million girls who are approaching fertile age, 50% in excess of the total of all women currently fertile. Although the dynamics

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18/ Rates of 3-4% are more common.

of population growth mean that little can be done to change events in this generation, prompt action is nonetheless needed to lessen demographic damage to the next.

2.86 Three illustrative projections are given in Table II.E.1. The "status quo scenario" posits a continuation of present trends and programs; the "partial execution scenario" presumes better than current implementation of Nepal's National Population Strategy, and involves a considerable incremental effort to reduce births and to enhance child survival. The "full execution" scenario would require a rigorous implementation of the Population Strategy alongside a highly effective child health program.19/ As can be seen, there is little difference in developments under any scenario by the turn of the century. The difference by 2030 between a weak and strong population control effort, however, is appreciable. To begin with, there is an overall addition of over 200% to the population in the first case, and of about 150% in the second. The differential increase in the numbers of dependent children (ages 0-14) by 2030 is even more significant. Under the status quo scenario, dependents rise by 150%, under the most optimistic scenario by 80%; thus the economy would be forced, in the event of poor fertility control, to absorb twice as many children in 45 years time as under an all-out population effort. This increased "dependency burden" would mean that a much larger share of Nepal's resources would have to be diverted to consumption needs rather than to investment to accelerate growth. Also becoming apparent by 2030 is the differential growth in the size of the labor force (ages 15-64), which under the status quo scenario will increase almost 1.5 times as fast between 2010 and 2030 as under the maximum effort scenario; it will be difficult enough to generate employment and to increase the capital stock sufficiently to maintain productivity even under the low-growth scenario

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19/ In its Basic Needs document, the Government uses two population scenarios. The first (with a growth rate reducing to 1.2% by 2000) derives from the Seventh Plan and is mentioned in passing as an "established long-term objective". It would, however, require a contraceptive prevalence rate of 60% by the end of the century - a four-fold increase over current rates, representing an achievement without precedent anywhere in the world. The second scenario - a 1.9% growth rate by the year 2000 and a total population in that year of 23.2 million - is used as the basis for establishing the targets for growth in output and social services under the Basic Needs Program. This scenario is also optimistic. The three World Bank projections presented are based on the following assumptions:

(a) "status quo": a contraceptive prevalence rate (CPR) of 15 % in 2005, and a total fertility rate (TFR) of 5.3 plus an infant mortality rate of (IMR) of 90 per 1,000 in 2005-09.

(b) "partial execution": a CPR of 24% in 2005, a TFR of 4.7 and an IMR of 70 per 1,000 in 2005-09.

(c) "maximum effort": a CPR of 35% in 2005, a TFR of 4.0 plus an IMR of 60 per 1,000 in 2005-09.

(Section I.A). Furthermore, pressures on land resources, already severe, certainly cannot afford an overall rate of growth which in the status quo scenario is some 1.6 times the rate under the maximum effort scenario between 2020-30. Even given maximum efforts on birth control and the most optimistic assumptions about absorptive capacity of the land under known technologies, the population of the rural Terai will double from 7 million to 14 million by 2010, equivalent to almost the entire population of Nepal at present. Cultivated land availability in the Terai would accordingly fall from 1.35 ha per household of six, to just under 0.75 ha; and agricultural productivity would need to double just to maintain current on-farm per capita production levels. In the meantime, the urban population would increase almost five-fold, to nearly 7 million (Table II.E.2).20/

Table II.E.1: Population Scenarios Through 2030
Size and Age Distributions

	1985	2000	2010	2020	2030
1. Status Quo					
Total	16.5	24.5	32.3	41.9	51.2
0-14	7.1	10.4	13.6	17.0	18.0
15-64	9.0	13.3	17.5	23.5	31.3
65+	0.4	0.8	1.1	1.4	1.9
2. Partial Execution					
Total	16.5	24.3	31.2	39.6	47.6
0-14	7.1	10.2	12.6	15.1	15.9
15-64	9.0	13.3	17.5	23.1	29.7
65+	0.4	0.8	1.1	1.4	1.9
3. Maximum Effort					
Total	16.5	24.0	29.9	36.2	42.3
0-14	7.1	9.9	11.5	12.3	12.9
15-64	9.0	13.3	17.3	22.4	27.4
65+	0.4	0.8	1.1	1.4	2.0

20/ The projections also assumes an average increase in cultivated land of 0.5% p.a. in the Terai, and of 0.25% in the Hills. This would mean that over one-third of the remaining Terai land with arable potential (and now forested with timber) would be cleared by the year 2015.

Table II.E.2 Projected Population and Density by Area ("Maximum Effort" Scenario)

	Population (Millions)					Rural Population Density (Per Ha. cultivated land)	
	Mountains	Hills	Terai	Urban	Total	Hills	Terai
1985	1.4	7.0	7.0	1.2	16.6	6.0	4.5
1990	1.5	7.2	8.3	2.1	19.1	6.1	5.2
2000	1.5	7.5	11.0	4.1	24.1	6.2	6.6
2010	1.5	7.6	14.1	6.7	29.9	6.5	7.9

While towns will grow rapidly everywhere, the swiftest growth will probably continue to be in the Terai - Birganj, Lahan and Jannakpur in particular are expected to expand at rates of 10-15% a year. With few prospects of rapid industrialization, secondary off-farm employment may not expand rapidly enough to absorb this new landless population, while urban facilities and services will be stretched severely to accommodate such rapid increases. These problems are likely to intensify with the passage of time, and the ultimate costs will only deepen if anything less than major action is taken to combat population growth.

Health Status

2.87 Mortality rates in Nepal have declined slowly but steadily over the last two decades with the spread of modern-day health care and increasing control of epidemic disease. Life expectancy (52 years) is however still very low, and Nepal is one of few countries where mortality is markedly higher for women than for men, at all ages, and there are indications that this gap is widening. Diarrhoeal and parasitic diseases are rife, with perhaps 80% of the population suffering from the latter at any one time. Nepal has the second highest incidence of iodine deficiency in the world, with up to 70% of villagers in some areas suffering from goitre, and with cretinism rates as high as 10% in some remote areas. An estimated half million people in Nepal are partially blind, and perhaps 15% suffer from TB. Infant mortality is declining, but still high. In 1987 there were about 110 infant deaths per 1,000 live births; combined infant and child mortality probably varies between 160 and 220 per year per 1,000 population 0-5 years of age. Some poor hill and mountain areas, however, have infant mortality rates of 180 and over and child mortality rates in excess of 300. Chronic undernutrition affects up to 80% of children, with clinical malnutrition rates of up to 15%; perhaps 45-50% of children under 6 years old are stunted. High child mortality is commonly regarded as an important factor in Nepal's high fertility rates. The root causes of ill-health in Nepal lie in large measure in widespread and extreme poverty, and in an associated lack of basic infrastructure. Safe water supply is essentially non-existent in Nepal, and sanitary excreta disposal uncommon. Shelter is generally poor and heavily overcrowded in urban areas, limiting the scope for personal and domestic hygiene and fostering the spread of disease; sanitary food preparation thus is rare.

2.88 This bleak picture should not disguise some impressive health care successes. Malaria control, for example, has opened up the Terai and has in the past helped relieve population pressure in the Hills: whereas in the 1950s there were up to 2 million cases of malaria a year in the terai, by 1970 there were only 2,500 p.a. (Unfortunately, due to adaptation of the parasite and vector and to shortages of DDT and other spraying chemicals, malaria is resurgent. Over 27,000 cases were registered in 1987, the majority of a resistant type.) Infant mortality has fallen by over 25% in 15 years, a decrease partly attributable to effective immunization campaigns and to the impact of simple home health care techniques (e.g. oral rehydration).

Population and Health Strategies

2.89 The Government has recognized the dangers inherent in continued rapid population growth, and adopted a formal National Population Strategy in 1983. It has also made family planning a fundamental component of the Basic Needs Program. The Population Strategy, reaffirmed in the Seventh Plan, is a laudable one. It provides for a broad mix of contraceptive services and demand motivation, while recognizing the important interactions between fertility, education and income. The National Commission on Population is charged with the lead role in intersectoral coordination, while service delivery is primarily the responsibility of the Ministry of Health; both permanent and temporary methods are to be employed.

2.90 In the health sector, coverage has expanded considerably in the last forty years. Before the end of Rana rule in 1951 there was very little health care of any kind outside Kathmandu. The first significant improvement came in 1956 with the establishment of the Ministry of Health to eradicate smallpox and to control malaria. These programs were carried out by self-contained "vertical" teams. During the late 1960s the Family Planning/Mother and Child Health (FP/MCH) project and vertical programs to control leprosy and TB were started. In 1977 the successful smallpox project became the Expanded Program of Immunization (EPI), and other vertical programs - the Nutrition Support Program and the Diarrheal Control Program - have followed in the 1980s. Health infrastructure has expanded considerably, and a system of district referral hospitals (of which there are now more than 70) and health posts (814 in 1987, up from 192 in 1972) now theoretically offer rudimentary health services to about two-thirds of the population. From 1975 onwards, health policy has been directed towards providing minimum services to the maximum number of people. The Basic Needs Program document captures this emphasis without significant adjustment, stressing the district and village-level aspects of primary health care (PHC) provision. BNP therefore implies no major policy change; rather, it gives higher profile to a set of policies which were accepted in Nepal following the 1978 Alma Ata Declaration of "Health for All by the year 2000", but which were in need of reaffirmation. Essentially, BNP in health is a full-fledged PHC policy statement, with an appropriate emphasis on family planning and mother and child care.

Programs and Institutions

2.91 Whereas population and health policies are generally sound and pragmatic, their implementation has often left much to be desired. The 1983 Population Strategy remains largely a concept. The Population Commission has never managed to assert itself as an effective coordinator of family planning programs. Temporary family planning services have not been successfully delivered; only 2% of fertile adults are estimated to be using them. The reasons for this lie in the need for sustained and motivated outreach work in village communities, something which MOH has been unable to organize effectively. It also relates importantly to an absence of female workers in the health service. Considerable success has, however, been achieved with the sterilization component of the strategy; sterilization accounts for 85% of contraception and is the main cause for the increase in the contraceptive prevalence rate from 2% in 1976 to 15% in 1986. The sterilization campaign has been based on the use of "camps", with incentives provided both to medical staff and acceptors. It is likely, however, that demand for this kind of service is approaching saturation. With His Majesty's and many senior officials' stated support for population control, a lack of political will does not appear to be the root issue constraining wider adoption of birth control practices. Nor in the immediate term does weak demand; surveys suggest that temporary methods are unavailable to many who would use them. The difficulty appears to relate more to the problem of translating policy statements on temporary methods into effective decentralized delivery services.

2.92 With respect to health, there is an important contradiction between stated policy and policy as applied through the health budget. Officially-defined allocations to primary health care are impressive in comparison to most developing countries, and amounted to 75% of the 1987/88 development budget for health; the bulk of this, however, was earmarked for small (less than 50 bed) hospitals and health posts, and for central and regional administration functions, leaving perhaps 15-20% of the health budget for rural ambulatory care (or PHC in the true sense). The heart of the PHC system - the national health post network - is thereby underfunded and lacks the basis for effective work (drug supplies may last only six months of the year; staff have little equipment and often no quarters). Less budgetary attention is in fact given to PHC proper than to the secondary and tertiary curative hospital network.

2.93 Most successes in rural health care have come in the context of special campaigns, delivered through the vertical projects (e.g. in malaria eradication, smallpox, immunizations). Sustained community health care systems, however, have not taken root. The reasons behind the relative success of the vertical projects, including the sterilization effort, bear examination. First, they have received considerable assistance from donors, a situation which has given project managers a measure of autonomy within their own ministry and has helped them circumvent time-consuming procedures; they deliver a simple and easily-monitored product; their inputs usually need little or no follow-up by participants or by health workers, and thus require little understanding of community structures. Salaries in these projects are also somewhat higher than for permanent HMG employees. Campaign approaches, by the same token are not well-suited to encouraging behavioral change. The promotion of temporary family planning

methods or the improvement of child care techniques, however, would require sustained interaction at the community level.

2.94 If the health service is to develop a permanent community presence, there are obvious cost advantages to integrating all health activities into one coherent package, especially given the close links between population and maternal and child health issues. Integration is official health policy in Nepal; attempts to carry the process through have not had a happy history, however. In the 1970s the Integrated Community Health program was initiated in several districts, with the intention of moving toward full integration by 1985. The effort petered out into a dual system in which the vertical projects remained intact, while a number of districts were integrated or partially integrated - often with a marked fall-off in services. Relations between the vertical FP/MCH project and the integrated program have tended to be discordant. Both projects have tried to provide similar administrative, supervisory and support services in the larger districts, while neither agency has developed an effective delivery system for its offerings (with the exception of sterilization). In the context of the Basic Needs Program, MOH has reaffirmed its intention of integrating the health services. Under the current scheme, all vertical project staff at the District level will come under the unified supervision of a District Public Health Officer (DPHO). In 1987 a major structural reorganization took place at the center in preparation for this. Thus far, however, progress in the districts has been slow and marked by confusion, and the pattern of service delivery is unchanged.

2.95 Government hesitation over integration is already evident in the recent decision to postpone full assimilation of the malaria, immunization and FP/MCH vertical projects until 1990/91 (the process was to have been completed by mid-1988). Given the distinct risk that integration might be poorly implemented and might thereby compromise gains by the vertical programs, the current initiative should be taken stepwise and carefully monitored. It will be particularly important to establish precise job descriptions and lines of authority at the district level, to train staff carefully for their new roles and to give close attention to the development of viable program management procedures. One possible working compromise would be to continue to give certain critical functions (in particular, FP/MCH) a separate identity at the district level, such that specific staff and funds were earmarked for them, albeit under the control of the DPHO.

2.96 Whichever structural model is adopted, however, HMG will need to get to grips with its failure to deliver effective population and health services on a sustained basis at the health post and in the villages. This will mean tackling constraints which affect the civil service as a whole, and which are discussed in more detail in Section IV.A (inadequate incentive structures, dysfunctional administrative procedures, etc). At the field level, these problems manifest themselves as shortages of medical supplies, absenteeism from post and a paucity of house-to-house visiting. Health post staff receive little systematic or supportive supervision; most places must be visited on foot, and supervisors are often unwilling or unable to do this regularly from the district center. Poor communication between health staff and villagers is also a major barrier in the population and health field: extension workers often have difficulty in

relating to illiterate clients, in part the result of inadequate training in how to transmit knowledge to others.

Expenditures and Financing

2.97 In per capita terms, population and health expenditures, at only Rs 44 (US$2) in 1987, are low in comparison with other Asian countries. While the sector's share of the central government budget is comparable to that of its neighbors in South Asia, Nepal, unlike its neighbors, has no regional government expenditures in this area. Over 75% of MOH allocations for 1987/88 came under the development budget, which was about 50% donor-financed. Development expenditures for population and health have risen by 94% in the past two years, as compared with the 43% nominal increase in the overall development expenditures. The increase is due largely to significant expansions in construction (of hospitals, health posts, district offices, staff quarters) and by substantial increments to the main vertical projects (FP/MCH, Malaria, EPI, TB) and to the integrated program. As observed above, the bulk of population and health expenditures in fact finance urban-based activities (secondary and tertiary hospital construction and operation, administration) and not field work, a tendency which is increasing. Thus, although the 1988/89 budget proposes a 40% nominal increase in development budget allocations to health and 65% increase over actual expenditures, only an 11% increase in funding for Basic Needs-related activities (i.e. PHC) is foreseen.

2.98 The Basic Needs Program, as pointed out above, is almost synonymous with current primary health care programs, including population programs. A comparison of budget allocations to primary health care in recent years shows that some 3.0-3.5% of the total HMG development budget was devoted to PHC. BNP proposes that 3% of Eighth Plan and 3.4% of Ninth Plan development allocations would go to its health component; BNP does not therefore seem to imply increased sectoral allocations to population and health. On present evidence, primary health care as defined by HMG (headquarters and field-level expenditure combined) may well be able to absorb the proposed BNP budget. Given the obvious population and health needs in Nepal, this raises the possibility that greater infusions into the sector may well be justified. It would need to be determined, however, how much additional funding field-level PHC activities could absorb. While certain activities such as female PHC workers and drug supplies can be readily expanded, others typically have low absorbtive capacity and need institutional and managerial reforms before they can be expanded. If full integration takes place, it is quite possible that absorptive capacity in the field might actually decline for a time: the integrated program between 1984/85-1986/87 was only able to spend some 50% of its budgetary allocation. Questions of absorptive capacity and operational efficiency at the field level would thus need to be addressed as a priority. Intra-sectoral allocation issues also require careful review. The current balance between rural and urban expenditures and the concomitant tendency for "central" activities to consume the lion's share of incremental allocations suggests that secondary and tertiary expenditures are achieving a momentum which, if unchecked, will preempt future efforts to channel more funds to field-level work.

2.99 One possible solution to eventual shortages of funds at the field level is user charges. The scope for levying them in rural areas is limited, however, given the pervasiveness of absolute poverty. For the 40-50% living on or below the NPC poverty line, the equivalent of US$3 or less are available per person per month to spend on all non-food items (including fuel, clothing and social obligations). Imposing anything but the most marginal charges for health would almost certainly result in the need for families to incur additional debt at times of medical crisis in order to avail themselves of HMG medical facilities. Unless the fiscal benefits of collection were substantial, moreover, it is unlikely that administrative costs would justify the exercise. In urban areas, cost recovery is a more promising option, and HMG has recently permitted hospitals to levy charges in order to defray operating expenses. Provided that a system is enforced under which the poor are provided access to free or affordably-priced hospital care, this move might not necessarily be damaging to the consistency of the health sector as a whole.

Basic Needs and Future Orientation

2.100 The Basic Needs Program advocates an expansion of primary health care programs to the point of universal coverage, with an emphasis on family planning and mother-and-child health. The BNP strategy stresses integration at the district level and proper coordination between district hospitals and the PHC system; the mobilization of the panchayat system and NGOs, the recruitment of local volunteer health workers, and the establishment of sub health-posts at the panchayat level; and training for workers at all levels. The importance for birth control of improved female literacy and of inter-sectoral coordination are emphasized.

2.101 The BNP strategy is sound, and the expenditure program associated with it appears reasonable, given the above caveats. Whether some of the quantitative goals of the program can be met is more debatable, in particular the provision that each panchayat should have a functioning sub health-post. Sensibly, the nature of this facility is left undefined. Of most concern, however, are the staffing projections which underpin BNP. They posit a significant growth in civil service numbers at a time when this needs to be tightly controlled (Section IV.A) and they imply basic training costs which do not appear to have been factored into BNP budgets. These costs alone would add almost 20% to the cost of the Basic Needs Program in health.

2.102 It is recommended, as a general strategic point, that priority attention be given to quality and efficiency considerations, rather than to a swift expansion in facilities and personnel (except for female rural personnel). Expansion should ideally follow only when it is clear that service delivery at the community level is improving significantly. As pointed out above, there is a paramount need to consolidate institutional structures and to ensure that existing facilities are well used, and to improve the morale and the management of the health cadre as a whole. A first order of business is to clarify what form integration will take at the district level, and how the transition to the new system will occur. Apparent ambivalence over the future of the vertical projects is currently clouding the integration process. It will be important to ensure a consensus with and within the donor community on this issue. Second, BNP's

commitment to family planning issues needs to be translated into an operational strategy. Components of this strategy should include a continuation of the sterilization program, thus far the only FP success of note and currently in danger of losing support (MOH sterilization budget submissions under BNP for 1988/89 and 1989/90 were only 60-70% of the 1987/88 submission; sterilizations fell from a peak of 68000 in 1984/85 to 49000 in 1985/86); expansion of temporary methods, with access to injectables and implantables; an initial emphasis on the more accessible areas, where population densities are higher and service delivery is easier to manage; and an accent on child survival, which requires both immunization, and the health education of mothers.

2.103 Apart from general administrative reform, improved health service delivery will require serious attention to the development of supervision and management systems at the district level, and the introduction of systematic residency in-service training for rural health workers. Absenteeism from post can to a large extent be countered by an increased use of local staff, who should be recruited, trained and contracted on the basis of service in their home community. Since the behavior modification associated with regular contraceptive use and better child care largely devolves upon women, much higher priority must be given to recruiting female field workers. Men currently comprise the vast majority of front-line contact staff, an unacceptably high figure in light of BNP's focus and the limited access to women that male staff can expect. BNP objectives in health will be very difficult to achieve without employing many more females in the health services.

III. EFFICIENT RESOURCE MOBILIZATION FOR DEVELOPMENT

A. Public Revenues

Overview

3.01 Nepal's tax system has suffered from a number of structural flaws that have inhibited economic growth and caused inequities. These flaws have related mainly to gaps in the tax base due to tax exemptions and tax holidays and also to the use of specific rather than ad valorem rates, and problems with tax administration. Because of these gaps in the tax base, 1985 study found the tax elasticity in Nepal to be only 0.58. 21/ As a consequence, the Government has relied on ad hoc discretionary interventions in the tax system to generate revenue growth. By needing to announce new tax measures each year just to keep revenues growing in line with economic activity, this has contributed to economic uncertainty, discouraging private investment. Government policies to promote certain sectors or activities through tax concessions have not only caused economic distortions but have also led to additional wasteful rent-seeking activities whereby interest groups spend resources to try and obtain similar exemptions. That large components of the economy are virtually tax exempt has also been inequitable. The problem has been worsened by the weak institutional base for tax collections. With the passage of the new Industrial Enterprises Act and tariff reforms in 1987/88, the Government has done much to reduce tax concessions and improve tax administration. However, the Government has also introduced new tax exemptions in its 1988/89 budget in connection with the BNP. Whereas the overall tax elasticity is likely to have improved during the last two years, it is still less than one. Furthermore, the bulk of tax revenues still comes from indirect taxes, mainly sales and trade taxes, which are subject to high variance depending on exogenous factors. Thus, measures to improve the tax system must continue to focus on broadening the tax base and improving tax administration. These measures are likely to result in a more elastic tax system, diminishing the need for disruptive new tax measures in the future.

Improving Tax Administration

3.02 Part of the reason for the inefficient tax administration is that central taxes, which are administered by three separate revenue departments--tax, customs, and excise--are staffed by non-specialist civil servants who often transfer out of and into these departments. Consequently, assessment and collections are managed by officials with inadequate expertise and experience. Realizing this, the Government has proposed creating a Closed and Unified Revenue Service consisting of the above four departments and functional staff in revenue planning, audit and administration. The new Revenue Service would then offer a specialized career path for its employees, training and retraining employees within the

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21/ Premchand, Blondal and Nellor, "Government Finances During the Seventh Plan," Fiscal Affairs Department, IMF, 1985.

service. Clearance of the Public Service Commission for this proposal has been obtained and the proposal is now awaiting final Government approval. The establishment of the Closed and Unified Revenue Service will need to be accompanied by further steps to strengthen tax administration and collection, such as the increased use of regular field audits, the extension of training programs for revenue officers, tax assessors' audits, a substantial increase in penalties for late filing of tax returns and tax evasion, and the strengthening of the information base of the revenue service.

Broadening the Tax Base

3.03 Trade Taxes: Trade taxes continue to be the single most important source of tax revenue in Nepal. As a long term objective Nepal needs to reduce its reliance on import taxes (tariff and sales). It is estimated that currently a proportion of third country imports into Nepal find their way into India because of the profits to be derived from such trade "deflection." However, to the extent the Indian trade regime is liberalized, this derived demand may be expected to decline causing a corresponding decline in Nepalese customs and sales tax receipts. The need to widen the domestic tax base is underlined by these considerations.

3.04 Company Income Tax. While the new Industrial Policy and modified Industrial Enterprises Act removed many tax concessions, there are still a large number of tax concessions granted to a wide range of industrial enterprises.22/ In addition to direct tax benefits, firms also receive indirect tax benefits: excise tax exemption is granted for 3 years to cottage industries and to firms producing products so far not produced in Nepal; the 1988/89 budget announced a 25-50% excise tax exemption for the textile industry.

3.05 As a result of past and present tax concessions, corporate income tax payments have been declining. In addition to the direct revenue losses and an erosion in the tax base, the tax holidays and similar exemptions have other negative benefits some of which extend beyond the tax holiday period: (a) since firms do not file tax returns during the tax holiday period, assessing tax liability after the holiday period becomes more difficult, leading to an additional loss of revenue; (b) the complex and poorly targeted incentives lend themselves to abuse and undermine the objectives of the tax--a recent study found stationary dealers, sweet shops

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22/ For example, manufacturing cottage industries are exempt from income tax for 5 years, similarly, small scale manufacturing firms who require no more than 10% of hard currency raw materials are exempt for 5 years; national priority, energy-based and mineral based industries are also exempt for 5 years (eight years if the extraction in mineral industries is undertaken after taking exploration themselves). Since the national priority category is very large and includes a large number of basic needs industries, it seriously narrows the tax base for company income taxes. There are additional less important income tax concessions to "underdeveloped" and "less developed areas", public limited companies, and export-oriented companies.

and dry cleaners passing themselves off as cottage industries to avail of the exemption; (c) tax holidays discriminate against addition to capital by existing firms, creating artificial incentives for the creation of new entities and inhibiting scale economies; (d) in many instances, tax holidays provide windfall gains to investors who would probably have invested even without the tax incentive; and (e) they lead to wasteful rent-seeking activity as investors seek similar treatment for other activities. In short, tax holidays are a costly way to achieve the production goals and their impact on economic activity does not justify their costs. To minimize its costs and broaden the tax base, tax holidays need to be phased out gradually and exemptions tightened.

3.06 Agricultural Taxation. One of the major inequities in the tax system and a prime factor behind the low tax base is that the agricultural sector which comprises over half of GDP, is largely untaxed. The only existing agricultural tax is a specific tax on land area with some adjustment for land quality. Because the tax is defined in specific terms and in relation to land areas rather than land value, revenue from this tax is inelastic and subject to erosion by inflation. These problems are exacerbated by the increasing exemptions granted to farms of less than one hectare which currently have a tax liability of only Rs 1 per farm. The effect of this inelastic and shrinking tax base is reflected in the drop in the share of the land tax in government tax revenue from 27% in the mid-1960s to 2.5% in 1984-85. In line with the 1982 Decentralization Act, the Government is actively considering the reintroduction of the Panchayat Development and Land Taxes (PDLT), which is a proxy for an agricultural income tax and which was used in 15 districts in the late 1970s. The PDLT had been discontinued mainly because of concerns over the use of the proceeds and political opposition from vested interest groups. Assuming that these problems can be controlled, in part by linking tax proceeds to local development expenditures (see Section IV-B), the reintroduction of the PDLT would improve the elasticity of tax revenue, allow a reduction of Central Government transfers to the Districts and allow the rescission of the highly distortionary octroi tax (chungikar) which is presently the major revenue earner in most town panchayats.23/

23/ The octroi tax is imposed on virtually all goods entering the town area thereby creating a problem of input taxation, cascading of taxes and cost increases. There are numerous complaints of arbitrary overvaluation of goods to extort additional revenues by the private contractors (who bid for the right to collect taxes and are allowed to keep tax receipts over a certain minimum that they hand over to the panchayat). Finally, the existing treatment of transit goods imposes a cost on small traders whose shipments are often delayed and who are often unable to meet the conditions for tax exemption. This therefore tends to further concentrate production in Kathmandu. The costs imposed by the tax are clearly not worth the revenues received. If a significant portion of the revenues from the PDLT, which goes to District Panchayats, could be allocated to Town Panchayats, the octroi could be removed altogether. In Panchayats where the compensation from the PDLT is not adequate, the Central Government may consider transfers to the Town Panchayats that rescinded the tax.

3.07 Urban Property Tax. The Government has just completed a long-overdue updating of urban property values, introducing a new valuation and tax levying system. The new systems and procedures are likely to capture the substantial appreciation of property values since 1974. A side benefit of the revaluing of urban property values is that it could help pave the way for readjusting rural land taxes. To avoid tax erosion, a three-year adjustment in property values based on a price index may be advisable between periods of more accurate revaluation. Also, the exemptions given to firms and hotels need to be eliminated.

3.08 Personal Income Tax. There is a need to make the tax base more comprehensive both in terms of adding individuals to the tax net and capturing different sources of income to the individual. To do so, the Government may consider reintroducing a withholding tax on dividend income similar to that on interest income. The measure announced in the 1988/89 budget of granting an 85% exemption to dividends in public limited companies runs counter to the thrust of the recommendations here. Another way to increase the tax base is to resist pressures to increase the personal exemption in line with inflation for several years. While low in absolute terms, the current personal exemption limit of Rs. 15,000 ($625) is about four times the per capita income, which is very high by international standards. Finally, the proposal to determine presumptive rental income using a formula based on the value of land and construction costs is worth considering. Clearly such a formula would require land and construction cost values to be current and realistic.

3.09 Sales Taxes. While recent rate structure changes have considerably simplified the sales tax, the tax base continues to be narrow due to the limited domestic industrial base. Services, in general, are excluded from the tax base, although telephone services were recently included. The Government should consider including other services such as electricity, tourist services, and non-life insurance premiums for inclusion in the sales tax net. Some items could be shifted from the excise tax list and included in the sales tax list, such as bricks and sugar. In this vein, the recent exclusion of edible oil and rice from the excise tax list should have been accompanied by their inclusion into the sales tax list.

3.10 In the longer term it is recommended that the current "ring" system, used to limit the cascading effect of input sales taxes, be replaced by a generalized credit system. Under the ring system registered firms do not pay taxes on transactions with other registered firms. The proposed generalized credit system would credit all sales taxes paid on imports and purchases from other registered firms against sales taxes due on output sales. The advantage of the credit system is that it provides incentive for manufacturers to declare inputs, improves compliance, and paves the way for progress towards a multi-stage sales tax or a value-added tax.

3.11 Excise Taxes. Over 50 items remain subject to the excise tax, although only 10 items contributed over 90% of excise tax revenue. In order to better concentrate on the large revenue earners, the Government has been making an effort to transfer items from the excise list to the sales tax list; some additional items to be removed from the excise tax

list have been identified above. To increase the elasticity of the tax, there is need for further conversion of specific excise taxes to ad valorem rates. Where this conversion is considered administratively difficult an alternative is to index the specific rate to inflation.

Increasing Non-tax Revenues

3.12 Non-tax revenues have contributed an increasing share of total government revenue, from 16% in 1974/75 to 25% in 1986/87. This increase is largely attributable to revenue from the auction of licenses for import of "commercial" items since 1986/87. However the revenues from auction licensing are beginning to decline due to falling premia and unutilized allocation of foreign exchange partly as a result of improved availability of imported goods. Other non-tax sources of revenue such as user charges from the sale of various government provided services have contributed a declining share of revenue due, in part, to poor administration and inadequate indexation of charges. Particularly with regard to services provided to the agricultural/rural sector such as irrigation, there is need to improve compliance and collection efficiency (see Section II.A). However, the scope for significant increases in non-tax revenue is limited.

3.13 Relative to some of its neighboring countries, Nepal apparently does not have large budgetary subsidies that could be easily reduced as a source for lowering the budget deficit. Its public enterprises, while inefficient, show only marginal operating losses or surpluses. Among its approximately 60 enterprises, only three, the Nepal Food Corporation (NFC), the Agricultural Inputs Corporation (AIC) and the Hetauda Cement Company (HCC) have consistently run losses in excess of $1 million and NFC's losses are largely due to its program of delivering food at a subsidy to food deficit districts with high transportation cost. However, there are large amounts of Government guaranteed loans to public enterprises, many of them doubtful, thereby hiding implicit subsidies and threatening the collapse of public financial institutions (see Section III.B). In addition, the accounting systems in use tend to disguise losses. Overall, it is unclear just how serious a financial problem these enterprises are. In order to address these issues, the Government has recently made an effort to strengthen accounting procedures at the NFC and AIC and is considering an external audit of the public sector commercial banks. It has simultaneously begun a program of public enterprise divestiture which should help both in obtaining revenues in its capital account from the sale of enterprises and in reducing subsidies, explicit or implicit, to these enterprises.

B. Allocating Resources Efficiently to the Private Sector

Overview

3.14 The financial system in Nepal consists of the central bank, Nepal Rastra Bank (NRB), two larger locally owned commercial banks, Nepal Bank (NB), Rashtriya Banijya Bank (RBB); three smaller joint-venture banks, Nabil, Indosuez and Grindlays; two development banks, Nepal Industrial Development Corporation (NIDC), which lends to medium- and large-scale industries, and the Agriculture Development Bank of Nepal (ADBN), which lends to small-scale industry and agriculture; an associated cooperative

system; an Employee Provident Fund (EPF); a small insurance industry; a credit guarantee fund and a nascent securities market. A housing finance institution is under consideration. Although Nepal's financial sector is quite small in absolute size with total assets of US$1.6 billion equivalent, it is sizeable relative to the small Nepali economy and does a good job of mobilizing resources.

3.15 The most serious threat to the financial sector's ability to finance private sector needs involves the problems being experienced by NB, RBB, ADBN and NIDC in the areas of management, financial performance, quality of portfolio, and liquidity management. NB and RBB, because of their size, are the most important financial institutions in Nepal; indeed, the overall health of the economy is to some extent linked to the health of these institutions. Both banks are now experiencing serious problems. Their financial condition has, and is likely to continue to deteriorate unless steps are taken quickly to strengthen them. RBB is already experiencing liquidity problems largely due to poor collections. Management is thin and systems are unsuited to the vastly expanded branch networks now in place. HMG pressures to continue to open new, often unprofitable branches and to increase priority lending to high risk sectors at inadequate margins are exacerbating the difficulties. Portfolio problems are serious and collection efforts are inadequate. Accounting policies for suspension of interest and provisions for possible bad debt substantially understate these expenses and mask the extent of financial problems. Capital, as stated in the financial statements, is inadequate and, if properly adjusted for provisions and suspension of interest, would be negative for RBB and very low, possibly negative, for NB. In short, the problems of these two banks represent the major financial sector problem in Nepal.

3.16 The main factor responsible for the serious position in which these institutions find themselves is the widespread problem of low loan recovery rates due to financial indiscipline. Many borrowers, both in the public and private sectors, are unable or unwilling to repay their loans, while banks continue to accrue interest, showing profits and paying out dividends. This problem is exacerbated by inadequate Central Bank supervision and regulation which does not adequately penalize either banks or borrowers for non-payment of loans such that even when some borrowers are able to service their loan, insufficient pressure is applied to coerce payment.

3.17 There are a number of other reasons for the unhealthy financial situation of the large banks. The Government has used its control over the institutions, formally and informally, to direct credit to preferred sectors and borrowers at the cost of lowered profitability of these banks, both because of the often higher cost of lending to these borrowers and because many are unable or unwilling to service loans. In addition, ADBN and the two large commercial banks have been coerced into opening many branches in recent years, most of which do not cover costs. In order to address these problems, one therefore needs to consider the related issues of supervision and regulation, directed credits and interest rate policy, in addition to specific measures to strengthen financial institutions.

Central Bank Supervision and Regulations

3.18 Improved Central Bank supervision and regulation, by forcing banks to immediately face the consequences of non-collections, can do much to improve loan recovery. Despite serious problems in NB and RBB, supervision appears to concentrate primary attention on collecting statistics rather than on identifying problems and ascertaining commercial bank financial condition. Inadequate attention is devoted to analysis of solvency, profitability, risk exposure, and the quality of internal management and procedures. Consequently, the NRB has been unable to recognize and quantify the problem of delinquent loans in the banks, the accounting anomalies which distort banks' financial statements, and the extent to which these problems have undermined the state-owned banks' viability. An efficient continuous supervision based on bank returns should be developed to gradually replace the heavy emphasis on periodic on-site inspection which is becoming increasingly less effective as a means of gaining insight into the financial problems. Coordination between the Banking Operations Department and the Inspection and Supervision Department needs to be strengthened. Similarly, attention needs to be given to improving computer support, inspection manuals, and the redesign of commercial bank reporting formats to facilitate problem oriented supervision.

3.19 Regulations and their enforcement also need to be strengthened in response to the changing environment. Specifically, the NRB needs to: (a) set limits on a bank's maximum loans outstanding to any one borrower at, say, 25% of a bank's capital; (b) set minimum capital requirements for commercial banks by gradually increasing them to a minimum of 4% of total assets;24/ (c) specify appropriate revised formats and definition of line items for commercial bank financial statements; (d) establish a loan classification system and accounting policies for suspension of interest and provisions for possible bad debt; and (e) improve reporting systems to better monitor guaranteed loans and loans to public enterprises.

Directed Credits and Branching Policies

3.20 Since 1981, under the Intensive Banking Program, commercial banks have been required to lend 25% of their total credit to the productive sectors, of which 8% (since 1984) should be lent to the priority sectors, i.e., agriculture, small-scale industry, and services. Banks are also supposed to lend at least 60% of all agricultural and service loans to low income families. While interest rates have been freed since 1986 for most priority lending, some priority sector loans are still required to be made at 15%. The banks have sometimes been unable to meet the productive sector target and they have consistently fallen somewhat short on the loans to priority sectors. Although not rigorously enforced until recently, banks are required to deposit any shortfalls in meeting the 8% target in a non-interest bearing deposit at NRB. While the quantity of credit covered by selective credit programs is not excessive, the interest rate of 15% which

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24/ A recent agreement among commercial banks in developed countries aims to reach capital equivalent to 8% of risk assets over the next few years.

applies to some priority lending is below the 16%-21% charged on commercial loans although such loans are often of high risk. As these small loans are costly to administer, banks should, at a minimum, be allowed to charge the 21% rate which applies to some commercial borrowers. Even at such a rate, banks would probably lose money on these loans and would have a significant disincentive for expanding such lending.

3.21 The more serious problem is the government program of forced branching that is connected with the priority lending program. For many of the existing rural branches, the quantity of business is too small to cover their operating costs. Moreover, there is considerable pressure to establish new branches in more marginal areas in line with HMG's objective of having one branch per 30,000 people by 1990. NB, alone, is expected to open 17 new branches this year although they are already overextended. The large operating losses of marginal branches, and the huge additional burden that additional branches place on weak management structures is a major problem. While the costs of the branches are likely to fall with the decision by banks to reduce personnel and some services at rural branches, these branches are likely to remain unprofitable. There is little to be gained by maintaining two or three bank branches in an area that generates sufficient business to support only one in order to "have more branches". Recognizing this, the Government no longer requires banks to open branches in areas already served by one bank. However, consideration might be given to allowing unnecessary branches to close down in areas where at least one commercial bank branch would remain. Eventually, the Government needs to give autonomy to commercial banks over the decision of opening or closing branches. If it were to continue with its present policy, the Government should consider giving a full explicit subsidy in the budget for its development objectives rather than the present system where a declining fraction of the branches' losses are paid through the NRB for 3 years.

3.22 To address its concern with the inadequate levels of credit flowing to agriculture and cottage and small-scale industries, the Government now proposes to expand sharply the scope of its directed credit, targeting virtually the same groups as presently. It intends to do this by expanding lending under its group guarantee scheme, by introducing a Lead Banking Scheme and by gradually but sharply increasing targets introduced under the Intensive Banking Program (see para 3.20).

3.23 The emphasis on adoption of a group guarantee concept for lending to the absolute poor is attractive and has worked well in the Grameen Bank in Bangladesh and a few other places. However, implementation of this approach needs to be undertaken with great care as there are real risks associated with it. The Grameen Bank scheme was implemented as a largely private sector "bottom-up" scheme, while in Nepal it represents a "top-down" government imposed system. Moreover, a successful group guarantee scheme is inconsistent with the projected rapid increase in credit shares precisely because it places too much emphasis on quantitative targets. There are already indications that programs such as the Small Farmer Development Program (SFDP) are reaching their saturation point.

3.24 The Lead Banking Scheme would appoint a lead bank initially in each of 21 districts, with planned expansion at some later date to cover the entire country. The concept assigns a number of complex planning and

coordinating functions to the lead bank in each district. A conceivable benefit is the improved flow of information between the line agencies, project/program beneficiaries and the commercial banks. It is felt by the Government that the commercial banks' lack of experience and knowledge of rural activities such as cottage industry and livestock programs is a major factor in the banks' reluctance to lend to rural activities. The lead bank's coordination with line agencies would improve this. A second potential advantage of the scheme is that it could pave the way to reducing costly duplication of banking services and competition in markets which are too small to justify more than one bank by eventually shutting down the non-lead commercial bank. However, a number of the activities assigned to the lead bank seem questionable; and even if desirable, the banks probably do not have the capacity to carry out the functions assigned to them. Moreover, even if recovery rates are higher than for medium and large scale industry, the increased administrative burden would have costly and harmful effects on the banks, which are already overextended and experiencing major difficulties in administering their present branch system and procedures.

3.25 The new credit targets are ambitious, raising the minimum portion of credit to the productive sectors from 25% to 60% by FY2000, of which at least 38% of total credit would go to the priority sectors (vs. the present requirement of 8%) and 23% would go to the absolute poor. It is unclear at this time whether or not the expanded credit to the priority sectors and the poor is to be at subsidized interest rates and, if so, the magnitude of the cost involved. If the targets are enforced, given the quantity of credit already outstanding to the Government, public enterprises and non-productive sectors, there will be virtually no new funds available for lending to others. Moreover, the system may further weaken the banks, adding substantially to their operational costs, increasing the quantity of non-performing loans and bad debt expense and, perhaps, through imposing subsidized rates. Lastly, even if the scheme could be implemented, and did not reduce banks profitability, it is likely to misallocate some credit. Trade and large scale industry, on the other hand, which are working capital intensive, would be starved for credit with serious negative ramifications for the economy. The proposed dramatic increase in lending targets would thus push the financial system in a very dangerous direction. It is therefore recommended that pressure to enforce these targets be relaxed and that major attention be given to strengthening NB, RBB and ADBN through technical assistance so they would be in a better position in two to three years time to implement a major strengthening of their rural lending operations.

Interest Rate Policy

3.26 Since May 1986, interest rates have been liberalized with banks free to set deposit rates above a minimum level. Except for certain loans to the priority sectors, banks are also "free" to set lending rates. However, the Government's role in rate setting is still substantial given that it not only sets two key deposit rates (on savings and twelve-month time deposits) but also the rate paid on its development and savings bonds. Hence the cost of funds to banks is effectively determined by Government either directly through rate setting or indirectly through establishing rates on competitive instruments. Furthermore, the Government has majority ownership and controls the four major lending institutions. Through its

control of the institutions, it may have a marked impact on lending rates as well. Effectively, then, the level of interest rates is still highly influenced by the Government.

3.27 Given the rate of inflation, the current level of deposit rates is slightly positive in real terms and probably not out of line with where it would be set by market forces. However, the system by which rates are set does not appear to be responsive to market forces and the term structure of deposit rates appears steep. Real term deposit rates appear high at 3-6%, being above those in India. Although it is difficult to judge without a market, it appears that the high tax-free rates being paid on national savings certificates and development bonds are pushing up rates to the private sector. Presently interest rates on 10-year development bonds and 15-year savings certificates are 10.5 and 13% respectively. Since returns on Government securities are tax free, commercial banks have to offer even higher deposit rates (12.5-14%) to compete with these securities, thereby discouraging investment in two ways. First, the potential investor who realizes that he can obtain a guaranteed return of 13% tax free when inflation is projected to be 8 or 9% may prefer not to take the risks involved in investment. Second, the higher deposit rates paid by banks forces them to charge higher lending rates, thereby discouraging potential investors. The decision to grant these instruments tax-free status needs to be re-examined. Until a long-term market-determined Government security is available (see next para), the Government could fix the interest rates on its savings certificates and bonds as a markup over the short-term market-determined T-bill rate, which the Government plans to introduce shortly by way of an auction. The markup should be such as to lower the interest rate on the certificates and bonds somewhat, possibly to 11.5% and 10%, respectively. Along with the removal of the tax-free status, this should allow term deposit rates to fall by about 2 percentage points. The situation should then be carefully monitored for signs of excessive capital flight. A moderate amount of capital flight may not be a bad thing, given the excess liquidity position of Nepali commercial banks, and the potentially high cost of domestic interest rates, which may be creating significant disincentive for new investment.

3.28 Another interest-rate issue is the way the Government prices its securities. Presently it is paying only 3%-5% on its bills and obtains an automatic overdraft from NRB at 3%. While the Government agreed to raise these rates by July 1988, it has not as yet done so. It will not be possible to develop a market for T-bills until they are priced at market rates. Hence, the ability to use open market purchases of bills as an indirect monetary control instrument hinges upon the bills being priced at market rates. Moreover, the Government should consider integrating the market for development bonds and savings certificates and having only one class of bonds, though with different maturities, all of which would be eligible for purchase by all buyers, including banks. The Central Bank should not support the price of these bonds at par but allow them to trade,

again moving to introduce more flexibility in interest rates.25/

Strengthening Financial Institutions

3.29 In addition to the recommendations made earlier, strengthening NB and RBB will require an in-depth analysis based on more detailed information on their condition than is currently available. Subject to modification as new information is obtained, the following initial steps are recommended:

(a) A new loan classification system should be established for all banks which clearly defines all loans in terms of risk. In addition to provisions of varying levels against all loans that are classified as substandard and/or non-performing, all unpaid interest should be suspended on such loans.

(b) As it will take considerable time to implement a new loan reclassification system, it is recommended that NB take a substantial general provision, say 4% of portfolio, at this time to more properly value its portfolio. NB would concurrently need to increase its capital to replace the losses due to the provision and to raise its capital to a more satisfactory level of about 4% of total assets. It would be desirable to consider utilizing the recapitalization to reduce the HMG ownership share below 50% to enhance NB's autonomy and commercial orientation.

(c) NB should be provided with technical assistance to strengthen organization and management of the branch system, loan accounting, credit administration, liquidity management, staff training, mechanization, internal audit and inspection, and to computerize one or two large Kathmandu branches to enhance NB's ability to compete with the joint venture banks.

(d) In addition to receiving technical assistance as in the case of NB, RBB, because of rapid growth and inadequacies in management in previous years, would appear to urgently require a major restructuring. As a precursor to this, a comprehensive independent audit of its portfolio is essential in order to ascertain the true condition of the bank. Meanwhile a fundamental strategy study should be conducted to examine various alternative approaches to an RBB restructuring including its recapitalization, sale, down-sizing, or merger with another institution.

3.30 Another financial institution in need of strengthening is the ADBN, which has expanded its branch network and lending levels rapidly in recent years (loans grew by 26% per annum during the last three years), and has experienced many of the same problems due to rapid growth and

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25/ For a detailed discussion on improving the way the budget deficit is financed, see V. Sundarajan and J.C. Nascimento, "Nepal: Issues in Monetary and Government Debt Management". Central Banking Department, IMF. February 29, 1988.

collection difficulties as have NB and RBB. Despite a very low cost of funds due to the high proportion of concessionary resources available to ADBN, profitability has been poor due to a confluence of factors: rising operating costs, government imposed lower interest rates on some lending, and the poor quality of loans. Operating costs have grown more rapidly than lending and, as the average cost of funds is expected to increase, the Asian Development Bank (ADB) has calculated that a 30% reduction in operating costs will be necessary to ensure viability. As for other Nepalese lending institutions, the quality of ADBN's portfolio is unsatisfactory, with about 45% of total loans past due, of which 20% is more than five years overdue. ADBN collected only 43% of amounts due in 1987. If proper accounting policies had been applied, ADBN would have shown negative equity and would have reported an estimated Rs 80 million loss rather than the Rs 16 million profit actually shown over the last ten years. ADBN has been rectifying this shortfall in provisions over the last two years and is instituting more satisfactory accounting policies for provisions and suspension of interest on an ongoing basis. It has also initiated legal action as part of a successful program to improve collections.

3.31 ADBN has dynamic management and would seem to have the key role to play in government efforts to strengthen banking presence and services in the rural areas. Certainly, in areas where ADBN branches already exist, consideration should be given to adding commercial bank functions in these branches rather than encouraging a commercial bank to open a branch and compete with ADBN for an inadequate business base. It is important, however, that ADBN's growth be restrained (Government has recently agreed that its growth will not exceed 15% per annum) and that it not be required to open up many new branches in view of its acute operating cost problem. It is also essential that ADBN not be persuaded to take credit risk on priority loans that may not be commercially viable. Despite important recent strengthening, ADBN needs additional time to consolidate these gains before taking on significant new burdens in conjunction with the lead bank or other new rural lending schemes.

3.32 NIDC, which is largely government owned, provides long term capital (both loans and equity) and some working capital finance for medium and large scale industry and hotels. Although NIDC had a reasonably sound capital structure (at least prior to anticipated large new provisions for possible bad debt), it has severe liquidity problems due to a poorly performing portfolio. Over the last five years, NIDC has collected, on average, 60-70% of the amounts falling due. There are a number of reasons for the collection problems including generally poor financial discipline in Nepal, large willful defaulters who exert political influence to avoid payments or to persuade NIDC to reschedule old loans at below market rates, an inadequate legal framework, and sometimes ineffectual NIDC collection procedures.

3.33 While the losses have not, as yet, threatened NIDC's solvency due to a very conservative gearing ratio, it is essential that NIDC implement a number of reforms if it is to again play an important role in mobilizing resources from international donors and engaging in effective lending for industrial and tourism development. There is an urgency in undertaking these reforms as NIDC is now facing a serious liquidity problem in meeting

its disbursement obligations. Among the most crucial of these reforms are: (a) adopting internationally acceptable accounting policies with respect to provisions for possible bad debt and suspension of interest and taking substantial writeoffs in accord with these policies; (b) partial privatization of the ownership of NIDC and the strengthening of its Board with representatives from international agencies; (c) improving the NIDC legal framework to provide increased autonomy and commercial orientation through major revisions in the NIDC Act or placing NIDC under other legislation such as the Financial Companies Act; and (d) increasing NIDC interest rates from their present 14.5%-15.5% levels to match commercial bank term lending rates (presently about 18%) and raising interest rates to that level for all loans that are newly rescheduled.

3.34 In response to the call for shelter finance in the Seventh Plan, a group of private entrepreneurs, along with IFC, UNDP and several of Nepal's financial institutions, is promoting the establishment of The National Housing Finance Company (NHFC). NHFC would finance housing for lower and middle income households based on commercial credit criteria, funding its lending program by mobilizing retail savings through innovative savings schemes and raising medium and long-term finance from commercial sources. NHFC's management and staff would initially be advised and trained by Housing Development Finance Corporation, India, a private sector housing finance company familiar with the similar operating environments of neighboring countries, which is also a proposed shareholder of NHFC. Although NHFC's objectives are commendable in the light of the unsatisfied demand for housing, the risks of establishing a new institution may be out of proportion to the limited benefit of effectively serving the 4%-5% of the total population that would be eligible. While it is important that HMG devise a better channel for providing housing finance, the proposed NHFC involves several issues that should be carefully examined before a decision is taken to set up a new specialized institution. These include: (a) a high cost of funds since NHFC would require long term money in an environment in which savings certificates earn 13% after tax and five year term deposits at more established institutions earn 14%; (b) a high default risk due to the generally weak credit disciplinary environment and anticipated difficulties in foreclosing on homes in the event of default; and (c) the cost of a new institution in a banking environment that already faces problems of inadequate trained management and operations too small to achieve economies of scale.

CHAPTER IV: INSTITUTIONAL ISSUES

4.01 The final paragraph of the Basic Needs Program document stresses the need to strengthen public administration, implicitly recognizing that HMG's institutional shortcomings must be addressed if economic and social service delivery is to improve to the extent required by BNP.26/ In view of most observers, weak public administration is one of the root causes of Nepal's disappointing development performance in the modern era; as the analysis in Chapter II has shown, sectoral growth has been hampered more by institutional deficiencies and ineffective service delivery than by sheer resource shortages or by distortionary economic policies. BNP also recognizes that the satisfaction of basic needs cannot be accomplished by HMG alone, and explicitly invokes the participation of the panchayat structures, the non-government organizations and the private sector in accelerating growth and enhancing equity.

4.02 HMG faces formidable problems in engineering a healthy institutional climate in Nepal. The 1980s have witnessed a serious attempt to come to grips with a broad spectrum of institutional problems. Equally, however, most initiatives have yet to impact measurably upon performance. This chapter reviews the institutional underpinnings of national development activity, and seeks to assess progress to date both on public administration reform and on the evolution of the popular and voluntary structures which HMG is now actively encouraging.

A. Development Administration and Civil Service Performance

4.03 Some observers are struck by the contrast between the apparent potential of the Nepalese bureaucracy, and its overall level of performance in the day-to-day implementation of HMG's development programs. Many examples exist of committed, speedy and effective work, and several such programs have been alluded to in Chapter II (for example, the malaria and sterilization programs, and the adult literacy campaign). Nonetheless, poor development administration is commonplace. Symptoms include inordinate delays in program and project implementation, which have led to cost overruns and an increasing undisbursed aid pipeline, which now stands at over US$1 billion; ineffective operation and inadequate maintenance of economic and social infrastucture, once created; and erratic and uncommitted service delivery, frequently associated with high rates of staff absenteeism and chronically poor civil service morale. The translation of planned programs into viable and sustained development activity has proven consistently difficult in Nepal: as the authors of the Basic Needs Program stress in their concluding comments, "plan formulation does not automatically mean it is implemented...there is not much scope for satisfaction from the capacity of implementation of previous plans in the country. One cannot feel confident about success of the basic needs program without wide-ranging changes in the present level of implementation".

26/ "Development administration needs to be rendered less costly, more dynamic and more efficient to enable it to shoulder the increasing burden of development activities". BNP, NPC, 1987.

4.04 The paradox of a "highly competent but normally non-performing bureaucracy"27/ can only be explained in institutional terms. There are too many examples of excellent personal performance for other explanations to apply. Reasons must be sought in the unique cultural context of Nepalese government service and in its inadequate structure of personal incentives; in a history of centralized administration, now out of kilter with modern development priorities; in inappropriate and undeveloped program management mechanisms; and in cumbersome bureaucratic procedures. Working together, these factors often conspire to suppress or stifle the potential of the individuals who staff the development services. As the examples cited previously show, particular circumstances can be created in which the potential of the civil service emerges--be this through a temporary increase in accountability (due, for example, to the national prominence of an event),28/ or the presence of task-related incentives, or strong and inspired personal leadership, or through access to sufficient material and logistic support. Sustaining good performance, however, has generally proven problematic, since atypical circumstances are usually short-lived.

Reasons for Unsatisfactory Performance

4.05 Concentration of Authority. The relationship between senior and junior staff and between Kathmandu and the districts has been described in a recent UNDP-sponsored report as a "hoarding of discretion", whereby "public administration...is overloaded and overcongested at the center, and consequently underutilized and unresponsive in the field". Project managers have traditionally been denied authority over basic procurement, finance and personnel matters, and commonly need to spend long periods out of post and in Kathmandu to resolve the simplest administrative questions. Development Boards for the larger projects (e.g. the irrigation boards) have had vested in them a large measure of authority for day-to-day decisions, yet meet infrequently--a situation leading to inevitable delay. A reluctance to delegate authority to mid-level management and to the field is reflected in an unwillingness by those on the spot to innovate or to take risks, leading to perceptions of unresponsiveness by the public. The concentration of decision-making power far from the point of intervention is epitomized by the disproportionate number of senior staff based in Kathmandu--almost 60% of first-class gazetted officers and nearly a half of second and third gazetted classes work in the capital. The predisposition and capacity of district-level staff to share authority with local

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27/ "Decentralization, Basic Needs and the Makings of a Responsive Bureaucracy in Nepal", Bihari K. Shrestha in Administration and Management Review, Year 1, No. 1, December 1987.

28/ The multisectoral preparations for the November 1987 meting of the Heads of State of the South Asia Association for Regional Cooperation (SAARC) in Kathmandu are a case in point: the task was given highest priority by the highest authority; accountabilities were clear; objectives were transparent and achievable; resources were provided. Dedication and innovative work resulted, and the program was completed under stringent deadlines.

communities is obviously limited by the centralist orientation of their own parent departments.

4.06 Motivation, Incentives, Terms of Service. Socio-historical factors are often advanced as a prime reason for poor civil service performance. In the voluminous local literature on development administration, many authors 29/ describe a process, inherited from bureaucratic traditions of the pre-1951 Rana period, in which interpersonal loyalties may work against the dictates of efficiency and may exercise an undue influence over personnel decisions (recruitment, evaluation, promotion) and thereby on morale and performance. The prevalence of this behavior and the degree to which it translates into inefficiencies is debatable; nonetheless, there is a widely-held local perception that its persistence often means that personal prospects are determined less by performance than by private relationship. A second fundamental problem is the deficient public service incentive structure. Salaries are most inadequate. Those who do not have independent means of support may find some relief in pursuing parallel careers in the local consultancy industry--but opportunities for this type of work are limited. For those posted outside Kathmandu, particularly in the more remote areas, conditions can be arduous: adequate housing is frequently unavailable, while schooling and health facilities are at best meagre; in consequence, officers commonly leave their families in urban areas and are thus obliged to maintain two households. Travel and daily allowances often fail to cover the high incremental costs of fieldwork, and certainly provide no positive incentive for long days spent walking in remote areas. Field service, moreover, is often viewed as a form of career deprivation, despite the award of promotion points for remote area work: it removes an individual from Kathmandu and thereby from the orbit of important personal contacts. Promotion is inevitably slow, since opportunities for advancement are structurally limited by shallow grade ranges (four grades in both the gazetted and non-gazetted classes); advancement therefore tends to bear a distinct relationship to long service, rather than to merit per se (a recent Public Service Commission survey shows an average progression interval in the gazetted class of 13 years). Personnel evaluation systems, moreover, offer little basis for merit assessment--job responsibilities have not been systematically defined, complicating any clear understanding of expectations and of whether these have been properly met. For technical staff--the overseers, rangers, electricians, nurses, teachers and agricultural assistants who form the core of the development services--opportunities for promotion into the gazetted class are slim, effectively capping prospective salaries at less than US$70 per month. To this must be added the general absence of a supportive professional environment, particularly in the field. Junior Staff may find themselves charged with a precise set of output targets, but will often find themselves starved of

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29/ See, for example, D. P. Pant, "Nepalese Bureaucracy: Obsolesences and Innovations", Prashasan, 31st Issue (July 1981), pp. 44-61; M.P. Poudyal, "Aspects of Public Administration in Nepal", New Delhi: National Book Organization, 1986; and P. Pradhan, "Public Administration in Nepal", Kathmandu University Press, Tribhuvan University, 1976.

the on-site supervision, inservice training, and materials (extension messages, medicines, school books/curricula, etc.) necessary for the job. Not surprisingly, public dissatisfaction with the performance of many field staff is high, further eroding their morale. Uneven public service commitment under conditions like these is not difficult to explain.

4.07 Planning and Resource Allocation Mechanisms. Poor program implementation is also related to the Government's tendency to attempt more than limited budgetary and manpower resources permit, a problem emanating from established planning and programming procedures. Any project undertaken in Nepal has to be included in the Five-Year Plan; making mid-plan exceptions is a complex affair. Line ministries have therefore tended to submit for inclusion more projects than they are able to manage, and usually enter all those for which donor funding might become available (a process exacerbated at the central level by HMG's understandable reluctance to forego the prospect of concessional assistance). A strong resistance to prioritizing projects is thereby created, and has been reinforced by an absence, until recently of any mechanism for systematic and consistent comparison of economic and other benefits between projects and across sectors. A cycle of over-commitment, underfunding/undermanning and ad hoc arrangements in obtaining resources during implementation is the result. The convention whereby donor finance for recurrent expenditures is included in the development budget has made it almost impossible to identify and provide for O&M accurately; this encourages underbudgeting on the O&M account and causes sustainability problems once donor commitments to an activity come to an end. Another characteristic of planning in Nepal has been its top-down tendency: despite intentions to the contrary, physical targets and expenditure guidelines are still established in Kathmandu, with only perfunctory attention given to local constraints, needs or popular demand--a situation albeit somewhat inevitable in the absence of local data bases and planning capacity (both in line agencies and the panchayat offices).

4.08 Bureaucratic Procedures. Slow project implementation has often been related to slow fund release from the Treasury. The budget formulation process can consume up to four months of the fiscal year, and the main 30/ first trimester fund release may not arrive until October or November. Since unspent funds from the previous fiscal year cannot be carried over, up to a third of the year can effectively be lost. In addition, many projects never receive the third trimesterly release, as this requires presentation of the first two trimesters' accounts, and resolution of at least 50% of the previous fiscal year's budget irregularities. Stringent scrutiny (particularly by the Office of the Financial Comptroller-General in cases where foreign aid funds are involved) plus shortages of trained accountants and complex procedures all contribute to a situation in which inadequate account submissions by projects are commonplace. Other procedural factors inducing delays in implementation include elaborate rules governing procurement and contract

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30/ A sum equivalent to one-sixth of expenditures incurred during the previous fiscal year is released at the start of the FY in order to meet essential fixed costs.

supervision. Ineffective personnel management procedures are responsible for discontinuity and understaffing at field level. The staff recruitment and posting process is cumbersome, and the status of staff in project service is unstable (directly recruited staff are temporary and cannot be retained if they find permanent employment elsewhere; deputed staff can be recalled by their home departments); as a result, frequent transfers out of the field are commonplace, disrupting project work and the continuity of relationship with local beneficiaries.

Reform Efforts

4.09 Public administrative issues have long been recognized as major impediments to development, and HMG has sponsored much excellent analytical and prescriptive work in this area. Of particular note are the efforts of the Jha Commission (1968) and the Thapa Commission (1975), which between them identified all the key problems that persist today. Both advocated introduction of a merit-based reward and promotion system based on rigorous job-classification; the adoption of program budgeting and the strengthening of planning cells in line ministries; an overhaul of budget release procedures; and the simultaneous delegation of authority within the civil service and the decentralization of responsibilities for planning and project implementation to local panchayat bodies. Until the early 1980s, however, progress was slow and fitful and a number of potentially significant initiatives were aborted, or lost momentum (for example, program budgeting was introduced in 1970 and abandoned in 1972; political decentralization was attempted in different forms in 1972 and 1974, without success (see Section B); a position classification system was drawn up in 1972, but was never implemented). Despite some advances (e.g. the revision of promotion criteria to take account of remote area service, the creation of District Treasury Offices to expedite fund release), the NPC team drafting the Seventh Plan in 1984 recognized that the Jha and Thapa agendas were still largely unrequited and set out an Administrative Reform Programme repeating many of the same proposals. Developments in the last six years, however, are more encouraging. During this recent period, most public administrative reform initiatives have been pursued in the context of two programs--Decentralization (1982 onwards) and Structural Adjustment (1986 onwards). The Basic Needs Program is continuing with these reforms. In each instance, reformers have advanced controversial or complex changes that might otherwise have made little headway.

4.10 Centralization in Government. The passage of the Decentralization Act (1982) and Rules (1984) were landmark events, and despite predictable inefficiencies, promise a genuine involvement of local communities in the development process (decentralization is discussed in detail in Section C). In response to decentralization, HMG has over the last three years begun to address the need to restructure the Government in order to devolve more authority and more staff to the field. This work has been given fresh impetus by Basic Needs. In December 1987, a reorganization of those line ministries charged with BNP implementation was initiated; functions were consolidated (e.g. all irrigation programs were brought under a new Department of Irrigation), a new Ministry of Housing and Physical Planning was created, Junior Ministers and Additional Secretaries were appointed and charged with Basic Needs responsibilities, and the Ministry of Panchayat and Local Development was streamlined (MPLD is the lead ministry for

decentralization; it has shed its direct implementation functions to permit concentration on its principal role as coordinator of the line ministries at the local level). Also under active discussion is a major shift of resources to the district level - encompassing the relocation of large numbers of staff from Kathmandu to regional, district and ilaaka (sub-district) offices, and the upgrading of positions at the district level. In the structural adjustment context, HMG in early 1986 took steps through gazette notification to augment the powers of project managers and other senior Ministry staff, permitting them greater autonomy over personnel and spending matters. The project staff transfer problem referred to above has been alleviated somewhat by a 1986 Royal Directive which gives project managers greater discretion over staff retention. A general reluctance on the part of the project managers to exercise their new authorities has been noted, however, indicating that the instruments of delegation are not of themselves sufficient to change longstanding habits.

4.11 Incentives, Terms of Service. An important development under the Seventh Plan has been the preparatory work done on job classification for gazetted staff. To date, job descriptions for the five technical services (agriculture, engineering, forestry, education, health) have been completed, while work on the administrative cadres is underway. Experts agree that the introduction of job classification is fundamental to administrative improvement in Nepal; it establishes the basis for equating salary levels with job difficulty and responsibility, and, most importantly, sets the stage for objective performance evaluation. Another useful building-block is the 20th amendment of the Civil Service Rules and Regulations in 1983, which solidifies the promotion up to mid-levels (gazetted second class) on the basis of merit, as evaluated through annual confidential reports. Conversely in late 1987, under the impetus of the Basic Needs Program, HMG terminated the service of over 150 senior civil servants (including heads of corporations and line departments) and withheld salary increments or issued warnings to numerous others, on the basis of poor project performance in fiscal years 1984/85 and 1985/86. In late 1987 the Anti-Corruption Act was amended, to clarify both the offenses and the penalties applying to public servants.

4.12 Planning and resource allocation. The Structural Adjustment Program in 1986 re-introduced program budgeting and project monitoring (PB, PM), under the management of the Ministry of Finance. PB activities for fiscal 1987/88 (the first full year of the exercise) set out to identify for five sectors (agriculture, irrigation, forestry, power, transport) a "core" program of priority projects, using as parameters a project's likely economic return, nearness to completion, foreign aid content and national strategic importance. Core projects were then given first claim to available staff and financial resources. Nearly half of the 613 projects analyzed were included in the core, which accounted for 84% of development funding in these five sectors. In addition to identifying high-priority projects, PB resulted in systematic redirections of resource allocation within the five sectors. For the 1988/89 budget, the social sectors (population and health, education) were included in the exercise; so too was an additional criterion of core selection--contribution to basic needs fulfillment. The application of this criterion gives some cause for concern, however, since the current budget embodies increased funding against basic needs programs on a scale that appears to overestimate

absorptive capacity and could lead to widespread piecemeal project implementation. Use of this new criterion will require careful examination prior to the FY89/90 budget, in light of experience during this budgetary year.

4.13 Integral to the success of PB work is the availability of relevant and reliable data on cost and performance; thus far these data have not been possible to access quickly in Nepal. The PB exercise has until now depended largely on secondary data from reports and statistical compilations. The project monitoring (PM) exercise is intended to improve upon this situation, and to enable the authorities to evaluate the speed and quality of project implementation. Under the PM exercise a project information center has been established and will soon be equipped with "on-line" monitoring and reporting systems to support the efforts of central government agencies, concerned line ministries, and the trouble-shooting committee of the Cabinet Secretariat. PM has thus far been applied to seventy-six priority projects and will in time expand to cover the entire development core.

Future Priorities

4.14 Incentives. Work done on position classification, merit-based promotion and on the inception of project monitoring may soon provide, for the first time, a sound basis for merit assessment. Provided that managers are prepared to operate the system in good faith, equitable promotion mechanisms can be established. Without adequate financial incentives, however, such improvements will have only a limited impact on staff motivation. The nature of HMG's dilemma here is well-known: salaries are insufficient at the individual level, yet in the aggregate the purchasing power of the overall wage bill cannot even be maintained at current inadequate levels without budgetary risk. Civil service salaries in India, for example, are between 70% and 250% higher at equivalent grade levels. This problem has been exacerbated by the growth in the civil service (expanding by 9% per annum between 1968-79 and by 3% up until 1986/87, and numbering over 88,000 today). Large increases clearly cannot be contemplated under current revenue and expenditure assumptions, unless they were largely offset by a reduction in civil service numbers: nor would it necessarily act as an incentive for better performance. A major retrenchment exercise is not generally considered feasible at the present, for political reasons. Neither is it clear whether it is justified: until the position classification system has been established, it will not be possible to estimate manpower requirements properly. Broad-based retrenchment questions would thus appear to be an Eighth Plan agenda issue. For the present, civil service intake should be strictly limited, and natural attrition should simultaneously be used to help engineer a more skills-intensive labor mix in the civil service. Pressure to recruit more civil servants will arise on account of the Basic Needs Program; it does not seem prudent to engage in further significant expansion, however, with real needs so uncertain and with incentives so inadequate. Future general salary actions will need to be tied to revenue enhancement, as in this year's budget. Because of the limited scope here, HMG should give higher priority introducing a stronger merit element into its salary structure, possibly to include the payment of non-cumulative periodic bonuses for outstanding performance; in addition, the service conditions of field

postings outside the city and town panchayats should be enhanced--with the introduction of a sizeable hardship allowance and the enhancement of travel and daily allowance rates. Should donor financing be available, more staff housing could be built in the vicinity of schools, rural service centers and health posts. Consideration should also be given to introducing a compulsory field rotation into the career of all gazetted staff (with the exception of those few cadres for whom field service is not appropriate); this would help to remove some of the stigma attached to working outside urban areas.

4.15 Planning and Resource Allocation. As the program budgeting/project monitoring system takes hold, it should be managed primarily by the line ministries and by the Planning Commission, freeing up MOF to give more attention to financial management and monitoring. NPC is the more logical overseer of investment priorities. Development budget allocations, particularly insofar as new projects are concerned, should be made with reference to overall Plan strategy, while physical and financial indicators should be monitored together; and NPC is best placed to carry out these types of integration. Training of line ministry planning cells in PBPM methods has already begun; UNDP technical assistance to support the further development of line ministry and NPC PBPM capabilities is proposed. Several aspects of the program budgeting system should be developed further during the remainder of the current Plan period. First, it will be important to give more systematic consideration to O&M and recurrent cost issues, a particularly pressing concern in light of the high recurrent cost implications of the Basic Needs Program. Second, inter-sectoral resource allocation and overall macro-fiscal balance concerns are not yet being addressed. One proposal worth considering to address these concerns is the introduction of a multi-year rolling budget system. Under such a system, each line ministry or agency would forecast its recurrent expenditures for the next two or three years, and would be required to build up a pipeline of future investment projects; the sum of these forecasts would amount to that ministry's total annual resource demand. Program budgeting techniques would be used to prioritize expenditures by sector and program and to compare these with expected resources availabilities. A third issue is the size of the core program. Here, an initial upper limit of 70% of development funding is suggested, in light of possible revenue shortfalls (which ranged between 14-30% of forecast between 1981/82 and 1985/86) and assuming a non-core requirement of about 15%, as in 1987/88. Turning to project monitoring, HMG needs to establish a sound system of physical monitoring, as well as to ensure the continued flow of accurate and up-to-date information from the projects to Kathmandu through the District Treasury Offices (DTOs). It is expected that district officials' interest in conducting timely project monitoring will increase as soon as top HMG officers have direct access to on-line PM data.

4.16 Bureaucratic Procedures. Fund release mechanisms are in urgent need of attention; development expenditures continue to undershoot development allocations by about 20% p.a., in significant measure due to this problem. The decision in this year's budget to fully pre-fund the first trimestral expenses of forty major projects is a welcome first step; In addition, though, it will be necessary to intensify efforts to train DTO accounts staff as well as the staff of the line agencies at the district level to simplify accounting procedures, in order to reduce the likelihood

both of unintended errors in project accounts and of intentional evasion of complex requirements; and to refine lengthy audit and reimbursement procedures. More continuous checking of accounts by DTOs will be required: at present this occurs only once a year (at the beginning of the third trimester). A UNDP-funded study has just begun to look into accounting and auditing issues, and its findings should be given high priority.

Conclusion

4.17 The measures enacted already or proposed will only pay off if the political will exists to ensure their impartial and thorough application. Any bureaucracy, particularly one with such long antecedents as Nepal's, will tend to resist changes that impinge on existing modes of influence and which disrupt established business methods. The Thapa Commission and many subsequent analysts have recommended the creation of a permanent high-level oversight mechanism to ensure that reforms are not only conceived and implemented in form, but are also carried through in spirit. The merits of this proposal deserve re-examination, particularly since so much well-intentioned and sensible foundation work has now been done, significantly improving the prospects for real change.

B. Decentralization

Background: The Decentralization Act and Rules

4.18 HMG has long recognized that effective grass-roots development in Nepal requires a strong measure of local participation and the cultivation of self-reliance: poor communications, limited central budgetary resources and a civil service operating under the constraints described in Section A above all place strict limits on the capacity of central government to cater to local needs. With the adoption of the Constitution in 1962 and the establishment of the Panchayat System,31/ local economic development became intimately linked with local electoral politics. HMG launched a number of initiatives in the 1960s and 1970s designed to draw the political bodies into development planning and execution, to focus and integrate line agency efforts at the district level, and to encourage local resource mobilization. A relatively muted political response and a mixture of sustained line ministry opposition, weak technical and administrative capacity on the part of the panchayat organizations and generally

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31/ The Panchayat System is based on the election of popular representatives by universal adult suffrage. Political parties are prohibited under this system. At the apex the National Assembly (the legislative body of the Kingdom) has 140 members, 28 of whom are nominated by the King, 112 of whom are elected to represent district constituencies. A separately-elected representative structure operates below the zonal level. On the lowest echelon, citizens vote for ward chairman (9 per village panchayat) and village/town chairman. These representatives constitute the basis of the District Assembly, which then elects from among its number an eleven-person executive body, the District Panchayat.

disappointing local revenue mobilization efforts led to a loss of momentum in each instance. Strong support for political decentralization, however, was expressed by His Majesty on Constitution Day in 1981, and resulted in the passage of the Decentralization Act in 1982 and the Decentralization Rules in 1984. The current attempt to decentralize is plagued by many of the same problems as previous attempts were; nonetheless, consistent Royal attention to the exercise has created a greater degree of commitment by HMG than hitherto; at the same time, the political process has evolved to a point where many more citizens are now willing to use the instruments of decentralization to express views on HMG's development efforts, and to insist that local concerns be taken due account of.

4.19 The 1982 Act and the subsequent procedures (the Rules), like previous decentralization initiatives, devolve considerable authority in planning and implementation to the elected bodies in the districts. The Act distinguishes, however, between district-level projects and projects which either cross district boundaries or which require central management (due to size, supra-local significance etc.). These "central projects" do not fall within the purview of the Decentralization Act. Central projects still account for three-quarters of public development allocations. At this stage, therefore, decentralization involves only a limited devolution of real authority to the districts. The Act prescribes an important technical support role (in planning, implementation and monitoring of sector activities) for HMG regional offices; there is also provision for the establishment in each ilaaka (or service area; there are nine per district) of an integrated rural service centre from which HMG will extend technical advice and material services to the Village Panchayats. Another important ingredient of the scheme is the role given to Local User Groups and User Committees in the planning, execution and maintenance of local projects (such as irrigation works, drinking water schemes or school construction). Village and District Panchayats are empowered under the Act to levy taxes and tolls for development purposes, including a Panchayat Development Land Tax (see para. 4.28 below). An obvious but important feature of the current decentralization effort is its legislative basis; previous attempts were only supported by executive order.

An Assessment of Decentralization

4.20 Today's decentralization program has generated a considerable body of analysis, much of which displays a rapid rush to judgement (both positive and negative). As an initial caveat, therefore, it must be pointed out that the Act and Rules have only been under implementation for three full fiscal years, and that no full evaluation of the experience has yet been conducted. It is possible, nonetheless, to discern progress. After initial confusion the basics of district-level annual planning appear to be well understood. Fifty-five of the 75 districts produced timely plans of an acceptable nature as inputs into the current budget, compared with a handful in the first year. There is much anecdotal evidence that in a number of districts (principally those in the Terai, also some of those in the Hills with good internal communications) constituencies have become more knowledgeable of their rights and more vociferous in their use of the District Assembly as a forum in which to critique questionable HMG performance; there are also many examples of the successful use of local planning and implementation procedures to mobilize effective participation

in the construction of roads, water systems and other rural infrastructure. Most impressive has been the progress made by the Town Panchayats over the past three years. Assisted by a UNDP project, HMG has provided technical assistance and training to strengthen the delivery of municipal services, the management of local finances and the generation of revenues in the 33 Town Panchayats (TPs). As a result, own-source revenues have been raised dramatically, while 16 towns are now running a positive current account balance (compared with only 3 in 1985); in addition, high quality town plans have been completed for most TPs. An important aspect of the successes achieved so far has been the highly competitive electoral environment in the Towns, and the relatively strong potential of their revenue base.

4.21 Equally, shortcomings both in the conception and in the execution of decentralization are evident. It was not intended that the devolution of financial authority should prove so limited. One problem is that the Act does not clarify the distinction between district-level and central projects sufficiently, thus enabling line agencies (and indeed donors) to circumvent the intentions of the Act by according "central" status to programs which in reality consist of small individual projects of a participatory nature (e.g. minor irrigation and local drinking water schemes). This reluctance to embrace decentralization proceeds not merely from parochial unwillingness to relinquish control over funds and programs, but also from genuine doubts about the capabilities and even the intentions of the elected bodies, whose own implementation record is less evident than their willingness to question line agency operations. Both donors and the Government are urged to resist temptations to circumvent the decentralization process.

4.22 Local resource mobilization remains an area of weakness. The most significant rural contribution to the national treasury is the Land Tax, which accounted for less than 3% of central tax revenue in 1986/87 (para. 2.07). As mentioned in para. 4.21 above, a quarter of all development funding is devoted to district-level projects and is controlled by the District Assemblies. Of this, fully 75% is financed by central government grant, with 15% coming through Land Tax remittances and only another 10% from district own-source revenue, both tax and non-tax. According to a 1987 study,32/ own-source revenues of a sample of nine districts in 1985/86 amounted to only Rs 0.8 per capita - and had increased in nominal terms in only two of the nine districts between 1982 and 1986. Identified problems included the narrow tax base, stringent statutory restrictions on taxable items and on rates, poor collection efforts and weak record keeping, and significant tax evasion. There is no provision, moreover, which ties the size of the central government grant to local resource mobilization performance. Labor contributions, however, are significant, ranging from twice the value of local monetary resource mobilization in the Terai, to well over 50 times in certain poor Hill districts. Nonetheless, the high degree of local budgetary dependency is clearly unhealthy and reinforces perceptions created by a planning process

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32/ "Financing Rural Local Panchayats in Nepal", L. Schroedor and G. Wozny, USAID Local Revenue Administration Project, Syracuse University, 1987.

which is still strongly centralized, that development projects are "HMG projects" and should be constructed and maintained by HMG. With so little funding provided locally, moreover, it is not surprising that line agencies doubt local commitment and are thereby further encouraged to pursue their own centrally-determined priorities.

4.23 The Act prescribes a planning process which is elaborate and arguably over-ambitious. While district-level planning activity is progressing toward respectability, the same cannot be said for village-level efforts. Village Panchayat plans are little more than wish lists and tend to far exceed budget ceilings; this creates pressures at the district level, which thus far lacks strong planning skills and tends to deal with inflated proposals by dividing available resources on a pro-rata basis between Village Panchayats--leading to underfunding, delay and high rates of incompletion. A more potent tool of participatory decision-making at the grass-roots level than any formal planning approach is the User Group and User Committee provision of the Act, which legally empowers groups of users to oversee projects directly affecting group members. The user group concept attempts to capitalize on traditions of local self-help, and numerous groups have been set up in the last three years to oversee activities in various fields (e.g. drinking water forestry, irrigation). The concept has two drawbacks at present, however: first, the stipulation that User Group chairman must be elected panchayat officials (who need not be users themselves), which has led at times to the imposition of external priorities or to forms of political dominance; second, the Rules require the group to channel maintenance charges and certain revenues due them through the District Treasury Office; due to delays by HMG or even failure to remit these funds, collection has suffered and the revenue base of many groups has eroded.

4.24 Several ministries have established regional offices, but it has so far proven difficult to staff them effectively. The regional office concept is somewhat controversial, moreover. The Region (of which there are 5) is an administrative and not a political entity; thus the regional office does not operate in a political context. Currently some ministries are expressing a preference for embodying line functions at the regional level, arguing that at this stage an administrative tier is needed between the center and the 75 districts. Others in HMG wish to restrict the regional role to that of technical support and training, as originally foreseen, and to avoid a development that could both increase bureaucratic layering while pre-empting the devolution of decision-making for the district-level political bodies. Service centres (SCs) at the ilaaka level do not provoke the same degree of discussion, and are explicitly endorsed in the Basic Needs Program and in the FY88/89 budget speech. Thus far, progress in establishing SCs has mainly been confined to areas where donors are funding rural development and to selected HMG departments which have established ilaaka offices (e.g., Agriculture, Livestock). In principle, the idea is sound; nonetheless, it requires more thought. There is some evidence of duplication in responsibilities, excessive construction costs and acute staffing problems.

Future Directions

4.25 The teething problems described above should not be taken as evidence that decentralization has failed: many can be overcome, given time and willpower. Devolution of authority to local bodies must be an incremental process, given the weak technical and managerial capacities of local bodies. Several aspects of the decentralization program will require HMG attention in the near future in order to consolidate progress made thus far. Some of these impinge on project implementation as a whole and have already been discussed in Section A (e.g., budget release mechanisms). Others are discussed below.

4.26 The success of decentralization will depend to a considerable extent on the calibre of staff operating at district level, and on an appropriate set of responsibilities being assigned them. As described in Section A, HMG is considering creating more senior staff positions at the district level, and posting a greater proportion of the cadre outside the cities--a devolutionary move that should help upgrade district capacity. Most importantly, District and Village Panchayat staff need to be upgraded if local bodies are to assume greater responsibilities. At present, panchayat service is based on political relationships and lacks any permanence. HMG is considering introducing a merit-based pensionable career system for local civil servants in order to professionalize local government. This could have a strong beneficial impact, if combined with more intense on-site training in basic administrative techniques.

4.27 Another important agenda item is to strengthen the local revenue base. This should involve a full review of existing and potential local tax instruments, with due consideration given to the cost and feasibility of implementation and to equity issues; as an immediate measure, however, existing local tax rates could be revised to take some account of recent inflation. It is proposed in this year's budget speech that the Panchayat Development Land Tax (PDLT) be activated once again. As argued in para. 2.53, this tax has the potential for raising significant revenues to be retained largely at the local level, and its introduction is to be encouraged. Past experience indicates a greater commitment by village panchayat authorities to efficient collection, and also to an increased willingness to pay local taxes when a direct relationship is established between collection and subsequent use of the receipts within the community. A similar argument would appear to apply in relation to revenue collection. The recent provision under the Structural Adjustment Program enabling community forest user groups to retain 100% of forest revenues earned from their area of jurisdiction should improve collection rates; and similar arrangements should be considered in relation to irrigation, such that maintenance receipts are retained by the user group at source.

4.28 The local planning process clearly requires support, including training and advice on appropriate methods of data collection and analysis. This will involve strengthening the technical capability of the regional offices of the Planning Commission, MPLD and the line agencies, all of which have an important role to play in backstopping the district-level planning process. At this stage, planning support should be directed on primarily to the District Panchayat and DP Secretariat rather than to the Village Panchayats. Better project prioritization at the Village Panchayat

level will, however, need to be encouraged. Better program review procedures at the District Assembly level are also needed; the current annual presentation of line agency programs and budgets is inadequate, and a trimesterly reporting system should be considered. As mentioned in para. 4.25 above, the key to generating momentum for decentralization at the village level lies less with the formal planning process than it does with encouraging the growth of properly empowered User Groups. With this in view, HMG should consider opening up the chairmanship of these groups to any member elected by his/her peers, and should consider enabling all such groups to retain at source at least a portion of the money raised under their supervision.

4.29 It seems important that an early and consistent clarification of the role of regional offices be achieved. It would appear that the prudent general rule would be to concentrate line functions at the district and not the region: a principle underlying the Decentralization Act is that Government development activity and processes should be subject to inspection by local elected bodies, of which there are none at the regional level. Doubts as to the universal applicability of the ilaaka-level Service Center concept have been expressed. The case for provision of services relates partly to local private sector potential. The Basic Needs strategy places great stress on rural entrepreneurship, and it will be important to ensure that HMG does not supplant or preempt the rural private sector, on the basis of monopoly or subsidy, in respect of goods and services which villagers are willing to trade (e.g., fertilizer, improved seed, veterinary medicine, breed stock, pharmaceuticals).

4.30 Some concern has been expressed by donors that the Basic Needs Program may set back the decentralization process. This fear arises from the target-oriented nature of BNP, and the evidence that BNP targets are being interpreted by line ministries as a literal mandate rather than a set of guidelines--thus diminishing the influence of local priorities in determining strategies and resource allocation patterns. Some donors even perceive that decentralization has been abandoned as an HMG priority. This is not the case; to the extent that BNP is reinforcing line agency centralist tendencies, this is an unintended consequence of adhering to a particular approach to planning. BNP activities with very few exceptions fall into the district-level project category and it is clear to HMG policymakers that the success of BNP depends on a dramatic increase in public commitment to the development effort. It is recommended, however, that HMG give serious thought to issuing a clarification to line agencies, emphasizing the interdependent nature of the two initiatives.

4.31 HMG and UNDP are currently discussing a technical assistance program in support of decentralization, consisting of two projects; the first would support the decentralized planning process, while the second would address local resource mobilization and development management issues. Apart from these initiatives, donors will continue to be an important factor in decentralization as major supporters both of integrated rural development projects and of line agency field programs. Evidence from the IRDPs suggests that donors can make or break decentralization in an IRDP area, depending upon whether they support and work through the district political structures or not. In light of HMG's commendable commitment to decentralization, donors should consider

carefully the wisdom of project arrangements which bypass the district-level planning and implementation process, even if they are conducive to short-term efficiency and productivity gains. This is not a simple issue in the IRDP context: six of the seven active IRDPs originated prior to the Decentralization Act: they have a multi-district focus, which led to the creation of special Project Coordinating Offices to deal with inter-district and inter-agency liaison. PCOs are not recognized under the Decentralization Act and are not easily compatible with HMG's current administrative structure. Serious thought needs to be given to the role of these PCOs and to the structural rationale of the IRDPs; and the possibility of realigning IRDP planning, budgetary management and implementation arrangements to give them a clear district focus should be actively explored.

C. Non-Governmental Organizations

4.32 The Basic Needs document acknowledges that NGOs have an important role to play in the delivery of economic opportunities and social services. This role needs further definition, however. At present, the NGO sector is at an embroynic stage in Nepal, when compared with neighbouring countries. In two particular areas, nonetheless, NGOs have shown considerable potential for extending or strengthening HMG activity; the first is in rural service delivery, particularly in the health sector; and the second is in poverty alleviation work. While generalization should be made with caution, given the immense diversity of private non-profit organizations operating in Nepal, NGOs have some readily apparent strengths. In relation to service delivery, the small size and manageability of NGOs, and their freedom from bureaucratic process and delay often result in committed and effective field-level operations, albeit on a somewhat restricted scale - particularly if, as in most international NGOs (INGOs), salaries are better than HMG salaries and performance-related rewards and sanctions are common. With respect to poverty alleviation work, NGOs are often better placed than line agencies to respond to the types of deprivation commonly found in Nepal, where the poorest groups participate only peripherally in the mainstream economy, generally as daily labor, and are often excluded from the political process by illiteracy, reticence and physical isolation. Any strategy which reaches out to this segment of the population is likely to require intensive micro-level intervention of a committed and sustained nature. Many of Nepal's small NGOs are the spontaneous creation of local communities, enabling them to understand local realities and to mobilize local support more easily than line agencies can.

A Profile of NGOs in Nepal

4.33 No complete inventory of Nepal's NGOs has been taken. A partial indication of the scope of NGO activity in the social and economic development field is provided by the register of the Social Services National Coordinating Council (SSNCC), the national apex body under whose umbrella most large and medium-sized local and international NGOs are obliged to fall. Some 140 local and 30 international NGOs are registered with SSNCC. In addition, countless small local groups exist which do not belong to this network. No reliable data are available on the quantity of funds channeled through NGOs or on the contribution of NGO-related output to the economy; SSNCC's budget for 1986/87 of approximately US$10 million

excludes considerable amounts of local finance provided direct to the NGOs or mobilized at source.

4.34 National and Local NGOs. The health sector depends heavily for specialized service delivery on several large Kathmandu-based national NGOs which enjoy Royal patronage. These include the Family Planning Association of Nepal (FPAN), and the Nepal TB and Leprosy Relief Associations. FPAN, for example, is supported by an array of donors, has over 500 staff and an annual budget of about US$2.5 million, and provides a full range of family planning services in 24 districts; it also performs approximately one-third of all sterilizations carried out in the country. The delivery of services by the national NGOs is generally of high quality. As they have grown, however, these organizations have begun to display signs of bureaucratic ageing, including over-centralized decision-making and ineffective field supervision. Lacking a local orientation, they often have trouble reaching the poorest groups and operating in the more remote areas. To redress these problems, many of these larger NGOs are seeking professional management advice and are moving to enhance their effectiveness through non-project work - in particular, by collaborating with and strengthening small NGOs with strong local connections. This is a desirable evolution, and suggests that national NGOs will need assistance from donors in strategy formulation and with program financing, in addition to traditional forms of project support.

4.35 The network of medium (often regional) and small-sized NGOs is extensive. At the local level, bodies include long-established (sometimes religiously-based) social service and community development groups, labor-sharing associations, youth clubs, women's cooperatives and farmer societies. Many are run entirely by volunteers. Most medium and small NGOs are still at an early stage of development, and need help in defining a clear role for themselves, as well as technical assistance in project planning, bookkeeping and administration. Recognizing this, SSNCC is launching a major training program at district level to assist in these areas. SSNCC also hopes that this program will stimulate contact and the exchange of experience among local NGOs; as yet, little networking takes place and there is little sense of an NGO community or culture in Nepal.

4.36 International NGOs. Most of the INGOs in Nepal are social-service or development oriented, and are directly involved in project implementation--with activities ranging from the provision of specialized medical services (e.g. Hellen Keller International, which helps rehabilitate the blind), to work in a specific sector (e.g., International Planned Parenthood Federation in family planning) to inter-disciplinary programs (e.g.the multi-sectoral rural development work of CARE, Action Aid and Save the Children Fund (USA)). Several INGOs are of considerable size: the United Mission, active in the medical field since 1954, has a staff of about 350 expatriates and 1,500 Nepalese and an annual budget (1986/87) of over US$3 million. About a dozen of the INGOs in Nepal provide technical support and/or funding to national and local NGOs; these include World Neighbors, the Lutheran World Service and PACT. INGOs tend to be well managed and adequately equipped to carry out their programs, and have undertaken much innovative work of a pilot nature. On the other hand, self-standing INGO program interventions tend to be resource-intensive, with local staff salaries too high to permit replication on a wide scale,

or to guarantee institutional permanence should INGO involvement cease. At times INGOs are subject to pressures from international headquarters to demonstrate quick results (in order to satisfy their own donors); this can result in the organization taking short cuts, such as bypassing imperfect community organizations rather than attempting to strengthen them. Those INGOs which have elected to work through HMG or national and local NGOs have been more successful at building programs which are sustainable; examples include the work of World Education, which has helped develop MOE's adult literacy program at a central level, and of PACT, which is working to strengthen the administrative and technical support capacities of SSNCC, and thereby to develop a structure of assistance for national and local NGOs. Opting for a catalytic role obviously diminishes an NGO's influence over program implementation; but it lessens the risk that the impact of their work will be highly restricted in location, or lost in time.

4.37 The Social Services National Coordinating Council and HMG Policies. SSNCC was established in 1977 under the chairmanship of Her Majesty the Queen. It serves both as a regulatory body (to register NGOs, to coordinate their activities and to prevent duplication of efforts) and as an NGO support agency. Most foreign funds for the NGO sector are channeled through SSNCC. The Council does not involve itself in day-to-day NGO operations, but reviews programs and budgets annually and, in the case of NGOs, negotiates renewals of their framework agreements. Recently, with help from donors and INGOs, SSNCC has begun to concentrate more on extending technical and financial support to local NGOs, and to assist HMG in evolving a coherent strategy for the NGO sector. There is some concern, however, that SSNCC's bureaucratic requirements do not yet work in favor of regional or local NGOs. Registration procedures are complex and involve a clearance process that may take well over a year (and unless an NGO is registered with SSNCC it is not eligible to receive external funds); proposal preparation and accounting rules are difficult for many small NGOs to comply with. There is also some potential for conflict between the regulatory and the development functions of SSNCC. It is of course legitimate that HMG, through SSNCC, should keep closely informed as to the intent and nature of spontaneous group formation; but it is also important that SSNCC avoid developing an apparatus that stifles initiative and independence.

4.38 HMG policies toward NGOs are still evolving. The Basic Needs initiative has led to the formation of a high-level committee on NGOs, chaired by a member of the Planning Commission. Official thinking at this juncture appears to favor channeling INGO activity into support of national and local NGOs, in contrast to traditional direct project implementation. Consistent with this broad direction, HMG already limits the area of operations of INGOs and has moved to restrict numbers of expatriate staff in new programs and to ask for explicit phase-down timetables. These are sensible policies provided that they are applied with due consideration of individual circumstances and in consonance with the growth in local institutional capacities. With respect to Nepalese NGOs, SSNCC policy emphasizes an appropriate degree of professionalization and encourages self-financing and cost containment for sustainability purposes.

Recommendations

4.39 HMG has begun to appreciate the potential of the NGO sector, particularly of the regional and local NGOs. The latent energy of the sector can be developed by a strategy which provides technical and managerial support, facilitates the growth of information-sharing and mutual assistance at the local NGO level and injects judicious quantities of funds. SSNCC will remain the key institution in this process, which national NGOs and INGOs should be encouraged to support. INGOs should be responsive to concerns about the use of expatriates and about costly overheads. INGOs would do well to concentrate their direct project implementation on a few key pilot activities, and to focus their energy on supporting HMG or panchayat activities and on providing catalytic support to Nepalese NGOs. To this point, donor support for the indigenous NGO sector has been sporadic, and has normally been channeled through INGO intermediaries in a specific project context. Consideration should be given to providing modest sums of program assistance to the sector. These funds should be routed through SSNCC in the form of block grants, to be passed on both to national NGOs (particularly to enable them to assist smaller grassroots-level NGOs) and directly to local NGOs.

Chapter V: BASIC NEEDS, GROWTH PROSPECTS AND EXTERNAL FINANCING

A. The Basic Needs Program: An Overview

Objectives and Approach

5.01 There is much to commend in BNP. Not only is Nepal unquestionably poor--it is the inability of the economy to generate income that has permitted population pressure to become so destructive, depleting human capital and mining the natural resource base. BNP is the country's first full-fledged poverty alleviation program; it elevates the issue to the importance it deserves over a time-frame more appropriate to the nature of the problem than the conventional five-year planning horizon; BNP also provides a tighter thematic focus than the more comprehensive five-year plans can embody.

5.02 Moreover, the program is on the whole sound in its approach. It recognizes that increasing the incomes of the poor is the only sustainable route to poverty alleviation; it avoids the trap of attacking poverty by income transfers, while on the other hand understanding that overall growth alone will not suffice for the poor and the disadvantaged. BNP also recognizes that growth must be driven largely by a private sector which is permitted free rein to respond to market signals; and the private sector's role is actively and specifically endorsed. The temptation to create new government economic entities in order to force the pace of growth is wisely avoided -- and, BNP states HMG that will privatize certain of the more inefficient parastatals. Furthermore, in recognition of the limited capacity of HMG to deliver goods and services, the program assigns specific roles to local government, community user groups and NGOs.

5.03 Since most Nepalese are poor and almost all of the poor are found in agriculture, BNP rightly devotes its main energy to the complexities of raising agricultural productivity: fully two-thirds of prospective BNP investment is programmed for the sector. Here the designers of BNP faced a quandry. As the core document states, the very poorest are concentrated in the Hills and Mountains, often on steep and infertile rainfed soils and with little or no access to advice, credit or inputs. As indicated earlier (Section II.A), there are few technologies currently available for extension to this group; fertilizer is for the most part uneconomic in these conditions, and service provision is very costly. Rather than being drawn by the plight of these people to propose a massive on-site poverty alleviation campaign of uncertain prospects with large elements of explicit or implicit subsidy, BNP instead stresses the development of the more fertile farmland through the intensified use of production inputs. Although this emphasis on further development of the richer areas appears to be an anomaly at the heart of BNP, in reality, BNP's designers have taken the only sustainable option under known technological and economic conditions. For many of the country's rural poor there is little sanctuary on the farm under conditions of successive subdivision and marginal land colonization--off-farm employment thus represents the only prospect of income enhancement for many.

5.04 While the thrust of the BNP strategy is on targeting areas with the highest potential for growth, which tend to be the irrigated areas with better infrastructure, there are a number of Government initiatives that are targeted directly on the poor (see Section I.B). Targeted credit programs such as the SFDP and PCRW are to be expanded three-fold over the next 5-7 years; although these programs are well-managed and succeed in reaching the poor, if not the very poorest, the proposed expansion is probably the most that can be achieved without jeopardizing the programs solvency. Increased targets under the Intensive Banking Program and the newly introduced Lead Bank Scheme are two other efforts at targeting credit; as argued earlier (Section III.B) however, these programs place a tremendous financial strain on banks. Another attempt at targeting the poor is through the establishment of special Sajhas. However, the failure of the similar "Small Farmer Sajhas" project in the early 1980s suggests that this will be an inefficient way of helping the poor. Both the SFDP and PCRW have deliberately bypassed the Sajhas by using Group Organizers, and the expansion of cooperative activities would be better served through these programs. While justifiable, Government attempts for tree tenure schemes to benefit the landless would need to be supported by technical assistance and training, and be in areas where the ecology makes planting economically sustainable. A continuation of the food distribution program and transport subsidies on AIC's activities in the Hills are two examples of the Government's commitment to direct resources to the poor. Thus, while the Government is making concerted efforts to target the poor, the interventions, by necessity, are limited in scope, and improvements in the incomes of most of the poor in the Hills and Mountains can only come as more and more of them emigrate to other faster growing areas, thereby reducing the pressure on Hill agriculture.

5.05 The Government's forceful advocacy of BNP has also been remarkable, fostering a high level of awareness throughout the government and society as a whole, and resulting in an intense and productive period of sector planning from the middle of 1987 onwards. The challenge will now be to translate these strong beginnings into a sustained program of effective interventions. In order to facilitate this, it will be important that HMG give further thought to a number of planning, budgetary and implementation issues inherent in the design of the program. These are described below.

Planning, Implementation and Financing.

5.06 As seen in the sectoral sections, planning under the BNP is based on the premise that the way to get basic needs goods to the poor is by producing them domestically. Needs are calculated in a static framework using accepted nutritional and social indicators. Then, based on fixed input-output coefficients, the physical inputs and, consequently, investment needs are calculated. These are then allocated to the district level. Such an approach neglects some important considerations.

5.07 Given the open border with India and limited ability of the poor to buy goods, self-sufficiency in production is neither necessary nor sufficient to meet basic needs. Even if the goods are produced domestically they will be exported or smuggled to India if there is not enough purchasing power domestically. Similarly, in some cases, the poor

could buy the goods more cheaply from India; producing them domestically, if it results in higher prices, would make the goods less accessible to the poor. What has been correctly identified by the Government is the need to raise incomes and employment; self-sufficiency in certain goods is not likely to be the best way to do so. For example, it is unclear whether Nepal should aim at self-sufficiency in low quality textiles. It may be more profitable (and hence capable of generating higher incomes and employment) to produce higher value cloth or garments, which could be traded for the basic needs goods.

5.08 The self-sufficiency goal and fixed input-output coefficients leads to physical and financial input targets that may bear little relation to demand or the ability to implement or finance the proposed investment targets. As indicated in Chapter II, a number of BN programs are highly ambitious in quantitative terms when viewed against recent past achievements - for example, the programs of irrigation expansion and sub-health post establishment. Ambitious targets are unlikely to help BNP. What may well occur, after initial enthusiasm, is that the high-profile BNP monitoring process begins in two or three years to indicate substantial shortfalls from target; in the first instance, increasing pressure is likely to be brought to bear on line agencies to deliver outputs that will escalate further and further from the attainable as the year 2000 approaches. This, in its turn, would heighten the possibility of managerial and budgetary neglect of important non-BNP programs, and could dissipate the potential impact of the program budgeting process and of other resource allocation mechanisms. It could also strengthen the inclinations of line ministries to claim various types of exemptions from the somewhat time-consuming complex decentralization process, in pursuit of fast results. Eventually a situation might arise in which quantitative shortfalls seriously discredit the BNP in the eyes of the public, to the point where success itself is obscured by the failure to achieve some original target. Furthermore, the top-down approach may lead to lack of commitment from implementors at the field level and a greater tendency to fabricate data.

5.09 A more useful approach to the BNP would be to consider what have been the constraints to achieving the basic needs goals and devising policies, making investments, or strengthening institutions in order to address the constraints. The actual mix and level of production would be best left to the market. The macroeconomic, sectoral and institutional measures recommended in earlier chapters follows such an approach. While many of the policies envisaged under the BNP are in line with the recommendations in such an approach, in some cases, the recommended approach would lead to greater flexibility in interpreting targets and focusing more heavily on getting the institutional and policy framework right before embarking on an ambitious investment program. Analysis in this report shows that economic returns, in terms of raising productivity and incomes, of a strategy that focuses on consolidating and increasing intensity or quality are likely to be higher than those associated with a rapid expansion of investments or services.

5.10 Implementation. BNP clearly acknowledges that weak implementation of the development program is a major and persistent problem in Nepal. Nonetheless, the BNP document does not come to grips with the reasons for

poor implementation performance; and it neither proposes specific reforms to address the institutional shortcomings that underlie poor implementation (Section IV.A), nor tailors the scale of the sectoral programs to an appreciation of likely implementation capacity.

5.11 This is not to say that HMG has ignored the implementation issue: as Chapter IV indicates, considerable energy has been devoted to improving civil service performance and to encouraging the growth of non-government participation in economic and social service delivery. Nonetheless, a specific concentration of effort on the improvement of key BNP outreach services is required as perhaps the major BNP action priority. The most important of these services are the community/private sector irrigation program of the Department of Irrigation; the agricultural research and extension programs of the Department of Agriculture; the primary health care programs of the Division of Public Health; and the primary education programs of the Department of Primary Education. Chapter II has reviewed service delivery problems in each instance, and has made specific recommendations for their resolution.

5.12 As Chapter II has stressed, however, in each of its sectoral analyses, any ambitious expansion of the development program needs to be preceded by a period of consolidation, in which the current constraints to institutional efficiency are resolved. There is no viable alternative to this: the quantitative outputs proposed under BNP (crop yields, school enrollments, health status, etc.) can only be achieved if a higher quality of program input is fielded first; experience in all sectors indicates that the quality of development programs has tended to suffer in periods of rapid service expansion, and that in the absence of adequate quality, stagnant agricultural yields, declining rates of school enrollment growth, and inadequate progress in the dissemination of temporary family planning methods have resulted. HMG, in its Seventh Plan documents and in the SAP, has clearly recognized the prime importance of strengthening the policy and institutional framework of development as a precursor to major incremental investment. Consistency with this strategy argues for a flexible interpretation of BNP's output and input targets, and an initial focus on establishing the groundwork for future expansion.

5.13 The BNP envisages a growth in public investment (Table I.C.1) that is significantly higher than in the Seventh Plan. This has been reflected in the 1988/89 budget where the development budget shows a 51% increase over estimated actuals for 1987/88; over the 1987/88 budget allocation, however, the increase is a more modest 31% -- the difference reflects problems in implementation. The investments are to be financed mainly through increased foreign financing whose share of development expenditures is projected to rise from an average of just under 50% in recent years to an average of 70% over the BNP period. At the same time domestic resource mobilization is also projected to improve. While such levels of investment and financing are likely to be difficult to obtain, especially in the next few years, this is not likely to be an issue at this stage. This is because implementation constraints, coupled with a strategy of consolidating past investments and strengthening the policy and institutional framework, would lead to significantly lower investment levels--ones that could be feasibly financed from projected foreign disbursements and resource mobilization.

B. The Macroeconomic Framework

5.14 If the Government continues with its structural adjustment measures discussed in earlier chapters, Nepal's GDP could realistically grow at an average growth rate of 4-5% over the next few years. This would require agricultural growth averaging 3-4%; such an achievement would depend on improved availability of input supplies and better irrigation. Within non-agriculture, manufacturing, whose share of GDP has remained constant since 1974/75, is likely to benefit from the industrial and import license liberalization being carried out. Carpet and garment exports show signs of continued strong growth and the domestic textile industry is expected to benefit from the new tax incentives under the BNP. Construction activity also should continue to grow rapidly as the share of investment to GDP continues to rise as a result of both increased private and public investment.

5.15 The increased private investment is assumed to be a response to the more favorable and stable economic environment and a move away from rent-seeking trading activities while public investment is projected to rise as a result of increased investments under the BNP and in the large Arun-3 power project and ancillary investments. Private investment is expected to increase from 10.5% of GDP during 1984/85-1987/88 to 12.4% of GDP by 1991/92 (Table V.B.1). 33/ To accommodate the increase in investment from its average of slightly more than 19% of GDP during 1984/85-1986/87 to almost 22% of GDP by 1991/92, national savings must increase from its average of 12.4% of GDP during 1984/85-1987/88 to 14.8% of GDP by 1991/92 since it is difficult to rely on foreign savings to finance more than 7% of GDP on average on a sustained basis.34/ The growth in national savings would come mainly from increased public savings to finance the increased public investment effort.

5.16 Fiscal policy needs to emphasize improving the quality of Government expenditures more than the levels. This means channeling resources to the higher priority programs, scaling back wasteful expenditures in the process, and improving its poverty impact. At the same time actions are needed to instill financial discipline and strengthen the revenue system. At the aggregate level this implies containing the domestic financing of the fiscal deficit to below 1.5% of GDP,

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33/ During 1987/88 and 1988/89, investment is estimated to be somewhat higher than the trend because of the purchase of a jet aircraft in each of the years.

34/ The Seventh Plan envisaged an investment level equivalent to 20.3% of GNP. With the higher investments proposed in the BNP, an investment level of 20.7% of GDP in 1989/90 is a conservative but realistic figure given the implementational constraints described earlier.

Table V.B.1
Key Economic Indicators and Projections 1/
(Percent)

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
GDP growth 2/	3.0	3.9	2.4	7.1	4.4	4.5	4.6
GDP per capita growth 2/	0.3	1.4	0.0	4.7	2.0	2.1	2.2
Consumption per capita growth 2/	-1.3	-1.6	-2.3	2.0	1.7	1.6	2.9
Gross domestic investment/GDP	19.5	19.3	19.4	20.8	22.1	21.0	21.2
Domestic savings/GDP	10.7	10.7	10.5	10.9	11.2	11.8	12.1
National savings/GDP	12.3	11.9	12.2	13.2	13.5	14.1	14.4
Marginal national savings rate	27.7	9.7	14.4	117.8	16.1	19.0	17.5
Public investment/GDP	8.0	7.8	7.9	9.3	10.2	8.8	8.6
Public savings/GDP	0.0	0.5	2.8	2.2	2.1	2.5	2.9
Private investment/GDP	10.4	10.6	10.6	10.5	11.2	11.6	12.0
Private savings/GDP	12.3	11.4	9.5	11.0	11.4	11.6	11.6
Ratio of public/private investment	0.77	0.74	0.74	0.89	0.91	0.76	0.72
Government revenues/GDP	8.7	8.7	11.9	10.5	11.5	11.7	12.1
Government expenditures/GDP 4/	18.4	18.0	18.8	18.9	21.0	20.5	20.6
Government budget balance/GDP 5/	-9.7	-9.3	-6.9	-8.4	-9.5	-8.8	-8.5
Export value growth	38.7	1.4	-11.0	36.4	14.4	12.1	12.9
Exports/GDP	6.2	6.0	5.1	6.1	6.6	6.8	6.9
Import value growth	2.4	8.8	6.8	13.9	13.6	8.6	9.8
Imports/GDP	17.6	18.1	18.6	20.3	21.4	19.8	19.6
Current account (in US$ mns.)	-182.6	-197.5	-200.1	-239.2	-288.5	-255.4	-274.5
Current account/GDP 5/	-7.2	-7.4	-7.1	-7.6	-8.6	-7.0	-6.8
Debt service (in US$ mn.)	16.5	25.8	28.2	42.3	97.7	65.9	68.8
Debt service ratio 3/	4.7	6.8	6.8	8.2	17.2	10.6	10.1
Debt service/GDP	0.7	1.0	1.0	1.4	3.0	1.8	1.7

1/ Includes the purchase of a jet aircraft equivalent to 1.8% of GDP during 1987/88 and 1988/89. This accounts for the higher investment and and import figures in these years.

2/ At constant prices.

3/ As a percent of exports of goods and services and private transfers.

4/ Including net lendings.

5/ Excluding grants.

Source: World Bank staff estimates.

thereby allowing adequate financial resources to flow to the private sector. To limit domestic financing of the budget to prudent levels while increasing public savings to finance the increased investment efforts, public revenues would need to increase annually by about 0.4% of GDP (or somewhat less than has been the case in recent years) in the medium-term. Given projections on fiscal expenditures, this scenario would be consistent with a fiscal deficit (before grants) of 8-9% of GDP over the medium-term.35/ Continued financial discipline on the part of the Government is needed to increase private sector confidence to invest in economic activity. At the same time in order to improve financial discipline in the private sector while strengthening institutions and allocating credit more efficiently, the Government needs to improve Central Bank supervision and regulations, slow down on its policies of directed credits and forced branching, rationalize interest rate policies and reform the large financial institutions. In addition, to ensure more productive public investments the Government needs to continue its efforts on program budgeting and monitoring as well as improve budget release procedures (see Section IV.A).

5.17 Monetary policy needs to be conducted consistent with the macroeconomic objectives of the program. Domestic credit policy should continue to be oriented toward limiting recourse to bank borrowing by the Government and non-financial public enterprises so as to provide adequate financial reserves for productive private sector activities, while safeguarding the external position. A limit on bank borrowing of below 1% of GDP is probably appropriate and feasible if the Government were to take complementary measures to encourage non-bank financing of the budget deficit.

5.18 Equally important as having a stable macroeconomic environment and improved sectoral policies is the need for institutional reforms described earlier (Chapter IV). Of paramount importance is personnel policy and an improvement in the public sector incentive regime. As argued previously, budgetary constraints and efficiency considerations both dictate an approach which emphasizes selective rewards for superior performance rather than major across-the-board salary adjustments. In addition, the steps taken to reform development administration need to be reinforced with the further development of program budgeting and project monitoring, and attention to the flow of treasury funds to projects. HMG's intentions of devolving more authority to the district level are to be encouraged; to complement this, local government authorities and capacities will need further strengthening.

35/ Given the unusual degree of uncertainty regarding the implementation of BNP expenditures, Government expenditures and the fiscal deficit over the medium-term are projected to be well below amounts envisaged in the BNP. To the extent that development expenditures are higher, external financing through disbursements from project-related commitments are likely to increase; however, in such a case, domestic financing requirements are also likely to be greater. Expenditures and the fiscal deficit for 1988/89 are projected to be higher partly as a result of earthquake-related expenditures.

5.19 Under this scenario, there will be no major changes in the balance of payments situation. Exports are projected to grow strongly at between 12-15% in current dollars (Table V.B.1). This is mainly because carpets and ready-made garments exports, which accounted for over half of merchandise exports in 1987/88, are expected to grow at about 20 and 10% respectively. These growth rates are realistic given continued strong demand for the goods and import liberalization which has allowed easier access to imported inputs. Tourism receipts, which are as important as merchandise export receipts in Nepal, are estimated to exhibit steady growth of 7 to 9% as a result of strengthened promotion and marketing measures, improved access through the purchase of two new commercial aircraft and the development of new areas for mountaineering and trekking. Because of the comfortable reserve position and good export prospects, the Government is considering pre-paying during 1988/89 one of its aircraft loans that was contracted on commercial terms. Imports, excluding the aircrafts, are projected to grow at 8 to 14 percent, slightly more than economic activity. This assumes that aid disbursements, and hence aid-related imports, improve following improved budget release procedures, and that other imports grow somewhat faster than economic activity as a result of import liberalization. Despite the faster growth of exports, the current account deficit, after a spurt in 1988/89 caused by the aircraft purchase, is projected to stay under 7% of GDP, an amount that is likely to be sustained by external capital inflows. In dollar terms, this would imply an increase in the current account deficit from $239 million in 1987/88 to $277 million in 1990/91 (Table V.C.2).36/

C. The Role of Foreign Aid

Review of External Assistance

5.20 Nepal's development plans have been heavily dependent on foreign aid. Although reliance on foreign aid has fallen from the First Plan (1956/57-1960/61) when 100% of development expenditures were foreign financed, it is still sizeable, averaging 48% of development expenditures since 1975/76.37/ Over this period, disbursements have grown at 19% annually in current prices and 10% annually in constant prices. Since 1975/76, aid flows have averaged 5.7% of GDP, about twice as high as during the Fourth Plan period (1971/72-1975/76). To provide a forum for better

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36/ As this report goes to press, significant revisions to the balance of payments for 1987/88 are being made which suggest a larger current account deficit with much of the financing for the deficit showing up in errors and omissions. Unless the high level of errors and omissions can be maintained, this suggests that there may be a case for higher foreign capital inflows in the future.

37/ This is an understatement; many disbursements appear not to get recorded in government official statistics, leading to discrepancies between data on aid flows between the balance of payments, fiscal, and national accounts; these, in turn, do not agree with donor records. While improvements have been made recently, more needs to be done.

coordination of the growing levels of assistance, an Aid Group was formed in 1976, comprising Austria, Canada, France, Federal Republic of Germany, Japan, Switzerland, United Kingdom, United States, ADB, IDA, IMF and UNDP. Since 1974/75, these members have accounted for about 90% of foreign aid commitments to Nepal (Statistical Appendix, Table 3.8).

5.21 Most of the increase in aid disbursements has been in the form of concessional loans from ADB and IDA, which have grown much faster than grants. Loans now account for about two-thirds of all disbursements as compared to less than one-third during the early 1970s. Due to the highly concessional nature of these loans, debt service on over $1 billion was only $28 million in 1986/87, or about 7% of exports of goods and services, including private transfers (Table V.B.1). Even with the amortization payments on the two aircraft, the debt-service ratio is likely to remain manageable at about 10% over the medium-term.

5.22 One of the significant trends in aid disbursements has been the changing sectoral composition of aid disbursements. There has been a noticeable shift towards agriculture and away from transport, reflecting expenditures on large-scale irrigation projects and a winding-down of expenditures on the East-West highway (Table V.C.1). The power sector continues to claim a large share of external resources. Although disbursements in education increased somewhat as a result of increased attention paid to social sectors in the Sixth Plan, they remain low. Aid disbursements on social sectors in general and education, in particular, have been extremely low; foreign aid only accounts for 15% of development expenditures in education as compared to 48% overall. This reflects primarily the low import content of such programs and their large recurrent expenditure component which make these sectors less attractive for external financing rather than any perception that the social sectors are of lower priority.

Table V.C.1
Aid Disbursements for Selected Sectors
(Percent of Total Aid)

	Average 1975/76-1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Agriculture	24.0	26.4	28.9	29.7	39.3	37.2	31.3
Transport	43.2	24.1	12.8	11.8	20.8	9.8	12.2
Power	24.2	18.3	15.1	18.2	12.3	25.5	28.1
Industry	10.0	8.4	10.2	19.4	7.2	7.9	5.5
Education	3.1	4.5	8.1	5.4	3.8	5.6	5.1
Health	5.6	4.3	5.6	3.9	5.3	3.9	4.5
Drinking Water	3.2	2.8	5.6	3.1	2.1	4.1	5.1

Source: Statistical Appendix Table 3.11.

5.23 While disbursements since 1975/76 have grown fast, commitments have grown even faster, leading to increasing donor concern with project implementation and O&M issues. There are concerns that capacity has been expanding without sufficient regard to human, institutional and managerial issues and that donors have contributed to this problem. This is reflected in the Seventh Plan's stress on selectivity of new projects and on an emphasis on development administration as part of the structural adjustment program.

Donor Coordination and Institutional Development

5.24 The degree of reliance on external resources has had some unintended consequences; in combination with the imperfect planning mechanisms and weak institutional structures described in Section IV.A above, it has sometimes led to an undue degree of donor influence over the choice of sectoral strategies and investments, and has contributed to an excessive number of projects in the Government portfolio (over 1300 active in 1987). Since donors rarely possess a holistic view of sectoral priorities, they may tend to precipitate strategic confusion and distortions in expenditure patterns if permitted to pursue initiatives of particular interest to themselves without the benefit of a wider frame of reference. When donors are not in accord or unilaterally revise their own strategies, moreover, inefficiency can result. The institutional ferment in MOH, for example, (Section II.E) derives in no small measure from unresolved conflicts in the donor community over the relative merits of integrated and vertical approaches to health service delivery. The traditional donor response to institutional weakness and unclear strategy has been to insulate projects as far as possible from the worst effects of the public administrative climate--by creating project-specific structures, budget systems and incentives, by funding a major portion of operating costs only during the life of the project, and by placing a heavy reliance on expatriate technical assistance in a quasi-implementation role. While understandable, this has in some cases further eroded the Government's overall institutional capacity and militated against the prospect of sustained development once donor involvement ends. Examples of institutional anomalies resulting from donor intervention include the confused relationship between the Decentralization Act, with its district focus, and the multi-district supervisory responsibilities of the Project Coordinating Offices in the integrated rural development projects (Section IV.B); and the weakness of the central structures in the Ministry of Health in comparison to donor-funded vertical health projects (Section II.E).

5.25 Recently, however, the Government has taken steps to redress this situation. An important first step was the introduction of program budgeting and project monitoring under the SAP, providing the central authorities with a mechanism for reviewing intra-sectoral priorities. With the proposed extension of this approach (Section IV.A) the Government would be much better equipped than at present to review new project proposals on the basis of their contribution to sector strategy and to the overall economy; and it is intended that the Program Budgeting Unit would become regularly involved in reviewing projects at the feasibility stage (in the past donors have often negotiated bilaterally with line agencies until very late in the project cycle, by which time considerable momentum tends to have been achieved). Line ministries, moreover, will develop the capacity

to identify and articulate strategic priorities themselves. In 1987, HMG activated the Foreign Aid Coordinating Committee, which is chaired by the Prime Minister, with the Joint Secretary of the Foreign Aid Division of MOF as Secretary; all projects are now reviewed by this committee, a process which should also help improve the scrutiny of new initiatives. MOF has, since the inception of SAP activities, become very active in encouraging the development of strategic thinking and of program planning at the sectoral level, a process which donors have welcomed and supported. Two recent cases in point are in forestry and hydropower, where the Ministry of Forests and the National Electric Authority have, with donor assistance, developed 20-year master plans for their sectors which articulate clear strategic priorities and describe investment needs, thereby providing a transparent framework which donors can support. A similar programmatic exercise is underway in the irrigation subsector, and is paving the way for sector-type lending in support of community and private irrigation. It is HMG's intention that this process be widely extended and lead to a growing identity between particular donors and particular sectors, and to a better strategic focus in donor programs. Conspicuous by their absence at this point, and by the need for such coordination initiatives, are the agriculture, population and health and education sectors.

5.26 Another area in which HMG is attempting to assert its leadership is in relation to technical assistance, where the Government's objective is to restrict expensive TA inputs to areas of true comparative advantage and to minimize the use of foreign experts in a managerial capacity. This objective is to be welcomed, although HMG should be sensitive to donor perceptions of the need for TA as an insurance against weak project implementation capacity. In practice, however, HMG's initiative has been expressed in an exhaustive and lengthy clearance procedure involving at least five agencies (NPC, the line ministry concerned, the Home Ministry, Foreign Affairs, MOF). This is not efficient; overall TA inputs should be clearly determined and restricted at the project design stage, and subsequent selection and clearance procedures should be simple and straightforward. All in all, however, HMG is to be commended for recent efforts; it is axiomatic that donor coordination can only be effective if governments take the initiative to coordinate, and recent actions evidence a significant new willingness by HMG to do so.

External Assistance Requirements and Priorities

5.27 Total disbursements (including aid and suppliers credits) of about $340 million annually would be required over the next three years to finance the current account deficit of the balance of payments of $250-$290 million while allowing for the repayment of loans and a continued build-up of reserves such that the reserve level stays above 5 months of imports of goods and services (Table V.C.2). Loan repayments, after a spurt in 1988/89 due to pre-payment of the aircraft loan, are projected to stay below $30 million. The recommended level of reserves, while slightly higher than in most countries, is warranted in Nepal given the volatility of agricultural output where a bad harvest could wipe out agricultural export earnings while imposing heavy demands on foreign exchange for food imports. In addition, this level of reserves could allow government the flexibility of being able to rundown reserves moderately to finance a

faster pace of import liberalization. During the late 1970s, the Government kept reserves equivalent to 6-8 months of imports.

5.28 The bulk of disbursements are projected to come from project-related finance, although this is defined to include some quick-disbursing commodity assistance (Table V.C.3). A large part of these disbursements would come from disbursements under on-going operations, which are expected to disburse somewhat faster than in the past due to improved budget release procedures. Disbursements from grants are expected to increase moderately while disbursements from project-related loans are projected to increase somewhat faster due to both faster disbursements from the larger pipeline as well as from new commitments. Based on past performance, new commitments on project-related aid would need to average $340 million per year through 1989/90.

5.29 Aid commitments clearly need to be linked to government development strategies. Presently these include: (i) policy and institutional adjustment; (ii) the Basic Needs Program focussing on irrigation, intensified agricultural production and human resource development; (iii) major infrastructure, particular hydropower; (iv) decentralization; and (v) public administration reform. In particular, in order to improve the quality of individual projects, more attention needs to be paid to improving policies and strengthening institutions both through project-related finance as well as through adjustment operations. The Government and donors need to carefully scrutinize each new investment to ensure not only that it fits with strategic priorities, but that it is economically sound and can be implemented under current institutional conditions. As the program budget exercise moves into its rolling program phase, this will be easier to do. Similarly, the recent Government efforts to foster programmatic sector approaches as in the Forestry and Irrigation Master Plans will help. Above all, the Government and donors need to focus to the extent possible on the institutional and policy pre-conditions for success, and to ensure that major capital investments are only launched when adequate implementation capacity can be assured. Similarly, programmatic approaches to sectoral development as have been followed in the irrigation and forestry sectors have worked well and could be extended to other sectors. In addition, projects could be further reduced by merging similar projects at the design stage and encouraging cofinancing. Recent Government attempts to delegate an individual bilateral donor as taking the lead in a given sector for small projects would also help ensure coordination and reduce the number of projects.

5.30 The sectoral composition of aid should reflect the following priorities on investments and the policy and institutional framework. Agriculture needs to be given priority through investments in irrigation (rehabilitation and completion of existing works, increased development of ground water, and promotion of private and public farmer managed schemes), financing for fertilizer imports, support for research and extension systems, increased agricultural credit and improving the delivery mechanisms for inputs. Key policy measures in this area would be to encourage increased participation of farmers in the development and

Table V.C.2
Summary of Foreign Exchange Requirements and Sources 1/
($ Million)

	Average 1982/83-1986/87	Est. 1987/88	1988/89	1989/90	1990/91
REQUIREMENTS	180	361	339	333	342
Current Account Deficit	196	239	289	255	275
Loan Amortization	7	21	65	26	29
Change in Reserves	-23	100	-14	52	39
SOURCES (Disbursements)	180	361	339	333	342
Project-related finance	164	208	227	245	270
Grants	78	94	96	113	116
Concessional Loans	86	114	131	132	154
Comm Supplier's Credits	0	43	55	0	0
Adjustment-related finance	4	29	57	88	72
Other Capital 2/	12	74	0	0	0
Memorandum Items:					
Gross Reserves	188	337	333	384	419
in mths of imp(g & s)3/	4.2	5.8	5.0	5.3	5.3

1/ Excludes loans to the Central Bank.
2/ Includes valuation changes and errors and omissions.
3/ Excludes aircraft imports of 1987/88 and 1988/89.

Table V.C.3: Aid Pipeline 1/
(US $ million)

	Loan	Grant	Total	Of which Proj-rel	Of which Adj. Fin
1987/88					
Opening Balance	730	430	1160	1131	29
New Commitments	240	130	370	370	0
Total Disbursements	143	94	237	208	29
1988/89					
Opening Balance	827	466	1293	1293	0
New Commitments	330	140	470	325	145
Total Disbursements	188	96	284	227	57
1989/90					
Opening Balance	969	510	1479	1391	88
New Commitments	210	145	355	355	0
Total Disbursements	220	113	333	245	88

1/ Excludes commercial and IMF loans.
Source: World Bank Staff Estimates.

management of public irrigation schemes, to continue measures to facilitate private distribution of fertilizer while ensuring that fertilizer prices follow those in India, and to strengthen AIC to better carry out its role. In industry, technical assistance should continue to support measures to streamline export and import procedures and to privatize or improve the efficiency of public enterprises. In addition, the trade liberalization measures need to be continued while announced measures need to be implemented quickly and efficiently. In the education and health sectors, initial emphasis should be on consolidation gains in coverage by improving the quality of service through training, management, improved delivery system and supplies, including drugs. This would improve the productivity of existing infrastructure and prepare for a much-needed expansion in expenditures and facilities. In hydropower, donor attention should be given to ensuring the rapid implementation of the Arun-3 project, in order to ward off power cut backs in the mid-1990s and to develop export revenues. Commitments for Arun-3 are expected to be made in 1991 and estimated to be about $600 million, thus dominating all other commitments.

5.31 While the bulk of financing is expected to come from project-related finance, adjustment lending of over $70 million per year is expected to cover the residual foreign exchange needs. It is assumed that two operations totalling $145 million would be carried out every two years, one of which is envisaged to be a World Bank SAL. The operations could have some cofinancing. With a continuation of the Government's structural adjustment program, this is a realistic target. In addition to augmenting foreign exchange resources, these operations provide an appropriate policy framework for donors to continue with project-related operations. Other than the aid projections shown here, there are additional funds under an IMF program, which is an integral part of this scenario both as a catalyst for other lending, especially adjustment lending, and to augment gross reserves to the levels specified earlier. If the Government continues with its adjustment reforms and the envisaged levels of aid materialize, Nepal could well grow at 4-5% over the next few years.

STATISTICAL APPENDIX

Table 1.1 Population Estimates

Census Year	Total Recorded Population	Average Annual Growth (%)
1911	5,638,749	-
1920	5,573,788	-0.1
1930	5,532,574	-0.1
1942	6,283,649	1.3
1961	9,412,996	1.3
1971	11,555,983	2.1
1981	15,022,839	2.7
1982	15,422,645	2.7
1983	15,833,104	2.7
1984	16,254,500	2.7
1985	16,687,124	2.7
*1986	17,131,277	2.7
*1987	17,557,355	2.5

* Population Projection of Nepal 1981-2001

Source: Central Bureau of Statistics

Table 1.2 Regional Distribution of Population a/

	1971 b/		1976 b/		1981 b/		1985 b/	
	Persons	% of Total	Persons	% of Total	Persons	% of Total	Persons	% of Total
Eastern Region	2,797,500	24.2	3,067,086	23.9	3,708,923	24.7	4,207,994	25.2
Central Region	3,865,753	33.5	4,319,601	33.7	4,909,357	32.7	5,429,918	32.5
Western Region	2,446,430	21.2	2,712,781	21.1	3,128,859	20.8	3,461,274	20.7
Mid-Western Region	1,488,006	12.9	1,675,825	13.1	1,955,611	13.0	2,148,172	12.9
Far-Western Region	958,294	8.3	1,061,725	8.3	1,320,089	8.8	1,439,766	8.6
Total	11,555,983	100.0	12,837,018	100.0	15,022,839	100.0	16,687,124	100.0
Mountains	1,138,610	9.9	1,214,494	9.5	1,302,896	8.7	1,344,467	8.1
Hills	6,071,407	52.5	6,698,888	52.2	7,163,115	47.7	7,842,613	47.0
Terai	4,345,966	37.6	4,923,636	38.4	6,556,828	43.7	7,500,044	44.9

a/ In November 1981, the old Far-Western Region was divided into the Mid-Western and the Far-Western Regions. In this table, the 1971 and 1976 populations of the old Far-Western Region were disagggregated into Mid- and Far-West using zonal population data.

b/ 1971 Census report; 1976 Mid-term Population Sample Survey; and 1981 priliminary census results.

Source: Central Bureau of Statistics.

Table 2.1 Gross Domestic Product
(NRs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 *
Nominal GDP	16571	17394	17280	19732	22215	23351	27307	30988	33761	39390	44259	51759	58504	68145
Agriculture	11550	11611	10506	11752	13522	13683	15679	17903	19282	22771	24171	27986	30674	36272
Non-Agriculture	5021	5783	6774	7980	8693	9668	11628	13085	14479	16619	20088	23773	27830	31873
Real GDP (1974/75 price)	16571	17300	17822	18607	19048	18606	20158	20920	20297	22262	24012	24959	25561	27384
Agriculture	11550	11615	11141	11141	11480	10933	12066	12616	12478	13668	13990	14589	14735	16017
Non-Agriculture	5021	5685	6681	7466	7568	7673	8092	8304	7819	8594	10022	10370	10826	11367
GDP Deflator	100.0	100.5	97.0	106.1	116.6	125.5	135.5	149.0	162.9	176.9	184.3	207.4	228.9	248.9
Agriculture	100.0	100.0	94.3	105.5	117.8	125.2	129.9	143.3	147.4	166.6	172.8	191.8	208.2	226.5
Non-Agriculture	100.0	101.7	101.4	106.9	114.9	126.0	143.7	157.6	185.2	193.4	200.4	229.3	257.1	280.4

Percentage Change over the Previous Year

Nominal GDP	5.0	-0.7	14.2	12.6	5.1	16.9	13.5	8.9	16.7	12.4	16.9	13.0	16.5
Agriculture	0.5	-9.5	11.9	15.1	1.2	14.6	14.2	7.7	18.1	6.1	15.8	9.6	18.2
Non-Agriculture	15.2	17.1	17.8	8.9	11.2	20.3	12.5	10.7	14.8	20.9	18.3	17.1	14.5
Real GDP (1974/75 Price)	4.4	3.0	4.4	2.4	-2.3	8.3	3.8	-3.0	9.7	7.9	3.9	2.4	7.1
Agriculture	0.6	-4.1	0.0	3.0	-4.8	10.4	4.6	-1.1	9.5	2.4	4.3	1.0	8.7
Non-Agriculture	13.2	17.5	11.7	1.4	1.4	5.5	2.6	-5.8	9.9	16.6	3.5	4.4	5.0
GDP Deflator	0.5	-3.6	9.4	10.0	7.6	7.9	10.0	9.3	8.6	4.2	12.5	10.4	8.7
Agriculture	-0.0	-5.7	11.9	11.7	6.2	3.8	10.3	2.8	13.0	3.7	11.0	8.5	8.8
Non-Agriculture	1.7	-0.3	5.4	7.5	9.7	14.1	9.7	17.5	4.4	3.6	14.4	12.1	9.1

* Preliminary Estimate

Source : Economic Survey, 1987/88

Table 2.2 Gross Domestic Product by Industrial Origin
(NRs. Million)

(In Current Prices)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 *
Agriculture, Fisheries and Forestry	11435	11495	10389	11616	13365	13520	15510	17715	19082	22570	23927	27713
Mining and Quarrying	22	23	26	25	34	42	58	66	85	111	140	166
Manufacturing	664	690	736	794	848	936	1049	1243	1460	1816	1840	2185
Modern	440	459	499	531	559	618	712	851	1021	1342	1338	1589
Cottage	224	231	237	263	289	318	337	392	439	474	502	596
Electricity, Gas & Water	34	38	39	42	48	60	67	82	127	158	196	233
Construction	583	718	1020	1338	1559	1570	1974	2342	2377	2576	3583	4255
Trade, Restaurants and Hotels	540	603	636	707	724	889	953	1068	1199	1520	1837	2182
Trade	-	-	553	604	635	786	832	950	1069	1362	1664	1976
Restaurants & Hotels	-	-	83	103	89	103	121	118	130	158	173	206
Transport, Communications and Storage	690	805	852	1093	1248	1541	1889	1992	2129	2468	2764	3282
Financial and Real Estate	1095	1171	1412	1534	1613	1833	2077	2366	2594	2937	3420	4060
Community & Social Services	903	1046	1145	1277	1340	1495	1989	2163	2591	2848	3691	4383
Public	648	811	884	989	1090	1211	1574	1747	2116	2287	3035	3604
Extra Territorial	-	-	17	19	21	25	31	35	39	42	43	51
Private Services	255	235	244	269	229	259	384	381	436	519	613	728
GDP at Factor Cost	15936	16589	16255	18426	20779	21886	25466	29037	31644	37004	41398	48459
Net Indirect Taxes	635	805	1025	1306	1436	1465	1841	1951	2117	2386	2861	3300
Agriculture	115	116	117	136	157	163	169	188	200	201	244	273
Non-Agriculture	520	689	908	1170	1279	1302	1672	1763	1917	2185	2617	3027
GDP at Market Price	16571	17394	17280	19732	22215	23351	27307	30988	33761	39390	44259	51759

Source : Economic Survey, 1987/88

* Preliminary Revised Estimate

Table 2.2.A Gross Domestic Product by Industrial Origin
(Percent of GDP)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 *
Agriculture, Fisheries and Forestry	69.0	66.1	60.1	58.9	60.2	57.9	56.8	57.2	56.5	57.3	54.1	53.5
Mining and Quarrying	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Manufacturing	4.0	4.0	4.3	4.0	3.8	4.0	3.8	4.0	4.3	4.6	4.2	4.2
Modern	2.7	2.6	2.9	2.7	2.5	2.6	2.6	2.7	3.0	3.4	3.0	3.1
Cottage	1.4	1.3	1.4	1.3	1.3	1.4	1.2	1.3	1.3	1.2	1.1	1.2
Electricity, Gas & Water	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.4	0.4	0.4	0.5
Construction	3.5	4.1	5.9	6.8	7.0	6.7	7.2	7.6	7.0	6.5	8.1	8.2
Trade, Restaurants	3.3	3.5	3.7	3.6	3.3	3.8	3.5	3.4	3.6	3.9	4.2	4.2
and Hotels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	-	-	3.2	3.1	2.9	3.4	3.0	3.1	3.2	3.5	3.8	3.8
Restaurants & Hotels	-	-	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Transport, Communications	4.2	4.6	4.9	5.5	5.6	6.6	6.9	6.4	6.3	6.3	6.2	6.3
and Storage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial and Real Estate	6.6	6.7	8.2	7.8	7.3	7.8	7.6	7.6	7.7	7.5	7.7	7.8
Community & Social Services	5.4	6.0	6.6	6.5	6.0	6.4	7.3	7.0	7.7	7.2	8.3	8.5
Public	3.9	4.7	5.1	5.0	4.9	5.2	5.8	5.6	6.3	5.8	6.9	7.0
Extra Territorial	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Private Services	1.5	1.4	1.4	1.4	1.0	1.1	1.4	1.2	1.3	1.3	1.4	1.4
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP at Factor Cost	96.2	95.4	94.1	93.4	93.5	93.7	93.3	93.7	93.7	93.9	93.5	93.6
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Indirect Taxes	3.8	4.6	5.9	6.6	6.5	6.3	6.7	6.3	6.3	6.1	6.5	6.4
Agriculture	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.6	0.5
Non-Agriculture	3.1	4.0	5.3	5.9	5.8	5.6	6.1	5.7	5.7	5.5	5.9	5.8
GDP at Market Price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Preliminary Revised Estimate

Source: Statistical Appendix Table 2.2.

Table 2.3 National Accounts Summary
(NRs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Gross Domestic Product fc	15936	16589	16255	18426	20779	21886	25466	29037	31644	37004	41398	48459	55032
Plus Net Indirect Taxes	635	805	1025	1306	1436	1465	1841	1951	2117	2386	2861	3300	3472
Gross Domestic Product mp	16571	17394	17280	19732	22215	23351	27307	30988	33761	39390	44259	51759	58504
Plus Import of Goods and Nfs	2215	2466	2474	3053	3547	4374	5357	5828	7196	7661	9317	11218	13148
Total Resources Available=Uses	18786	19860	19754	22785	25762	27725	32664	36816	40957	47051	53576	62977	71652
Total Consumption	14909	15354	14948	17192	19630	20760	24333	28126	30703	35453	39149	45612	51825
Private Consumption	13652	14060	13688	15721	17741	19195	22411	25488	27287	31809	34778	40415	45600
Public Consumption	1257	1294	1260	1471	1889	1565	1922	2638	3416	3644	4371	5197	6225
Total Investment	2402	2632	2769	3607	3514	4270	4808	5098	6799	7402	9055	10859	12264
Gross Fixed Capital Formation	2223	2443	2581	3294	3263	3681	4299	5249	6747	6958	8257	9691	11191
Public	505	632	689	1113	1138	1466	1823	2487	2941	3139	3652	4098	4458
Private	1718	1811	1892	2181	2125	2215	2476	2762	3806	3819	4605	5593	6733
Change in Stock	179	189	188	313	251	589	509	-151	52	444	798	1168	1073
Export of Goods and Nfs	1475	1874	2037	2086	2618	2695	3523	3592	3455	4196	5372	6506	7563
Memorandum Items													
Gross Domestic Savings	1662	2040	2332	2540	2585	2591	2974	2862	3058	3937	5110	6147	6679
Net Factor Income 1/	267	277	319	291	390	494	587	615	697	625	661	709	1169
Net Current Transfer	354	375	372	385	579	844	951	1228	1373	1498	1436	1532	1500
Gross National Savings	2283	2692	3023	3216	3554	3929	4512	4705	5128	6060	7207	8388	9348
Private	1821	2251	2532	2501	2784	3211	3454	3660	4284	4924	6197	7328	7508
Public	462	441	491	715	770	718	1058	1045	845	1136	1010	1061	1840
Gross National Product mp	16838	17671	17599	20023	22605	23845	27894	31603	34458	40015	44920	52468	59673

Source: Economic Survey, 1987/88
1/ including grants
* Provisional Estimate

Table 2.3.A National Accounts Summary
(Percent of GDP)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Gross Domestic Product fc	96.2	95.4	94.1	93.4	93.5	93.7	93.3	93.7	93.7	93.9	93.5	93.6	94.1
Plus Net Indirect Taxes	3.8	4.6	5.9	6.6	6.5	6.3	6.7	6.3	6.3	6.1	6.5	6.4	5.9
Gross Domestic Product mp	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Plus Import of Goods and Nfs	13.4	14.2	14.3	15.5	16.0	18.7	19.6	18.8	21.3	19.4	21.1	21.7	22.5
Total Resources Available=Uses	113.4	114.2	114.3	115.5	116.0	118.7	119.6	118.8	121.3	119.4	121.1	121.7	122.5
Total Consumption	90.0	88.3	86.5	87.1	88.4	88.9	89.1	90.8	90.9	90.0	88.5	88.1	88.6
Private Consumption	82.4	80.8	79.2	79.7	79.9	82.2	82.1	82.3	80.8	80.8	78.6	78.1	77.9
Public Consumption	7.6	7.4	7.3	7.5	8.5	6.7	7.0	8.5	10.1	9.3	9.9	10.0	10.6
Total Investment	14.5	15.1	16.0	18.3	15.8	18.3	17.6	16.5	20.1	18.8	20.5	21.0	21.0
Gross Fixed Capital Formation	13.4	14.0	14.9	16.7	14.7	15.8	15.7	16.9	20.0	17.7	18.7	18.7	19.1
Public	3.0	3.6	4.0	5.6	5.1	6.3	6.7	8.0	8.7	8.0	8.3	7.9	7.6
Private	10.4	10.4	10.9	11.1	9.6	9.5	9.1	8.9	11.3	9.7	10.4	10.8	11.5
Change in Stock	1.1	1.1	1.1	1.6	1.1	2.5	1.9	-0.5	0.2	1.1	1.8	2.3	1.8
Export of Goods and Nfs	8.9	10.8	11.8	10.6	11.8	11.5	12.9	11.6	10.2	10.7	12.1	12.6	12.9
Memorandum Items													
Gross Domestic Savings	10.0	11.7	13.5	12.9	11.6	11.1	10.9	9.2	9.1	10.0	11.5	11.9	11.4
Net Factor Income 1/	1.6	1.6	1.8	1.5	1.8	2.1	2.1	2.0	2.1	1.6	1.5	1.4	2.0
Net Current Transfer	2.1	2.2	2.2	2.0	2.6	3.6	3.5	4.0	4.1	3.8	3.2	3.0	2.6
Gross National Savings	13.8	15.5	17.5	16.3	16.0	16.8	16.5	15.2	15.2	15.4	16.3	16.2	16.0
Private	11.0	12.9	14.7	12.7	12.5	13.8	12.6	11.8	12.7	12.5	14.0	14.2	12.8
Public	2.8	2.5	2.8	3.6	3.5	3.1	3.9	3.4	2.5	2.9	2.3	2.0	3.1
Gross National Product mp	101.6	101.6	101.8	101.5	101.8	102.1	102.1	102.0	102.1	101.6	101.5	101.4	102.0

Source: Statistical Appendix Table 2.3.
1/ including grants
* Provisional Estimate

Table 3.1 Balance of Payments Summary

(US$ Million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Exports (GNFS)	155.9	163.0	168.8	218.1	224.6	293.6	277.6	249.4	273.1	301.4	329.3	347.7	421.1
Merchandise f.o.b.	100.6	95.1	86.2	108.6	97.2	134.4	115.6	82.0	111.1	154.1	156.2	139.0	189.5
Non-factor Services	55.3	67.9	82.6	109.5	127.4	159.2	162.0	167.4	162.0	147.3	173.1	208.7	231.6
Imports (GNFS)	205.3	197.9	246.9	295.6	364.5	446.4	450.5	519.5	499.4	523.2	559.0	595.5	730.8
Merchandise c.i.f.	168.3	163.6	203.5	242.7	297.4	370.2	382.5	457.2	425.9	435.9	474.3	506.6	626.9
Non-factor Services	37.0	34.3	43.4	52.9	67.1	76.2	68.0	62.3	73.5	87.3	84.7	88.9	103.8
Resource Gap	49.4	34.9	78.1	77.5	139.9	152.8	172.9	270.1	226.3	221.9	229.7	247.8	309.6
Net Factor Income	5.3	5.9	7.0	8.3	12.6	10.0	12.5	11.8	2.6	0.6	-8.7	-9.9	-10.5
Factor Receipts	6.9	6.7	8.1	10.4	15.9	13.3	15.2	14.7	6.2	5.2	3.2	4.7	7.1
Factor Payments	1.6	0.8	1.1	2.1	3.3	3.3	2.7	2.8	3.6	4.7	11.9	14.5	17.6
Net Current Transfers	27.4	29.4	24.3	29.8	35.5	46.4	40.6	41.6	45.1	42.7	44.8	63.9	86.1
Transfer Receipts	28.9	31.2	25.6	30.9	36.6	47.9	42.4	44.0	47.6	44.6	49.9	67.1	90.7
Transfer Payments	1.5	1.8	1.3	1.1	1.1	1.5	1.8	2.4	2.5	1.9	5.1	3.2	4.5
Current Account Balance	-16.7	0.4	-46.8	-39.4	-91.8	-96.4	-119.8	-216.7	-178.6	-178.6	-193.6	-193.7	-239.2
Official Grant Aid	21.6	20.1	23.2	42.6	63.5	71.7	89.4	94.9	90.0	74.8	68.6	60.9	94.2
Net M&LT Loans	12.1	17.2	23.6	35.7	48.1	52.8	59.8	66.8	78.5	71.3	91.7	110.0	160.4
Disbursements	13.6	18.7	25.1	37.3	49.8	55.4	62.3	69.6	83.1	76.5	101.5	120.3	185.0
Repayments	1.5	1.5	1.5	1.6	1.7	2.6	2.5	2.8	4.6	5.2	9.8	10.2	24.7
Capital Flows N.E.I.	12.8	-12.8	0.9	9.7	-17.6	-11.9	9.4	1.2	-9.0	-15.2	32.1	31.8	85.0
Overall Balance	29.8	24.9	0.9	48.6	2.2	16.2	38.8	-53.7	-19.1	-47.8	-1.2	9.0	100.4
Change in Net Reserves	-29.8	-24.9	-0.9	-48.6	-2.2	-16.2	-38.8	53.7	19.1	47.8	1.2	-9.0	-100.4
Memo Items													
International Reserves (End Period)	120.3	145.3	140.6	179.8	187.0	195.8	232.6	230.3	202.6	142.0	164.6	202.3	337.3
International Reserves in Months of Import Coverage	7.0	8.7	6.8	7.3	6.1	5.2	6.2	5.3	4.8	3.2	3.5	4.0	5.8

Source: Nepal Rastra Bank

Table 3.2. Composition of Trade a/
(Rs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 b
Exports, f.o.b.	814.6	1185.6	1164.9	1046.2	1296.8	1150.5	1608.6	1490.6	1132.0	1703.8	2759.9	3078.0	2991.4	4199.7
Food and live animals	517.5	804.0	599.5	405.3	488.8	306.5	588.7	735.9	327.7	584.1	938.7	835.6	703.7	772.5
Tobacco and bevarages	0.4	4.0	12.3	11.2	13.6	2.6	15.4	18.5	13.3	5.3	1.1	0.2	3.5	1.2
Crude materials, inedibles, except fuels	213.3	226.3	377.8	441.2	491.7	469.6	561.6	397.3	336.4	372.7	492.6	412.9	491.1	403.7
Mineral fuels and lubricants	1.5	1.6	0.5	0.2	0.7	0.5	0.4	1.0	0.7	3.3	1.1	0.2	0.2	0.0
Animal and vegetable oils and fats	2.4	1.8	5.3	6.0	16.5	20.4	37.8	44.0	42.2	67.6	67.0	61.3	117.1	213.5
Chemicals and drugs	0.9	9.3	10.6	3.6	0.8	1.3	3.9	1.5	1.8	6.3	1.0	2.5	2.0	14.1
Mnufactured goods, chiefly classified by materials	28.1	104.7	123.9	123.3	229.1	291.8	254.3	225.4	357.3	581.6	694.4	899.9	1009.5	1783.7
Machinery and transportation equipment	0.1	3.6	1.6	2.7	2.9	3.2	1.8	9.1	7.9	24.4	38.9	38.6	2.6	0.3
Other manufactured products	38.3	23.0	27.8	51.2	52.4	54.0	143.0	57.1	44.6	57.7	523.9	826.5	661.5	1006.3
Other	12.1	7.3	5.6	1.5	0.3	0.6	1.7	0.8	0.1	0.8	1.2	0.3	0.2	4.4
Imports, c.i.f.	1702.6	1981.8	2008.0	2471.6	2884.7	3480.2	4428.2	4930.2	6314.0	6514.3	7908.8	9941.0	10925.4	13699.2
Food and live animals	243.1	291.1	249.3	323.1	292.0	412.9	601.2	619.2	924.7	728.4	708.1	971.1	1028.9	1281.0
Tobacco and bevarages	18.9	42.4	20.2	44.2	35.7	25.9	24.8	35.6	62.5	71.8	46.2	112.9	144.0	69.0
Crude materials, inedibles, except fuels	63.8	88.7	36.4	53.1	61.4	100.9	115.5	142.6	206.3	266.2	417.3	993.0	657.2	771.3
Mineral fuels and lubricants	182.7	211.7	249.0	250.3	232.4	409.7	583.6	579.3	701.9	749.2	904.2	1054.0	929.5	1096.0
Animal and vegetable oils and fats	7.0	7.4	8.3	30.8	22.4	26.0	92.5	64.3	66.3	78.5	132.2	101.9	195.9	370.9
Chemicals and drugs	179.5	190.1	224.5	254.9	297.5	396.7	527.3	599.2	646.0	698.4	951.0	1170.0	1287.6	1341.0
Mnufactured goods, chiefly classified by materials	509.5	545.9	660.6	819.2	1084.7	1089.9	1259.2	1555.5	1936.8	1801.9	2489.2	2759.5	3226.9	3398.1
Machinery and transportation equipment	270.1	413.4	375.5	485.1	574.7	719.7	802.9	892.0	1180.9	1651.2	1785.3	2134.7	2784.1	4717.3
Other manufactured products	198.1	168.4	145.8	201.0	275.0	288.3	407.6	430.2	584.3	466.3	467.8	637.2	664.0	643.4
Other	29.9	22.7	38.4	9.9	8.9	10.2	13.6	12.3	4.3	2.4	7.5	6.7	7.3	11.2

a/ Based on Customs Data; b/ Estimate
Source : Nepal Rastra Bank

Table 3.3 Composition of Trade With India a/

(Rs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 b/
Exports, f.o.b.	701.9	893.7	779.6	498.1	650.3	521.2	992.4	994.2	843.3	1160.7	1601.7	1241.1	1302.5	1560.0
Food and live animals	493.3	721.6	540.6	222.2	241.8	182.8	484.2	538.6	317.5	561.2	872.8	573.0	560.0	749.1
Tobacco and bevarages	0.4	3.5	1.5	0.2	1.0	1.6	0.4	1.6	12.5	4.5	4.6	0.1	2.7	1.2
Crude materials, inedibles, except fuels	174.7	136.1	207.1	251.5	362.3	295.2	444.1	296.9	264.9	266.9	338.1	364.5	459.6	311.8
Mineral fuels and lubricants	1.5	1.0	0.5	0.2	0.7	0.5	0.0	1.0	0.7	3.3	1.0	0.2	0.2	-
Animal and vegetable oils and fats	2.3	1.4	5.1	5.8	16.5	19.9	37.6	41.9	42.2	67.6	57.0	56.0	73.8	172.2
Chemicals and drugs	0.5	5.8	10.3	3.1	0.6	0.6	0.1	0.9	0.9	1.8	0.8	1.0	1.2	14.1
Mnufactured goods, chiefly classified by materials	10.8	14.5	7.2	8.8	21.0	13.0	19.0	91.6	191.8	227.4	285.0	201.7	193.1	295.9
Machinery and transportation equipment	0.2	1.4	0.3	2.6	1.3	2.7	1.3	5.5	7.1	22.4	32.6	37.5	0.9	-
Other manufactured products	12.6	3.1	2.3	2.5	4.9	4.3	4.8	15.6	5.6	4.8	8.6	6.8	10.8	11.3
Other	5.6	5.3	4.7	1.2	0.2	0.6	0.9	0.6	0.1	0.8	1.2	0.3	0.2	4.4
Imports, c.i.f.	1367.2	1227.2	1343.5	1534.0	1581.7	1786.3	2179.2	2280.9	2499.6	3058.0	3895.8	3971.0	4262.1	4800.0
Food and live animals	234.1	258.2	228.4	285.4	261.8	344.3	473.6	446.7	564.4	552.7	676.8	738.5	764.2	888.1
Tobacco and bevarages	16.6	31.9	18.9	29.1	31.6	22.3	24.0	30.9	46.8	69.7	74.6	112.1	140.6	62.3
Crude materials, inedibles, except fuels	46.7	31.1	34.8	42.8	41.4	73.1	69.0	100.1	89.2	134.3	199.8	99.0	143.2	135.7
Mineral fuels and lubricants	179.9	95.3	116.4	91.2	20.7	35.3	51.7	50.1	65.0	95.2	151.2	149.3	133.2	86.1
Animal and vegetable oils and fats	6.7	5.5	7.4	24.3	18.4	15.1	23.8	11.1	26.4	47.2	62.1	15.8	5.0	9.7
Chemicals and drugs	134.7	114.9	141.7	169.4	194.2	230.9	273.4	341.9	376.3	410.6	512.9	547.1	672.1	967.9
Mnufactured goods, chiefly classified by materials	425.1	409.5	499.8	550.3	616.5	602.7	655.1	714.8	763.4	940.0	1293.7	1399.2	1401.7	1344.2
Machinery and transportation equipment	156.6	158.1	173.6	209.2	256.7	292.8	399.7	381.0	410.4	648.0	694.1	693.4	756.0	1028.7
Other manufactured products	144.9	105.4	92.5	124.7	135.6	166.3	199.5	200.2	157.4	157.4	227.7	213.2	242.2	272.9
Other	21.9	17.3	30.0	7.6	4.8	3.5	9.4	4.1	0.3	2.9	2.9	3.4	3.9	4.4

Source: Nepal Rastra Bank

a/ Based on Customs Data

b/ Estimate

Table 3.4 (a) Exports of Major Commodities

Value (Rs. Million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
I. Exports to India	668.1	548.3	258.2	273.8	213.7	524.0	440.3	372.8	500.4	652.9	414.9	385.9
Rice (husked)	495.4	343.0	46.5	13.3	2.9	117.6	136.5	11.3	75.2	236.3	93.2	14.4
Timber	54.1	103.4	146.7	176.7	136.1	226.2	87.2	28.8	7.9	8.6	0.0	0.0
Maize	0.0	1.4	4.7	4.9	2.7	24.5	26.1	0.3	0.4	10.0	0.0	0.0
Mustard & Linseeds	40.3	31.1	4.5	0.0	0.0	0.0	0.0	0.0	75.8	18.8	58.1	103.1
Herbs	2.8	6.3	6.5	5.2	13.5	16.5	6.4	5.9	8.0	25.0	16.6	8.1
Ghee	60.5	35.8	33.2	46.0	21.2	54.0	26.2	36.8	45.8	28.0	47.0	46.6
Dried Ginger	15.0	27.3	16.1	14.2	8.6	10.8	15.3	19.3	37.8	28.3	30.3	35.2
Raw Jute	0.0	0.0	0.0	2.1	12.9	46.4	43.4	85.5	36.5	43.9	2.3	14.5
Jute Cuttings	0.0	0.0	0.0	3.2	7.5	17.7	18.2	5.2	1.2	0.0	0.0	0.0
Jute Goods	0.0	0.0	0.0	8.2	8.3	10.3	81.0	179.7	211.8	254.0	167.4	164.0
o/w Hessian	0.0	0.0	0.0	6.2	6.5	3.6	27.1	78.5	91.7	117.1	78.2	91.0
o/w Sacking	0.0	0.0	0.0	1.0	0.3	5.9	49.8	88.6	85.6	85.6	57.9	40.6
o/w Twine	0.0	0.0	0.0	1.0	1.5	0.8	4.1	12.6	34.5	51.3	31.3	32.4
II. Exports to Third Countries	217.9	301.4	477.4	651.4	511.8	428.7	418.3	274.8	466.6	1089.7	1755.1	1580.2
Rice (husked)	22.7	18.1	122.3	195.1	33.0	24.1	86.1	0.0	0.0	0.0	0.0	43.3
Timber	0.3	0.5	0.0	7.4	34.0	19.6	0.0	0.0	0.0	0.0	0.0	148.6
Large Cardamom	18.8	13.3	11.9	22.2	16.9	15.4	7.4	5.8	6.5	14.6	25.7	100.6
Hides & Skins	24.9	55.1	76.3	128.9	163.5	117.7	93.3	95.1	155.6	242.7	233.2	21.6
Pulses	0.0	0.0	0.0	0.0	0.0	0.0	58.2	3.0	6.0	97.6	240.4	0.0
Raw Jute	59.8	88.8	133.1	106.7	86.4	82.0	62.6	13.7	0.0	0.0	28.9	0.0
Jute Cuttings	8.2	9.8	11.5	11.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Jute Goods	61.2	67.3	64.1	92.3	93.2	27.8	1.5	0.0	0.0	0.0	0.0	0.0
o/w Hessian	49.9	55.4	48.3	56.5	0.0	11.3	1.5	0.0	0.0	0.0	0.0	0.0
o/w Sacking	9.7	9.7	15.5	33.6	0.0	16.5	0.0	0.0	0.0	0.0	0.0	0.0
o/w Twine	1.6	2.2	0.3	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Carpets	9.3	27.9	23.9	45.8	46.8	56.2	84.0	137.8	265.4	249.4	376.4	624.4
Handicrafts	12.7	20.6	34.3	41.5	37.8	85.8	12.2	9.4	12.6	12.7	17.7	32.4
Readymade Garments	0.0	0.0	0.0	0.0	0.0	0.0	13.0	10.0	20.5	472.7	803.7	609.3
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.1	0.0
III. Total (I and II)	886.0	849.7	735.6	925.2	725.5	952.7	858.6	647.6	967.0	1742.6	2170.0	1966.1
IV. Total Exports, f.o.b.	1185.8	1164.8	1046.1	1296.8	1150.5	1608.6	1490.5	1132.0	1703.5	2759.8	3078.0	2991.4

Sources: Trade Promotion Center and Nepal Rastra Bank.

Table 3.4 (b) Exports of Major Commodities

Quantity

	Unit	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
I. Exports to India													
Rice (husked)	MT	157,716	129,216	17,984	5,407	880	40,002	36,503	2,509	16,670	52,586	15,130	2,020
Timber	Cu M	56,940	96,192	123,869	145,207	104,342	135,246	44,516	14,829	4,047	4,302	0	0
Maize	MT	0	2,025	4,012	3,952	2,248	17,749	15,988	214	201	7,718	0	0
Mustard & Linseeds	MT	13,717	7,990	978	0	0	0	0	0	10,939	3,657	8,047	9,928
Herbs	MT	1,541	1,722	1,586	1,651	1,639	1,759	2,764	1,867	1,128	906	1,721	700
Ghee	MT	2,418	1,413	1,252	1,536	707	1,804	624	827	1,085	571	960	888
Dried Ginger	MT	1,778	1,732	912	1,380	1,121	1,117	1,067	808	879	742	1,516	1,515
Raw Jute	MT	0	0	0	591	3,425	15,302	13,581	19,864	7,009	4,416	0	0
Jute Cuttings	MT	0	0	0	1,230	3,654	12,145	8,388	1,465	452	0	0	0
Jute Goods	MT	0	0	0	865	691	1,392	13,219	22,749	17,314	13,751	11,884	12,323
o/w Hessian	MT	0	0	0	431	411	369	3,081	7,430	5,730	5,037	4,558	5,262
o/w Sacking	MT	0	0	0	244	61	913	9,408	13,531	8,670	5,470	4,523	3,718
o/w Twine	MT	0	0	0	190	219	110	730	1,788	2,914	3,244	2,803	3,343
II. Exports to Third Countries													
Rice (husked)	MT	7185	6676	44931	62191	11336	5451	25211	0	0	0	0	0
Timber	Cu M	0	0	0	0	20065	24349	255	0	0	0	0	0
Large Cardamom	MT	685	602	4358	540	392	488	305	260	260	250	349	534
Hides & Skins	Th. Piece	649	844	1056	2115	2585	2120	1818	2455	4034	4786	3839	2224
Pulses	MT	0	0	0	0	0	0	7901	509	678	12089	25674	9793
Raw Jute	MT	21814	28877	27884	28481	23009	24349	16300	4011	0	0	0	3499
Jute Cuttings	MT	6112	5364	3729	4426	191	28	0	0	0	0	0	0
Jute Goods	MT	10624	10500	9336	14956	11077	3563	153	0	0	0	0	0
o/w Hessian	MT	8031	7768	6381	7998	5448	1231	153	0	0	0	0	0
o/w Sacking	MT	2181	2170	2285	6724	5576	2332	0	0	0	0	0	0
o/w Twine	MT	412	562	70	234	53	0	0	0	0	0	0	0
Carpets	Sq M	19784	47473	26530	53279	66775	80000	99000	150622	262862	227000	329518	0

Sources : Trade Promotion Center and Nepal Rastra Bank

Table 3.4 (c) Exports of Major Commodities

Unit Value (Rupees)

	Unit	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
I. Exports to India													
Rice (husked)	Rs/MT	3141	2654	2586	2460	3295	2940	3739	4504	4511	4494	6160	7129
Timber	Rs/Cu M	950	1075	1184	1217	1304	1673	1959	1942	1952	1999	-	-
Maize	Rs/MT	-	691	1171	1240	1201	1380	1632	1402	1990	1296	-	-
Mustard & Linseeds	Rs/MT	2938	3892	4601	-	-	-	-	-	6929	5141	7220	10385
Herbs	Rs/MT	1817	3659	4098	3150	8237	9380	2315	3160	7092	27594	9646	11571
Ghee	Rs/MT	25021	25336	26518	29948	29986	29933	41987	44498	42212	49037	48958	52477
Dried Ginger	Rs/MT	8436	15762	17654	10290	7672	9669	14339	23886	43003	38140	19987	23234
Raw Jute	Rs/MT	-	-	-	3553	3766	3032	3196	4304	5208	9941	-	-
Jute Cuttings	Rs/MT	-	-	-	2602	2053	1457	2170	3549	2655	-	-	-
Jute Goods	Rs/MT	-	-	-	9480	12012	7399	6128	7899	12233	18471	14086	13308
o/w Hessian	Rs/MT	-	-	-	14385	15815	9756	8796	10565	16003	23248	17157	17294
o/w Sacking	Rs/MT	-	-	-	4098	4918	6462	5293	6548	9873	15649	12801	10920
o/w Twine	Rs/MT	-	-	-	5263	6849	7273	5616	7047	11839	15814	11167	9692
II. Exports to Third Countries													
Rice (husked)	Rs/MT	3159	2711	2722	3137	2911	4421	3415	-	-	-	-	-
Timber	Rs/Cu M	-	-	-	-	1694	805	-	-	-	-	-	-
Large Cardamom	Rs/MT	27445	22093	2731	41111	43112	31557	24262	22308	25000	58400	73639	188390
Hides & Skins	Rs/Th. Pi	38367	65284	72254	60946	63250	55519	51320	38737	38572	50710	60745	9712
Pulses	Rs/MT	-	-	-	-	-	-	7366	5894	8850	8073	9364	-
Raw Jute	Rs/MT	2741	3075	4773	3746	3755	3368	3840	3416	-	-	-	-
Jute Cuttings	Rs/MT	1342	1827	3084	2598	1047	3571	-	-	-	-	-	-
Jute Goods	Rs/MT	5761	6410	6866	6171	8414	7802	9804	-	-	-	-	-
o/w Hessian	Rs/MT	6213	7132	7569	7064	-	9180	9804	-	-	-	-	-
o/w Sacking	Rs/MT	4448	4470	6783	4997	-	7075	-	-	-	-	-	-
o/w Twine	Rs/MT	3883	3915	4286	9402	-	-	-	-	-	-	-	-
Carpets	Rs/Sq M	470	588	901	860	701	703	848	915	1010	1099	1142	-

Sources : Tables 3.4 (a) and (b)

Table 3.5 Direction of Foreign Trade
(Rs. Millions)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Exports, f.o.b	1209.7	1142.9	1099.4	1525.8	1311.4	1663.8	1473.6	1158.6	1709.9	2746.4	3085.6	2991.4
Belgium	18.5	41.0	55.8	21.6	5.8	9.9	5.5	2.0	1.0	1.8	4.9	26.5
United Kingdom	15.2	21.4	41.9	31.9	55.9	48.2	42.2	56.2	90.4	105.4	107.5	301.9
Germany, Fed. Rep.	12.5	45.6	53.9	68.2	72.2	58.3	66.6	89.2	176.7	147.1	223.4	167.9
U.S.S.R.	3.4	10.0	7.6	24.0	110.6	50.2	23.4	26.2	50.0	95.7	66.3	43.3
Rest of Europe	35.0	59.5	92.5	119.8	103.2	74.2	54.3	60.7	94.2	34.2	109.8	310.3
Hong Kong	22.3	22.5	18.9	20.5	13.6	93.9	4.1	4.9	4.3	16.1	49.6	11.5
India	910.6	779.6	498.1	650.1	507.3	992.4	994.3	843.3	1166.7	1601.7	1241.1	1302.5
Japan	3.8	26.1	19.3	66.1	57.8	31.5	15.6	11.3	8.4	13.5	10.3	73.0
Singapore	38.6	35.2	42.0	35.9	29.2	65.6	33.9	7.6	15.5	68.9	216.3	105.6
Rest of Asia	76.0	17.3	109.3	267.5	165.7	164.4	174.0	27.8	1.0	40.3	15.2	4.7
U.S.A.	44.8	63.0	62.6	96.8	92.7	35.6	23.4	17.7	29.7	482.9	806.3	605.5
Rest of World a/	29.0	21.7	97.5	123.4	97.4	39.6	36.3	11.7	72.0	138.8	234.9	38.7
Imports, c.i.f.	1934.1	1950.4	2645.1	3043.3	3692.7	4475.9	4681.8	6085.7	6533.5	7768.6	9373.6	10905.4
Germany, Fed. Rep.	20.3	38.7	47.3	66.0	69.2	71.4	152.0	106.2	212.0	191.3	270.3	312.0
United Kingdom	11.5	25.9	52.7	63.5	214.2	65.4	69.4	56.7	88.9	225.8	100.3	185.8
U.S.S.R.	4.8	127.2	131.0	113.0	143.9	164.7	381.0	273.5	537.4	443.2	180.1	4.0
Rest of Europe	15.0	37.7	70.8	83.7	119.6	238.4	122.1	287.9	279.5	141.4	240.7	932.0
Hong Kong	13.6	21.5	34.5	68.7	57.2	91.8	65.5	102.7	116.4	113.2	180.3	200.3
India	1267.1	1343.5	1534.1	1580.8	1786.4	2179.0	2280.9	2499.6	3077.3	3895.8	3970.9	4262.1
Japan	74.7	133.2	245.3	403.5	405.2	572.0	577.4	726.6	704.8	886.1	1503.2	1437.9
Singapore	41.1	14.9	21.9	86.0	67.5	0.0	0.0	184.1	158.3	240.0	35.7	775.4
Rest of Asia	16.8	137.5	288.3	451.4	669.0	937.1	809.8	1646.6	1101.3	1209.7	2243.6	2147.9
U.S.A.	34.5	53.9	154.9	100.7	103.3	94.1	171.0	133.5	146.2	121.5	172.8	86.4
Rest of World a/	434.7	16.4	64.3	26.0	57.2	62.0	52.7	68.3	111.4	300.6	475.7	561.6

a/ Includes unclassified exports and imports.

Note: Data based on customs returns. Total figures differ from those of other tables because this table has not been revised at source.

Sources: Trade Promotion Center and Nepal Rastra Bank.

Table 3.6 Receipts and Payments of Convertible Foreign Exchange

(Rs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Receipts												
Merchandise Exports	154.1	296.6	385.7	557.6	518.0	717.8	642.0	513.5	305.1	427.0	916.7	2072.3
Services	299.1	354.5	447.9	570.7	645.5	811.2	1001.3	926.0	744.8	951.3	1121.4	1286.9
Remittances	90.7	97.7	125.4	120.1	146.3	150.3	216.8	205.5	292.6	280.1	275.4	346.7
Tourist Expenditures	120.7	189.9	244.2	342.6	406.8	518.7	616.8	493.8	491.1	585.7	724.9	863.8
Interest Receipt	87.7	66.9	78.3	108.0	92.4	142.2	167.7	226.7	161.1	85.5	121.1	76.4
Diplomatic Missions	22.4	27.9	54.2	104.9	105.0	159.2	263.7	196.6	128.6	229.4	157.4	333.3
Foreign Aid	26.5	132.1	161.0	211.0	542.2	623.5	622.8	563.3	798.7	1150.7	1402.4	1814.6
Miscellaneous	65.3	49.4	67.5	18.4	37.5	59.4	122.3	89.2	64.1	88.4	122.7	282.6
Total Receipts	567.4	860.5	1116.3	1462.6	1848.2	2371.1	2652.1	2288.6	2041.3	2846.8	3720.6	5789.7
Payments												
Merchandise Imports	567.8	435.4	521.3	743.0	909.3	1218.1	1868.5	1849.5	2650.9	2222.1	3201.6	4418.2
Services	79.9	98.1	82.4	163.5	143.2	132.0	143.3	210.8	342.8	445.3	548.8	1168.3
Interest Payments	17.5	12.3	22.2	80.7	33.6	47.1	61.8	106.1	168.1	204.0	175.0	410.6
Others	62.4	85.8	60.2	82.8	109.6	84.9	81.5	104.7	174.7	241.3	373.8	757.7
Diplomatic Missions	16.0	18.2	18.9	28.5	35.1	39.4	51.3	54.1	61.8	95.4	65.5	91.9
Miscellaneous	239.7	61.8	26.6	789.5	554.0	1032.1	584.7	51.8	29.3	45.0	77.1	217.8
Total Payments	903.4	613.5	649.2	1724.5	1641.6	2421.6	2647.8	2166.2	3084.8	2807.8	3893.0	5896.2
Surplus or Deficit (-)	-336.0	247.0	467.1	-261.9	206.6	-50.5	4.3	122.4	-1043.5	39.0	-172.4	-106.5

Source : Nepal Rastra Bank

Table 3.7 International Reserves

(US$ Million)

Mid-Month	Total Gross Official Reserves	Gold	SDRs	Reserve Position at the Fund	Foreign Exchange	of which: Indian Rupees
1969 - July	79.7	8.2	-	2.4	69.1	23.0
1975 - July	112.5	5.5	2.7	3.7	100.7	8.7
1976 - July	120.3	5.5	2.5	-	112.3	12.5
1977 - July	145.3	5.6	2.4	-	137.4	8.6
1978 - July	140.6	6.2	1.7	-	132.7	14.5
1979 - July	179.8	6.3	2.5	3.3	167.8	25.5
1980 - July	187.0	6.4	3.7	4.0	172.9	16.4
1981 - July	195.8	6.4	0.8	6.5	182.1	54.9
1982 - July	232.6	6.4	0.5	6.2	219.5	69.7
1983 - July	163.1	6.4	0.7	6.0	150.0	82.1
1984 - July	123.1	6.4	0.1	5.8	110.8	42.5
1985 - July	77.2	6.4	0.05	6.7	64.1	11.9
1986 - July	100.9	6.4	0.1	6.8	87.6	NA
1987 - July	128.1	6.4	0.1	7.4	114.4	NA

Note: Totals may not add up due to rounding.

Source : Nepal Rastra Bank

Table 3.8 Foreign Aid Commitment by Major Sources
(NRs. Million)

Sources	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 *
Bilateral	434.9	595.3	782.2	892.8	1181.9	788.0	1915.8	1556.0	1672.7	745.5	3627.8	4656.3	5127.0	2652.7
Grant	329.6	163.8	636.0	842.8	1030.6	788.0	1815.8	1144.7	816.4	745.5	2806.0	4303.2	2484.0	2099.7
Loan	105.3	431.5	146.2	50.0	151.3	-	100.0	411.3	856.3	-	821.8	353.1	2643.0	553.0
Multilateral	3.0	820.4	1129.0	1063.4	1235.4	1123.6	2096.8	1330.1	1286.5	2354.1	2363.6	4847.9	3600.4	2073.7
Grant	3.0	88.8	218.6	102.6	163.8	314.4	449.8	172.0	514.3	175.7	493.7	181.4	25.3	3.3
Loan	-	731.6	910.4	960.8	1071.6	809.2	1647.0	1158.1	772.2	2178.4	1869.9	4666.5	3575.1	2070.4
Total	437.9	1415.7	1911.2	1956.2	2417.3	1911.6	4012.6	2886.1	2959.2	3099.6	5991.4	9504.2	8727.4	4726.4
Grant	332.6	252.6	854.6	945.4	1194.4	1102.4	2265.6	1316.7	1330.7	921.2	3299.7	4484.6	2509.3	2103.0
Loan	105.3	1163.1	1056.6	1010.8	1222.9	809.2	1747.0	1569.4	1628.5	2178.4	2691.7	5019.6	6218.1	2623.4

* First Nine Months

Source : Economic Survey, 1987/88

Table 3.9 Foreign Aid Commitment by Sector
(NRs. Million)

Sectors	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 *
Agriculture, Irrigation and Forestry	34.5	68.9	343.1	846.0	544.6	624.6	1842.0	830.9	955.1	1273.9	1711.1	1484.1	1783.6	2410.6
o/w Aid Group	34.5	64.5	329.5	629.5	417.8	505.7	1618.3	676.5	895.3	1236.3	1047.3	1153.8	1490.0	2065.7
Transport Communications	285.4	229.8	503.0	309.4	574.4	209.4	334.0	198.4	525.1	378.0	1130.2	2320.8	1279.8	373.9
o/w Aid Group	285.4	229.8	335.0	309.4	514.4	205.3	332.8	157.4	69.9	378.0	930.2	1060.7	1192.6	373.9
Power	58.5	885.4	198.8	475.7	739.5	310.8	175.6	866.6	683.6	512.4	1839.8	4392.9	108.4	631.1
o/w Aid Group	58.5	666.6	157.2	1.7	614.3	295.2	175.6	723.6	683.6	497.0	1018.0	4244.9	108.4	631.1
Industry & Mining	-	6.6	534.3	100.9	-	0.2	94.0	236.9	132.9	419.0	148.8	291.2	2906.4	619.0
o/w Aid Group	-	6.6	531.2	50.9	-	0.2	94.0	234.7	97.0	416.6	148.1	291.2	2881.2	619.0
Rural Development	-	100.0	92.8	-	340.4	258.8	436.9	158.8	19.0	70.5	10.9	746.8	1210.0	110.3
o/w Aid Group	-	100.0	3.3	-	184.4	258.8	391.9	158.8	19.0	70.5	10.9	746.8	1122.5	4.1
Water Supply & Sewerage	-	-	171.6	-	-	39.0	371.4	6.5	8.7	81.3	180.6	-	-	7.0
o/w Aid Group	-	-	171.6	-	-	3.0	324.0	-	8.7	81.3	180.6	-	-	-
Education	4.0	72.7	24.6	127.2	4.0	25.0	30.3	289.3	353.2	248.3	341.4	47.8	-	12.0
o/w Aid Group	4.0	72.7	-	125.6	-	14.4	30.3	289.3	114.4	221.7	341.4	47.8	-	12.0
Health	8.8	52.4	42.9	38.5	48.4	110.9	708.4	171.9	256.0	5.6	19.7	-	100.8	214.7
o/w Aid Group	8.8	35.1	21.1	35.7	45.5	59.6	591.4	169.0	-	-	19.7	-	-	214.7
Others	46.8		-	58.5	166.0	332.9	20.0	126.8	25.6	110.7	609.0	220.6	1338.4	347.9
o/w Aid Group	46.8		-	58.5	166.0	255.0	20.0	88.1	25.6	94.9	609.0	220.6	1338.4	347.9
Total	438.0	1415.8	1911.1	1956.2	2417.3	1911.6	4012.6	2886.1	2959.2	3099.7	5991.5	9504.2	8727.4	4726.5
o/w Aid Group	438.0	1175.3	1548.9	1211.3	1942.4	1597.2	3578.3	2497.4	1913.5	2996.3	4305.2	7765.8	8133.1	4268.4

Source: Economic Survey, 1987/88
* First Nine Months

Table 3.10 Foreign Aid Disbursement by Major Sources
(NRs. Million)

Sources	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Bilateral	330.7	370.9	456.7	538.8	846.4	858.1	909.5	947.2	983.2	1156.3	1481.1	1078.4
Grant	307.7	344.8	372.6	457.4	696.8	707.1	799.6	880.9	765.5	756.9	982.2	778.7
Loan	23.0	26.1	84.1	81.4	149.6	151.0	109.9	66.3	217.7	399.4	498.9	299.7
Multilateral	174.9	186.0	391.7	450.6	494.1	704.1	813.7	1128.7	1564.3	1520.1	2010.4	2236.1
Grant	52.0	47.7	94.0	141.9	108.8	161.8	193.7	209.2	111.1	166.5	138.4	173.9
Loan	122.9	138.3	297.7	308.7	385.3	542.3	620.0	919.5	1453.2	1353.6	1872.0	2062.2
Total	505.6	556.9	848.4	989.4	1340.5	1562.2	1723.2	2075.9	2547.5	2676.4	3491.5	3314.4
Grant	359.7	392.5	466.6	599.3	805.6	868.9	993.3	1090.1	876.6	923.4	1120.6	1078.3
Loan	145.9	164.4	381.8	390.1	534.9	693.3	729.9	985.8	1670.9	1753.0	2370.9	2236.1

Source : Economic Survey, 1987/88

Table 3.11 Foreign Aid Disbursement by Sector
(NRs. Million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Agriculture Irrigation and Forest	125	99	148	228	221	323	454	599	758	1053	1299	1038
Agriculture	91.4	50.7	76.2	83.3	54.6	139.9	181.7	235.3	315.3	465.4	626.2	348.3
Irrigation	24.0	36.2	46.2	121.9	133	148.7	200.7	267.9	337.5	449.2	577.2	514.7
Forest	9.7	10.0	24.6	9.4	31.4	31.94	70.6	93.1	100.5	135.8	93.8	167.1
Others	0.0	1.8	1.0	12.9	1.6	2.2	1.3	2.9	4.3	2.7	1.6	7.5
Transport, Power and Communication	231	290	500	560	909	1000	776	649	859	970	1321	1474
Transport	202.6	254.8	286.2	338.4	480.1	412	415.1	264.9	301.1	555.9	343.1	404.6
Power	22.7	25.4	207.8	208.5	406.4	560.3	316.2	313.7	462.9	328.6	891.5	931.3
Communication	5.4	10.2	5.5	12.9	22.3	27.7	44.3	70.2	95.1	85.2	86.6	137.8
Industry and Commerce	62	92	69	31	77	70	144	211	495	192	276	183
Social Services	86	74	130	169	124	146	336	612	432	435	586	585
Education	21.9	12.7	25.7	22.0	22.2	31.5	76.8	167.9	138.8	101.9	194.6	169.9
Health	48.6	24.1	34.8	46.9	29.6	47.6	74.9	116.7	99.7	141.5	137.5	148.4
Drinking Water	5.7	22.5	19.0	35.2	38.5	31.4	49.1	116.6	78.2	56.1	142.7	169.6
Others **	9.8	14.5	50.9	64.4	33.7	35.9	135.1	211.2	115.7	135.8	111.6	97.5
Others ***	1.5	2.4	1.6	3.1	10.5	23.5	13.5	4.2	3.5	26.6	9.5	34.3
Total	506	557	848	990	1341	1562	1723	2076	2548	2677	3492	3314

Source: Economic Survey, 1987/88

TABLE 4.1

EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1987*

INCLUDES ONLY DEBT COMMITTED 000000 - DEC 31, 1987
DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
(IN THOUSANDS OF U.S. DOLLARS)

CREDITOR TYPE	DEBT OUTSTANDING			IN ARREARS	
	DISBURSED	UNDISBURSED	TOTAL	PRINCIPAL	INTEREST
SUPPLIERS CREDITS	3,700	-	3,700	-	-
FINANCIAL INSTITUTIONS	30,876	3,312	34,188	-	-
MULTILATERAL LOANS	716,922	872,919	1,589,841	-	-
BILATERAL LOANS	150,473	64,342	214,815	-	-
TOTAL EXTERNAL DEBT	901,971	940,573	1,842,544	-	-

* Data from World Bank Debt Reporting System. Because of differences in methodology, the figures may not be consistent with others in the report.

NOTES: (1) Only debts with an original or extended maturity of over one year are included in this table.
(2) Debt outstanding includes principal in arrears but excludes interest in arrears.

TABLE 4.2

SERVICE PAYMENTS, COMMITMENTS, DISBURSEMENTS AND OUTSTANDING AMOUNTS OF EXTERNAL PUBLIC DEBT
PROJECTIONS BASED ON DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DEC 31, 1987 /1
INCLUDES ONLY DEBT COMMITTED 000000 - DEC 31, 1987
DEBT REPAYABLE IN FOREIGN CURRENCY AND GOODS
(IN THOUSANDS OF U.S. DOLLARS)
* * * TABLE TOTAL * * *

DATE	DEBT OUTSTANDING AT END OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMIT-MENTS	DISBURSE-MENTS	SERVICE PAYMENTS			CANCEL-LATIONS *	ADJUST-MENT **
					PRINCIPAL	INTEREST	TOTAL		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
197712	72,065	300,561	62,412	30,604	2,033	818	2,851	2,309	-
197812	86,960	380,778	106,939	38,585	1,643	1,115	2,758	32,039	6,960
197912	123,137	446,798	71,510	38,436	1,789	1,537	3,326	650	-3,051
198012	173,340	538,864	96,850	54,872	2,107	1,968	4,075	4,642	1,965
198112	234,503	635,941	107,879	66,447	2,230	2,534	4,764	3,256	-5,316
198212	298,398	737,326	110,667	69,056	2,646	3,205	5,851	3,638	-2,998
198312	363,726	922,165	198,526	72,735	4,203	4,227	8,430	1,440	-8,044
198412	444,964	991,907	101,980	93,697	5,453	5,411	10,864	1,802	-24,983
198512	561,420	1,262,278	217,323	104,936	8,271	8,089	16,360	2,414	63,733
198612	711,092	1,531,971	209,408	142,033	17,768	12,515	30,283	6,132	84,185
198712	901,971	1,842,544	163,377	152,374	19,790	14,268	34,058	4,557	171,543
* * * THE FOLLOWING FIGURES ARE PROJECTED * * *									
198812	1,078,536	1,815,899	-	203,208	26,649	18,465	45,114	-	4
198912	1,248,946	1,790,510	-	195,802	25,387	18,516	43,903	-	-2
199012	1,396,180	1,764,976	-	172,772	25,544	18,479	44,023	-	10
199112	1,503,156	1,740,541	-	131,407	24,433	18,262	42,695	-	-2
199212	1,573,551	1,711,856	-	99,077	28,692	18,061	46,753	-	7
199312	1,609,390	1,681,210	-	66,483	30,645	17,668	48,313	-	-1
199412	1,615,280	1,646,359	-	40,746	34,853	17,125	51,978	-	2
199512	1,597,604	1,605,964	-	22,718	40,401	16,542	56,943	-	6
199612	1,561,853	1,563,160	-	7,052	42,805	15,851	58,656	-	1
199712	1,517,275	1,517,603	-	979	45,554	15,240	60,794	-	-3
199812	1,471,932	1,472,260	-	-	45,344	14,673	60,017	-	1
199912	1,425,803	1,426,131	-	-	46,128	14,101	60,229	-	-1
200012	1,379,838	1,380,166	-	-	45,970	13,543	59,513	-	5
200112	1,333,299	1,333,627	-	-	46,536	12,992	59,528	-	-3
200212	1,286,713	1,287,041	-	-	46,581	12,425	59,006	-	-5

/1 Data from World Bank Debt Reporting System. Because of differences in methodology, the figures may not be consistent with others in the report.

* Projected amounts in this column are amounts excluded from projections because of unknown terms.

** This column shows the amount of arithmetic imbalance in the amount outstanding including undisbursed from one period to the next. The most common causes of imbalances are changes in exchange rates and transfers of debts from one category to another in the table.

Table 5.1 Central Government Budgetary Performance
(NRs. Million)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
Revenue	1004	1116	1323	1582	1812	1880	2419	2680	2842	3409	3917	4645	5975	7320	9300
Tax Revenue	842	911	1100	1244	1477	1529	2036	2211	2421	2737	3151	3659	4372	5775	7202
Non-Tax Revenue	162	205	223	338	335	351	383	468	420	672	766	985	1603	1545	2098
Expenditure & Net Lending	1509	1913	2330	2675	3020	3471	4092	5361	6979	7437	8395	9797	11513	13678	19520
Regular	542	674	832	867	1042	1162	1361	1634	1997	2274	2906	3584	4135	4789	6152
Development	967	1239	1498	1808	1979	2309	2731	3727	4982	5164	5489	6213	7378	8889	13368
Overall Deficit	505	798	1007	1093	1209	1591	1673	2682	4138	4028	4478	5153	5538	6358	10220
Financed by:															
Foreign Grants	283	360	393	467	599	806	869	993	1090	877	923	1173	1285	2078	2594
Gross Foreign Borrowing	104	146	164	382	390	535	693	730	986	1671	1755	2501	2706	3191	6296
Gross Domestic Borrowing	118	292	451	245	219	250	111	959	2062	1480	1800	1479	1547	1088	1330

Source : Budget Speech, Ministry of Finance, several years.

Table 5.1A Central Government Budgetary Performance
(As Percent GDP)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88
Revenue	6.1	6.4	7.7	8.0	8.2	8.1	8.9	8.6	8.4	8.7	8.8	9.0	10.2	10.7
Tax Revenue	5.1	5.2	6.4	6.3	6.6	6.5	7.5	7.1	7.2	6.9	7.1	7.1	7.5	8.5
Non-Tax Revenue	1.0	1.2	1.3	1.7	1.5	1.5	1.4	1.5	1.2	1.7	1.7	1.9	2.7	2.3
Expenditure & Net Lending	9.1	11.0	13.5	13.6	13.6	14.9	15.0	17.3	20.7	18.9	19.0	18.9	19.7	20.1
Regular	3.3	3.9	4.8	4.4	4.7	5.0	5.0	5.3	5.9	5.8	6.6	6.9	7.1	7.0
Development	5.8	7.1	8.7	9.2	8.9	9.9	10.0	12.0	14.8	13.1	12.4	12.0	12.6	13.0
Overall Deficit	3.0	4.6	5.8	5.5	5.4	6.8	6.1	8.7	12.3	10.2	10.1	10.0	9.5	9.3
Financed by:														
Foreign Grants	1.7	2.1	2.3	2.4	2.7	3.5	3.2	3.2	3.2	2.2	2.1	2.3	2.2	3.1
Gross Foreign Borrowing	0.6	0.8	1.0	1.9	1.8	2.3	2.5	2.4	2.9	4.2	4.0	4.8	4.6	4.7
Gross Domestic Borrowing	0.7	1.7	2.6	1.2	1.0	1.1	0.4	3.1	6.1	3.8	4.1	2.9	2.6	1.6

Source: Tables 2.1 and 5.1

Table 5.2 Central Government Revenue
(NRs. Million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
I. Tax Revenues	910.9	1100.1	1243.8	1476.8	1528.7	2035.7	2211.4	2421.1	2737.0	3150.9	3659.5	4372.4	5775.1	7202.0
Customs	358.5	386.2	458.8	626.7	608.0	815.8	825.1	760.9	825.9	1064.4	1231.1	1505.7	2205.5	2650.0
Imports	204.5	215.7	334.1	535.8	504.8	685.1	739.5	714.8	746.2	907.6	1081.1	1285.3	1996.5	2443.0
Exports	37.7	47.6	38.7	54.4	62.6	69.5	42.2	25.1	30.4	55.7	73.3	79.9	93.8	103.0
Indian Excise Refund	112.0	117.4	85.4	36.0	39.5	58.1	40.4	20.0	49.0	100.0	75.6	138.3	113.5	102.0
Others	4.3	5.5	0.6	0.6	1.1	3.1	3.0	1.0	0.3	1.2	1.0	2.1	1.7	2.0
Tax on Goods and Services	324.1	432.7	494.5	614.2	667.0	866.8	1006.2	1215.1	1369.3	1526.9	1766.6	2098.0	2592.4	3024.5
Industrial Production	96.7	131.1	138.2	170.6	192.1	224.7	293.9	355.5	425.8	479.0	555.4	675.4	841.7	1050.0
Liquor	0.0	0.0	26.2	22.0	23.1	17.5	11.8	10.3	6.3	4.9	3.3	3.2	3.3	3.5
Sales Tax	161.9	222.0	273.1	356.8	401.2	537.7	597.4	709.3	770.7	845.8	985.9	1143.8	1340.0	1510.0
Entertainment Tax	7.0	8.7	9.9	9.8	9.5	12.0	15.2	16.3	24.0	24.4	22.3	26.9	31.4	36.5
Hotel Tax	3.5	4.8	10.3	14.0	14.0	17.4	23.1	29.0	34.5	38.8	47.8	66.0	85.0	96.5
Air Flight Tax	2.7	4.8	8.3	7.1	8.6	20.6	21.9	22.7	25.4	26.9	24.9	44.7	70.0	74.5
Contract	9.5	11.8	12.9	16.7	18.5	36.9	43.0	70.4	78.3	103.6	117.0	126.3	195.0	226.0
Road & Bridges Maintenance Tax	7.6	14.5	15.8	17.3	0.0	0.0	0.0	1.5	4.2	3.6	9.9	11.5	26.0	27.5
Others	35.3	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Land Revenue	134.4	140.6	142.7	115.0	129.4	186.3	172.5	171.5	212.4	218.6	258.8	285.3	341.1	407.5
Land Revenue	94.8	97.9	87.0	54.6	56.2	100.7	81.7	66.7	77.2	76.9	74.2	72.4	77.1	77.5
House and Land Registration	39.6	42.7	54.1	55.7	65.0	77.8	88.3	104.8	135.2	141.7	170.1	211.6	259.1	330.0
Stamp Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.5	1.3	4.9	0.0
Panchayat Dev. & Land Tax	0.0	0.0	1.6	4.7	8.3	4.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Development Tax	0.0	0.0	0.0	0.0	0.0	3.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax on Property, Income	93.9	140.6	147.8	121.0	124.3	166.8	207.6	273.7	329.4	341.0	403.0	483.4	636.1	1120.0
PE Income Tax	0.0	0.0	34.6	27.0	28.1	41.0	37.4	53.4	63.7	93.1	110.8	120.9	150.0	171.2
Semi-PE Income Tax	0.0	0.0	6.7	5.2	7.6	0.8	0.3	1.5	2.2	1.4	1.8	1.2	2.0	2.7
Private Firm Tax	0.0	0.0	5.9	0.9	2.2	1.0	0.2	0.3	0.8	0.5	2.0	0.2	1.0	2.2
Indivudual Income Tax	87.2	133.3	85.0	61.4	55.7	91.4	143.7	173.9	212.5	196.0	234.5	284.3	377.1	807.4
Income Tax from Salaries	0.0	0.0	4.6	8.5	7.6	9.8	8.1	11.0	11.7	16.3	15.3	30.9	40.0	44.2
House Rent Tax	1.4	2.0	3.4	2.8	0.8	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Urban House and Land tax	3.3	4.1	5.1	6.1	6.5	6.6	9.3	11.4	14.3	12.1	10.3	13.4	16.0	37.0
Vehicle Tax	2.1	1.2	2.3	2.6	1.9	1.8	2.4	11.0	16.2	15.3	18.1	22.8	29.0	32.8
Tax on Interest	0.0	0.0	0.1	1.1	0.1	13.2	5.7	11.1	7.9	6.4	10.2	9.7	21.0	22.5
Tax on Loan	0.0	0.0	0.1	5.3	13.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 5.2 (Continued)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
II. Non-Tax Revenues	204.8	222.9	338.2	335.1	351.3	383.4	468.2	420.5	672.3	765.8	985.1	1602.7	1544.9	2098.0
Charges, Fees and Others	19.2	27.5	42.2	44.4	29.7	48.7	56.9	71.5	170.6	283.3	201.7	852.0	679.4	750.0
Firm Registation	0.5	0.4	1.9	1.4	1.9	2.7	3.4	5.2	7.4	7.8	8.2	11.7	12.0	12.5
Arms Registration	0.3	0.2	0.4	0.3	0.4	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.1
Vehicle Licenses	0.4	1.2	1.4	1.6	2.0	2.8	3.1	3.1	6.3	6.2	7.1	7.7	8.5	9.0
Judiciary	4.0	5.5	6.7	7.4	6.1	7.6	8.6	10.1	11.3	11.7	13.5	15.8	21.5	77.0
Administration	14.0	20.2	31.8	33.6	19.3	34.9	41.1	52.3	144.7	256.6	172.1	815.9	636.4	650.4
Sales of commodities & services	44.9	75.5	121.9	141.7	145.0	171.9	189.4	162.9	225.7	253.1	305.6	311.4	334.0	368.0
Drinking Water	0.2	0.3	0.5	0.6	0.6	0.6	0.5	0.6	0.8	1.2	1.4	1.6	2.3	2.5
Irrigation	0.3	0.6	1.0	0.7	1.3	0.5	0.6	0.9	1.0	1.0	0.5	1.2	3.0	3.3
Electricity	3.3	6.7	12.1	4.2	1.9	8.2	4.1	4.1	24.4	25.9	5.7	1.2	2.7	4.0
Postal Services	9.5	14.3	22.4	19.3	17.1	20.9	23.9	22.7	32.4	37.3	36.4	44.3	55.0	60.0
Food and Agriculture	0.0	0.0	5.2	5.2	6.6	7.4	7.8	10.6	11.7	13.4	31.9	17.6	20.0	21.0
Education	1.1	1.6	1.3	0.1	2.9	3.2	3.3	3.6	6.3	6.7	6.9	9.8	11.0	13.0
Forest	24.0	43.7	63.6	82.7	86.5	90.5	113.6	53.9	60.6	90.5	115.6	129.3	105.0	107.0
Transport	6.4	8.2	5.8	6.0	10.9	25.3	19.2	35.2	41.2	32.4	46.0	37.5	45.0	50.0
Others	0.0	0.0	10.0	22.8	17.2	15.1	16.3	31.3	47.3	44.7	61.2	69.0	90.0	107.2
Dividend	93.6	68.2	71.1	68.9	80.0	87.3	106.4	119.0	109.0	86.2	110.1	106.6	121.7	158.5
Financial Institution	0.0	0.0	69.2	66.6	77.2	83.9	101.1	114.4	103.5	81.1	97.5	101.0	117.1	153.0
Trading Concerns	0.0	0.0	1.4	1.3	0.2	0.1	0.0	0.1	0.1	2.0	0.3	1.1	1.1	1.4
Industrial Undertakings	0.0	0.0	0.2	0.9	2.6	3.2	5.3	4.5	2.4	3.1	11.8	4.5	3.5	4.0
Service Sector	0.0	0.0	0.3	0.0	0.1	0.1	0.1	0.1	3.0	0.0	0.4	0.0	0.0	0.1
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Royalty and Sales of Fixed Asse	4.6	10.1	9.9	8.7	7.3	8.0	16.8	9.2	40.6	31.7	32.6	25.4	25.7	135.0
Royalty from Mining	0.0	0.0	1.5	1.6	1.1	1.3	1.8	1.4	1.7	2.6	2.6	4.1	3.7	4.0
Royalty from Electricity	4.6	10.1	4.5	1.5	0.2	0.2	0.0		0.2			0.0	0.0	0.0
Other Royalties	0.0	0.0	0.8	1.1	1.6	1.6	2.5	2.6	2.6	15.1	5.3	11.6	9.0	10.0
Others	0.0	0.0	3.1	4.5	4.4	5.0	12.5	5.1	36.1	13.9	24.7	9.6	13.0	121.0
Mint	0.0	0.0	28.7	14.0	21.3	21.3	5.3	6.9	3.7	0.0	0.0	0.0	0.0	0.0
Principle and Interest Repaymen	32.0	29.8	33.8	31.6	42.0	30.1	29.2	47.7	117.4	101.6	324.6	300.3	374.2	471.0
Loan Repayment	18.5	20.7	22.7	20.3	27.1	16.5	11.5	34.0	67.1	67.5	136.7	150.9	163.2	220.0
Interest	13.5	9.1	10.0	9.9	13.2	12.5	16.2	12.6	49.2	33.2	186.1	148.3	210.0	251.0
Others	0.0	0.0	1.1	1.5	1.7	1.1	1.4	1.2	1.1	0.9	1.7	1.1	1.0	0.0
Miscellaneous	10.6	11.9	30.5	25.8	25.9	16.1	64.2	3.3	5.3	9.9	10.5	7.1	9.9	215.5
Total Revenue (I + II)	1115.6	1322.9	1582.0	1811.9	1880.0	2419.2	2679.5	2841.6	3409.3	3916.6	4644.5	5975.1	7320.0	9300.0

Source: Ministry of Finance, Budget Speech, 1977/78 - 1988/89

Table 5.3 Expenditure of the Central Government
(NRs. Million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
I. Regular Expenditure	674.5	832.1	866.9	1041.7	1162.1	1361.0	1634.4	1997.1	2273.5	2906.2	3584.0	4135.2	4789.0	6152.1
Constitutional Organs	20.4	26.3	28.5	31.6	23.8	61.9	60.4	54.4	58.0	60.9	113.2	132.2	106.1	137.1
HM & Royal Family	7.8	7.8	7.9	7.6	9.9	9.7	12.3	15.9	17.2	17.3	25.5	25.5	28.3	29.6
State Council	0.3	0.4	0.4	0.4	0.5	0.6	0.9	1.2	1.7	2.0	1.9	2.6	2.2	4.1
National Panchayat	2.7	3.3	3.5	4.1	4.6	4.2	5.3	6.7	7.9	7.7	9.5	11.8	12.1	17.2
Dept. of Auditor General	2.1	2.2	2.4	2.5	2.9	4.3	4.7	6.5	7.1	8.9	8.1	10.1	12.1	15.1
Supreme Court	0.9	1.0	1.2	1.3	1.4	1.5	2.5	3.9	3.6	3.4	3.7	5.1	5.6	6.8
Public Service Commission	2.2	3.0	2.5	3.2	3.2	3.5	4.7	7.5	8.5	8.8	8.9	12.5	15.8	13.9
Election Comm	4.3	2.5	2.4	3.0	0.8	36.8	28.3	4.2	3.7	4.8	46.3	41.9	3.2	6.8
Commission for Prevention of Misuse of Authority	0.0	0.0	0.0	0.8	0.2	0.7	0.9	0.9	1.4	1.1	1.1	1.9	1.9	2.1
Attorney Gen	0.0	0.0	0.0	0.0	0.0	0.6	0.7	3.0	1.5	1.5	1.5	2.2	2.3	2.6
Panchayat Policy and Investigation Committee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.6	5.4	5.3	6.5	18.7	22.7	39.0
Go To Village Natl. Campaign	0.0	6.1	8.2	8.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Administration	115.9	125.6	134.3	152.4	203.0	218.8	253.1	323.7	351.0	411.2	516.1	601.1	676.5	847.7
Council of Ministers	1.6	1.8	2.5	2.3	2.5	2.6	3.8	4.7	3.6	4.0	4.2	4.1	6.1	9.4
HMG Secretariat	14.5	15.9	17.4	21.3	23.4	25.9	31.2	39.0	41.5	43.3	51.7	73.1	77.5	109.5
District Administration	15.2	18.0	21.1	22.8	23.9	24.0	28.8	37.4	34.7	40.3	43.8	51.3	53.5	66.4
Police	65.4	70.7	75.7	83.9	111.4	145.7	162.9	210.2	237.4	288.0	377.5	409.1	470.2	564.0
Jail	8.4	9.0	9.6	10.5	13.9	14.3	17.7	21.9	23.5	25.0	26.0	28.8	31.5	41.7
Miscellaneous	9.8	8.5	6.2	9.7	8.3	6.2	8.3	10.3	10.2	10.3	12.4	34.4	36.8	54.4
Administrative Reform	1.1	1.7	1.8	2.0	0.0	0.1	0.5	0.0	0.2	0.2	0.5	0.5	0.9	2.4
National Election Commission	0.0	0.0	0.0	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Adm	20.7	23.3	24.9	28.6	30.4	35.9	43.9	54.6	58.6	62.9	75.3	95.6	101.3	120.7
Land Revenue	8.0	9.3	10.2	11.3	13.1	16.6	21.1	26.0	26.8	29.1	34.0	42.2	42.4	52.1
Customs	6.5	6.6	6.8	8.2	9.1	9.9	11.4	15.4	17.1	18.3	23.4	29.5	31.7	35.8
Excise	2.9	3.6	3.8	4.1	3.9	5.1	6.3	6.7	7.1	8.0	8.1	10.4	12.1	14.1
Tax	2.9	3.6	3.9	4.8	4.2	4.0	4.9	6.4	7.4	7.3	9.5	13.0	14.8	18.1
Revenue & Tax Courts	0.4	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.6
Economic Adm. and Planning	8.6	14.4	20.6	22.7	13.1	13.5	19.3	32.1	25.1	28.0	31.5	38.3	38.7	44.1
Planning	0.6	0.7	0.6	0.7	0.8	0.7	0.8	0.9	1.1	1.2	1.4	2.0	2.2	2.9
Statistics	1.4	1.6	1.2	0.7	0.5	0.7	0.7	0.9	1.0	1.1	1.5	1.8	2.2	2.7
FCGO	2.5	2.9	3.1	3.4	4.1	4.2	8.9	20.4	20.9	23.6	26.2	31.5	34.4	38.5
Metric Measurement	0.6	0.9	1.1	1.1	1.1	1.1	1.6	2.0	2.0	2.1	2.4	2.9	0.0	0.0
Mint	3.5	8.4	14.5	16.8	6.7	6.9	7.3	7.8	0.0	0.0	0.0	0.0	0.0	0.0

Table 5.3 (Continued)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
Judicial Adm	10.6	12.1	13.0	14.9	15.8	18.5	25.8	38.5	39.9	43.9	51.7	66.3	70.4	85.8
Court	10.2	11.7	12.6	14.4	15.2	18.3	25.6	38.2	39.6	43.6	51.3	65.9	70.0	85.4
Court for Prevention of Misuse of Authorities	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.5
Attorney General	0.4	0.4	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Services	24.7	25.1	27.6	41.9	42.8	38.8	50.1	52.4	54.9	62.3	71.6	100.7	103.3	135.7
Foreign Services	18.5	20.1	23.1	36.8	38.1	33.2	44.2	44.2	45.5	53.0	61.0	77.0	87.7	116.1
Misc.	6.3	5.0	4.6	5.1	4.7	5.6	5.9	8.2	9.3	9.3	10.6	23.7	15.6	19.7
Defence	134.6	162.3	167.9	192.2	223.0	259.0	282.8	392.4	453.6	507.9	606.2	712.4	796.5	936.6
Defence	134.6	162.3	167.9	155.8	185.0	211.0	233.3	337.3	388.8	435.4	514.5	602.1	666.5	791.5
Miscellaneous	0.0	0.0	0.0	36.4	38.0	47.9	49.5	55.1	64.9	72.5	91.7	110.3	130.0	145.2
Social Services	141.5	134.2	148.6	175.5	184.5	210.3	249.6	320.5	360.4	410.6	493.1	508.2	555.1	666.3
Education	77.1	67.9	69.1	80.8	82.5	98.6	106.7	129.4	137.2	161.4	207.6	242.3	256.3	286.8
Health	33.2	32.5	41.5	52.2	57.7	65.2	80.5	102.3	117.8	139.4	150.0	182.5	208.9	268.7
Drinking Water	0.9	1.1	1.4	2.3	2.8	3.1	3.9	6.4	6.0	8.8	10.2	12.3	13.7	18.3
Panchayat & Local Devp.	16.3	16.1	17.9	21.0	21.8	22.5	31.6	51.8	65.0	69.4	89.6	25.1	26.9	35.0
Other Social Service	14.0	16.7	18.7	19.2	19.7	20.8	26.8	30.5	34.5	31.5	35.7	46.0	49.4	57.6
Economic Services	72.3	91.0	91.7	98.8	105.7	110.2	130.6	165.8	174.6	199.4	232.3	286.1	303.6	400.3
Aggriculture	5.3	6.2	6.7	7.4	7.7	3.4	3.7	4.5	5.2	6.3	6.6	8.3	9.0	31.8
Irrigation	1.7	2.2	4.3	3.9	2.4	3.2	3.6	4.7	5.1	5.8	6.2	6.9	8.0	9.2
Land Reform	10.1	11.3	12.2	11.7	12.0	12.9	15.7	18.1	19.2	17.5	23.6	27.4	27.3	12.2
Survey	2.0	2.4	2.8	3.4	3.9	4.2	5.3	6.8	7.4	8.3	9.5	11.8	9.9	16.0
Forest	5.4	8.8	3.6	4.0	4.3	4.6	5.4	7.3	8.0	8.7	10.0	13.3	13.6	17.4
Industry & Mining	2.0	2.4	2.4	2.6	2.8	2.9	3.4	4.1	4.4	5.2	6.8	8.1	11.2	16.7
Communication	19.3	25.1	26.1	29.4	32.8	35.6	45.2	58.4	59.8	74.8	98.4	119.1	128.6	166.1
Transportation	20.4	23.3	26.9	31.9	34.2	36.6	40.1	50.8	54.6	61.3	66.4	86.0	90.8	123.0
Electricity	5.1	8.2	5.7	3.4	3.9	4.6	5.5	7.7	7.5	8.3	0.9	0.0	0.0	0.0
Other Economic Services	1.0	1.1	1.0	1.2	1.7	2.1	2.6	3.3	3.4	3.2	3.9	5.0	5.5	8.0
Loans and Investments	4.2	8.8	7.6	3.0	11.7	11.3	7.9	3.3	0.0	11.1	9.0	8.6	9.8	12.0
Debt Services	63.7	95.6	123.7	154.9	217.1	216.2	256.7	306.9	497.6	678.2	1019.3	1196.6	1505.0	1911.1
Amortization	16.1	39.2	44.3	56.6	94.9	86.3	103.8	93.6	166.5	174.7	342.8	350.6	385.5	507.8
Interest	47.6	56.3	79.4	98.3	122.1	129.9	152.9	213.3	331.1	503.5	676.5	846.0	1119.6	1403.2
Miscellaneous	57.1	113.3	78.5	125.2	91.1	166.7	254.2	252.5	199.8	429.7	364.7	389.2	522.7	854.7
Travelling Expenses	6.4	6.0	6.6	7.0	6.7	8.3	10.0	12.4	26.3	13.1	33.0	40.1	55.0	55.0
Pension allowances	12.5	13.8	15.8	15.7	17.6	21.8	21.7	42.4	44.7	59.3	98.1	119.8	100.0	125.5
Hospitality	0.3	0.2	0.3	0.1	0.1	0.1	0.1	0.0	0.2	0.3	0.5	0.8	0.8	1.0
Emergency, Donation. Prizes	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.2
Compensation	0.7	1.1	0.2	0.6	0.3	0.4	0.8	0.7	0.4	0.3	0.3	1.2	1.0	2.0
Miscellaneous	22.7	55.8	41.9	44.4	41.5	39.7	63.9	81.0	78.4	99.4	140.3	154.4	285.8	233.0
Contingency	14.5	36.5	13.6	57.3	24.8	96.4	157.7	115.9	49.7	257.1	92.6	72.9	80.0	438.0

Table 5.3 (Continued)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Revised Estimate 1987/88	Budget Estimate 1988/89
II. Development Expenditure	1238.9	1498.3	1808.0	1978.8	2308.6	2731.1	3726.9	4982.1	5163.8	5488.8	6213.1	7377.9	8888.7	13368.1
General Administration	0.6	3.1	0.5	0.9	0.5	0.7	2.9	7.9	13.0	11.9	10.3	18.3	32.1	41.5
Administrative Reform	0.6	3.1	0.5	0.9	0.5	0.7	2.9	7.9	13.0	11.9	10.3	18.3	32.1	41.5
Economic Administration	4.4	3.6	2.9	3.2	14.3	30.0	14.4	20.2	15.4	5.2	4.0	4.0	6.2	13.9
Planning	0.6	1.1	2.0	2.5	9.6	8.8	6.1	9.6	10.8	2.7	1.9	1.2	2.0	5.0
Statistics	3.8	2.5	0.9	0.7	4.8	21.2	8.2	10.6	4.6	2.5	2.1	2.8	4.2	8.9
Social Services	320.9	420.0	464.8	533.5	444.4	572.6	1059.6	1540.2	1493.5	1501.2	1699.8	2036.3	2542.3	3604.5
Education	152.3	185.6	201.2	234.5	248.1	285.6	412.3	604.6	678.6	644.2	879.4	1036.5	1160.9	1453.8
Health	93.3	92.6	96.3	98.5	72.2	97.8	152.8	216.3	199.8	254.8	255.9	309.2	495.9	819.0
Drinking Water	29.4	61.2	46.9	63.6	58.5	73.2	107.5	241.9	220.9	201.6	228.3	274.2	321.6	516.5
Panchayat & Local Devp.	29.6	55.5	94.9	98.0	39.1	90.0	270.3	335.1	334.5	339.3	280.8	317.0	409.4	512.9
Other Social Services	16.3	25.0	25.5	38.9	26.4	26.0	116.7	142.2	59.7	61.3	55.5	99.5	154.5	302.2
Economic Services	892.0	1033.5	1300.5	1401.6	1813.2	2101.0	2556.1	3287.1	3582.5	3617.1	4414.5	5168.5	5978.1	9108.0
Agricultuire	207.3	181.9	189.5	196.5	153.4	257.0	468.0	668.6	547.1	703.6	856.2	681.7	744.7	1350.4
Irrigation	98.1	127.4	142.1	226.3	232.7	288.2	359.6	487.4	545.2	652.2	846.7	846.8	724.1	1740.7
Land reform	9.8	11.1	10.8	9.9	11.3	12.2	16.3	20.6	21.4	17.9	18.9	26.7	15.0	32.7
Survey	13.2	20.4	23.6	35.7	25.7	30.2	37.7	45.6	45.9	40.7	46.7	67.5	78.4	89.0
Forest	37.0	44.8	76.3	66.8	94.2	89.3	185.4	228.1	234.5	290.4	365.0	388.4	410.0	647.0
Industry & Mining	113.6	149.4	115.9	71.5	113.2	123.2	266.5	373.0	651.3	347.0	397.5	377.0	586.9	964.6
Communication	9.4	12.9	13.2	14.3	25.6	30.9	49.2	74.3	97.2	90.4	89.5	139.8	516.7	336.9
Post Office	1.2	1.0	1.7	1.4	3.2	3.2	4.8	4.1	2.1	5.2	2.9	1.9	4.7	11.6
Tele-communications	8.1	11.9	11.5	12.9	22.4	27.7	44.3	70.2	95.1	85.1	86.6	137.9	512.0	325.3
Transportation	336.9	423.0	471.8	488.2	648.3	601.3	744.0	802.2	746.8	923.0	717.0	986.0	1170.1	2392.4
Roads	203.1	365.8	416.7	428.0	430.6	472.2	543.4	623.9	615.7	519.5	566.1	792.2	1026.1	1965.7
Bridges	30.9	27.9	15.9	18.0	29.2	54.9	56.6	43.6	41.4	53.5	49.9	42.8	29.2	124.0
Civil Aviation	102.9	29.4	39.3	42.2	188.4	74.2	144.1	134.7	89.7	347.1	100.3	150.4	113.9	262.4
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.8	0.6	1.0	40.3
Electricity	48.6	48.8	243.1	263.6	494.3	653.2	382.2	443.3	653.0	504.9	1035.4	1239.2	1544.4	1385.1
Other Economic Services	18.1	13.9	14.0	28.7	14.6	15.6	47.2	143.9	40.0	46.9	41.6	415.5	187.9	169.3
Miscellaneous	21.0	38.1	39.4	39.7	36.2	26.9	93.9	126.7	59.4	353.3	84.6	150.7	330.1	600.2
Miscellaneous	16.3	29.4	26.7	25.6	13.6	6.4	59.2	90.4	20.6	54.3	20.7	76.3	219.4	213.2
Contingency	4.6	8.7	12.6	14.1	22.6	20.5	34.7	36.3	38.8	299.0	63.8	74.4	110.7	387.0
Total Expenditure (I + II)	1913.4	2330.4	2674.9	3020.5	3470.7	4092.1	5361.3	6979.2	7437.3	8394.9	9797.1	11513.2	13677.7	19520.1

Source: Ministry of Finance, Budget Speech, 1977/78 - 1988/89

Table 6.1 Monetary Survey
(NRs Million)

	Amount Outstanding at Mid-July							
	1980	1981	1982	1983	1984	1985	1986	1987
Foreign Assets (net)	2232	2414	3097	2612	2540	1898	2600	3060
Monetary Authorities (net)	1746	1736	2391	1902	1543	1026	1485	1904
Assets	2223	2236	3051	2350	2006	1346	2129	2796
Liabilities	-477	-500	-660	-448	-464	-320	644	892
Commercial Banks (net)	486	678	706	710	997	872	1115	1156
Assets	583	799	860	902	1207	1254	1615	1681
Liabilities	-97	-121	-154	-192	-210	382	500	525
Domestic Credit	4306	5161	6044	8491	9824	12550	15323	17803
Claims on Government (net)	1258	1263	2062	4090	5029	6492	7496	8712
Claims on Public Enterprises	702	946	840	1137	953	1163	1726	1856
Claims on Private Sector b/	2346	2952	3142	3264	3842	4895	6101	7235
Other Items (net)	1253	1268	1683	1880	1909	2152	2764	3365
Money plus quasi-money	5258	6308	7459	9222	10456	12297	15159	17498
Money	2830	3208	3612	4349	4932	5480	7029	8120
Quasi-money	2455	3100	3847	4873	55524	6817	8130	9378

a/ Non-financial public enterprises.
b/ Includes financial institutions.

Source: Nepal Rastra Bank.

Table 6.2 Monetary Authorities Account
(NRs Million)

	1980	1981	1982	1983	1984	1985	1986	1987
Foreign Assets	2223.3	2333.9	3050.9	2349.7	2006.2	1346.4	2128.6	2795.8
Claims on Government	1050.1	1009.5	1419.7	2928.6	3545.8	4473.8	5677.0	6385.5
Claims on Non-financial Public Enterprises	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Claims on Private Sector	48.9	50.0	61.9	64.3	94.8	159.3	123.0	161.8
Claims on Other Financial Institutions	367.1	393.7	444.8	484.1	571.4	703.0	789.3	840.4
Claims on Commercial Banks	264.4	468.1	137.8	74.0	152.1	388.0	533.9	520.3
Other Assets	185.5	336.4	306.2	312.6	558.3	1724.8	2122.0	2145.6
Reserve Money	2468.6	2706.2	3375.6	4012.6	4624.1	5177.3	4842.9	5746.1
of which								
Currency Outside Banks & Government	(1799.3)	(2065.7)	(2436.7)	(2752.0)	(3273.4)	(3737.3)	(6587.3)	(7600.0)
Foreign Liabilities	476.6	599.8	660.0	448.5	463.5	320.1	643.5	892.2
Government Deposits a/	163.0	71.6	-	-	-	-	-	-
Capital & Reserves	789.6	694.8	893.4	1149.6	1266.4	2431.9	2846.9	3059.9
Other Liabilities	246.5	533.0	497.3	607.8	579.6	871.0	131.1	1302.3

a/ Includes currency held by Government.
Source: Nepal Rastra Bank.

Table 6.3 Assets and Liabilities of Commercial Banks
(NRs. Million)

	Amounts Outstanding at Mid-July						
	1981	1982	1983	1984	1985	1986	1987
Reserves	717.5	545.3	706.2	731.9	923.9	1209.4	1376.1
Cash	148.2	180.8	211.2	280.9	298.3	391.6	437.7
Balances with Rastra Bank	569.3	364.5	495.0	451.0	625.6	817.8	938.4
Foreign Assets	799.0	860.3	902.0	1207.4	1253.8	1614.7	1681.4
Claims on Government	324.8	641.8	1161.0	1482.9	2018.3	1818.7	2326.8
Claims on Non-financial Public Enterprises	663.2	869.4	966.8	783.3	993.3	1555.5	1685.9
Claims on Private Sector a/	2717.5	2741.7	2799.9	3244.3	4042.4	4879.8	5952.8
Claims on Other Financial Institutions	60.5	58.8	81.2	97.0	155.8	144.4	114.7
Assets = Liabilities	5282.5	5517.3	6617.1	7546.8	9387.5	11222.5	13137.7
Demand Deposits	931.3	949.8	12531.1	1333.0	1434.7	1791.7	2007.3
Time and Savings Deposits	2921.3	3640.4	4452.6	5210.0	6418.3	7833.0	8977.9
Foreign Liabilities	120.6	153.8	192.0	210.3	382.5	500.0	525.0
Government Deposits	-	-	-	-	-	-	-
Credit from Rastra Bank	468.1	137.8	74.0	152.1	388.0	533.9	457.0
Other Liabilities b/	841.2	635.5	645.4	641.4	764.0	563.9	1170.5

a/ Includes credit to rice exporting companies since their establishment in November 1974.
b/ Includes Exchange Equilization Fund.

Source: Nepal Rastra Bank.

Table 6.4 Agricultural Development Bank - Resources And Utilization of Funds
(NRs. Million)

	Amounts Outstanding at Mid-July							
	1980	1981	1982	1983	1984	1985	1986	1987 b/
Paid-up Capital	131.2	141.8	154.4	169.7	191.3	219.1	249.1	257.7
HMG	94.5	104.5	116.1	129.7	147.9	173.6	201.3	207.5
Nepalese Rastra Bank	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Individual & Cooperatives	6.7	7.3	8.3	10.0	13.4	15.5	17.8	20.2
Deposit in the Bank	37.0	33.0	37.0	35.2	37.9	104.6	210.8	323.0
Current	14.5	13.3	14.7	15.6	17.9	29.3	41.8	48.9
Savings	19.2	15.9	16.5	13.7	15.3	35.8	75.9	136.2
Fixed	1.4	1.9	3.9	4.0	4.7	39.5	26.2	136.0
Others	1.9	1.9	1.9	1.9	-	-	16.9	1.9
Reserve Fund	4.2	4.2	4.2	4.2	4.2	4.9	5.8	5.8
Borrowings	343.1 a/	362.7 a/	459.9 a/	571.2 a/	779.7	1000.0 d/	1241.3	1474.6
Nepal Rastra Bank	194.0	198.9	222.0	236.1	332.2	414.3	487.9	493.0
Foreign	69.1	88.7	167.4	246.1	333.7	456.8	631.2	818.6
Others	40.0	35.1	30.5	48.7	113.8	99.5	92.2	83.0
Compulsory Savings	40.1	36.3	32.9	33.8	36.6	40.8	32.6	39.9
Other Liabilities	114.2	121.7	149.7	197.8	247.0	30[illegible]	426.1	483.6
Liabilities = Assets	669.8	699.7	838.1	1011.9	1296.2	16[illegible].5	2172.7	2584.6
Loans Outstanding	458.2	474.7	566.7	702.3	916.6	1164.8	1659.5	1821.5
Agricultural Production & Fare Improvement	207.8	217.0	242.4	337.0	419.9	531.4	765.4	815.6
Agroindustries	90.4	89.2	129.3	126.2	208.2	222.2	330.9	363.3
Others (Mainly Agrobusiness)	160.0	168.5	195.0	239.1	288.5	411.2	563.2	642.6
Investments	19.1	19.4	20.1	20.7	17.8	31.0	45.5	47.0
Shares	4.9	4.9	5.3	5.9	7.8	7.8	8.2	8.2
Government Securities	13.3	13.3	13.3	13.3	8.3	21.3	35.1	36.3
Fixed Deposits	0.9	1.2	1.5	1.5	1.7	1.9	2.2	2.5
Cash and Bank Balances	11.6	13.4	19.6	28.1	25.8	52.5	80.6	90.5
Other Assets	180.9	192.2	231.7	260.8	336.5	428.2	387.1	625.6

a/ Includes debentures Rps 40.0 issued by ADB/N.

b/ Excluding Rps 30.0 ---- issued by ADB/N.

c/ Excluding Rps 3.0 ------ classified at 'bad debts."

d/ Includes debentured Rs 30.0 issued by ADB/N.

Source: Nepal Rastra Bank.

Table 6.5 Nepal Industrial Development Bank - Resources and Utilization of Funds
(NRs. Million)

	Amounts Outstanding at Mid-July							
	1980	1981	1982	1983	1984	1985	1986	1987
Paid-up Capital	157.8	157.8	157.8	177.8	190.3	191.7	193.3	218.4
Reserves and Surpluses	10.1	11.1	11.8	16.8	19.4	21.0	23.0	20.8
Subsidies and Grants	0.5	0.1	-	-	-	-	-	-
Borrowings in:	161.9	179.6	261.2	260.4	274.6	311.4	414.6	467.3
Rupees	98.6	119.5	147.5	175.5	181.6	217.8	312.9	312.5
Foreign Currencies	63.3	60.1	113.7	84.9	93.0	93.0	101.7	154.8
Other Liabilities	49.7	58.8	71.8	105.8	109.1	124.7	116.6	149.6
Liabilities = Assets	380.0	407.4	502.6	560.8	593.4	648.8	747.5	855.6
Financial Assistance:	310.6	348.7	367.0	431.1	474.7	550.5	630.4	737.0
Direct loans	251.2	281.8	299.3	315.9	336.7	404.7	482.3	586.4
Guarantees for loans	22.9	30.3	26.8	75.7	70.8	62.6	53.2	54.4
Stock participation	36.5	36.6	40.9	39.5	67.2	83.2	94.9	96.2
Investment in Industrial Estate	9.4	9.4	9.4	9.4	9.4	9.4	-	-
Investment in Government Securities	2.4	2.4	2.4	2.9	25.6	1.0	1.2	0.9
Cash Balances	17.0	8.5	28.2	15.8	16.8	21.5	47.7	32.9
Other Assets	40.6	38.4	95.6	101.6	66.9	66.4	68.2	84.8

Source: Nepal Industrial Development Corporation

Table 6.6 Structure of Interest Rates
(Percentages)

	July		June		June	
	1979	1980	1981	1982	1985	1987
Commercial Banks						
Deposits:						
Savings	8.0	8.0	8.0	8.5	8.5-10.0	8.5-10.0
Time Deposits (3 months)	4.0	4.0	4.0	4.5	4.5-5.5	8.5
Time Deposits (6 months)	9.0	9.0	9.0	9.5	9.5-10.5	8.8
Time Deposits (1 year)	12.0	12.0	12.0	12.5	12.5-13.3	12.5
Time Deposits (2 years)	13.0	13.0	13.0	13.5	13.5-14.5	13.5
Loans:						
Industry (priority purposes)	10.0-14.0	10.0-14.0	10.0-16.0	11.0-17.0	9.0-17.0 a/	15.0*
Agriculture (priority purposes)	8.0-14.0	8.0-14.0	8.0-14.0	10.0-15.0	8.0-15.0 a/	15.0*
Commercial Loans and Overdrafts	16.0	16.0	16.0	17.0	17.0-19.0 b/	17.0-21.0
Agricultural Development Bank						
Cooperative and Sajhas	4.0-10.0	4.0-10.0	4.0-10.0	6.0-11.0	4.0-11.0	13.0-18.0
Others	6.0-14.0	6.0-14.0	6.0-14.0	10.0-15.0	8.0-15.0	15.0-20.0
Nepal Industrial Development Corporation						
According to type of Industry	11.0-16.0	11.0-16.0	11.0-16.0	11.0-17.0	12.0-17.0	14.5-18.0
Government						
Treasury Bills	5.0	5.0	5.0	5.0	5.0	5.0
Development Bonds	10.0	10.0	10.0	10.5	10.5	10.5
National Savings Certificate c/	-	-	-	-	13.0	13.0

a/ Banks are required to charge 2 percent less interest on loans to cottage industry and agricultural sect
b/ Effective from June 11, 1985, interest on 29 items of luxury goods has been fixed at minus 19 percent.
c/ National Savings Certificates were first issued in March 1984.
* Maximum.
Source: Nepal Rastra Bank.

Table 7.1 Area, Production and Yield of Principal Food Crops

Food Crops		1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Growth Rate 1975/76 TO 1987/88
	Area	1240	1256	1262	1264	1263	1254	1276	1297	1265	1334	1377	1391	1333	1423	1.1
Paddy	Production	2452	2605	2386	2282	2339	2060	2464	2560	1833	2757	2709	2804	2372	2982	1.5
	Yield	1.98	2.07	1.89	1.81	1.85	1.64	1.93	1.97	1.45	2.07	1.97	2.02	1.78	2.10	0.5
	Area	458	453	445	445	454	432	457	475	511	504	579	615	627	674	3.0
Maize	Production	827	748	797	740	743	576	743	752	718	761	820	874	868	902	0.7
	Yield	1.81	1.65	1.79	1.66	1.64	1.33	1.63	1.58	1.41	1.51	1.42	1.42	1.38	1.34	-2.3
	Area	291	329	348	367	356	367	392	400	484	472	452	483	536	597	5.7
Wheat	Production	331	387	362	411	415	440	477	526	657	634	534	598	701	744	6.4
	Yield	1.14	1.18	1.04	1.12	1.17	1.20	1.22	1.32	1.36	1.34	1.18	1.24	1.31	1.25	0.7
	Area	28	26	25	26	26	26	27	27	24	25	28	29	29	29	0.3
Barley	Production	26	25	21	22	23	23	23	23	21	22	24	23	25	24	-0.6
	Yield	0.93	0.96	0.84	0.85	0.88	0.88	0.85	0.85	0.88	0.88	0.86	0.79	0.86	0.83	-0.9
	Area	125	126	122	121	123	123	122	122	129	124	134	151	151	165	2.2
Mallet	Production	142	143	138	130	133	119	122	122	121	115	124	138	138	150	0.4
	Yield	1.14	1.13	1.13	1.07	1.08	0.97	1.00	1.00	0.94	0.93	0.93	0.91	0.91	0.91	-1.7

Source : Economic Survey, 1987/88

Units : Area - Thousand Hectare; Production - Thousand M.Ton; Yield - M.ton/Hectare

Note : Figures for Wheat and Barley in 1987/88 are provisional

Table 7.2 Area, Production and Yield of Principal Cash Crops

Cash Crops		1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88*	Growth Rate 1975/76 TO 1987/88
	Area	15.00	15.00	18.00	23.00	22.00	22.00	24.00	25.00	25.00	23.00	17.00	23.00	25.00	30.00	5.5
Sugarcane	Production	251.00	253.00	311.00	387.00	370.00	385.00	480.00	590.00	616.00	509.00	408.00	558.00	617.00	816.00	9.5
	Yield	16.54	16.78	17.31	16.93	16.82	17.18	20.02	23.44	24.25	22.39	23.36	24.27	24.68	27.20	3.9
	Area	112.00	113.00	108.00	133.00	144.00	118.00	122.00	114.00	110.00	111.00	128.00	138.00	143.00	148.00	2.2
Oil Seeds	Production	66.00	68.00	61.00	78.00	93.00	62.00	77.00	79.00	70.00	73.00	84.00	79.00	83.00	92.00	2.6
	Yield	0.59	0.61	0.57	0.59	0.64	0.52	0.63	0.70	0.63	0.66	0.66	0.57	0.58	0.62	0.4
	Area	7.00	7.00	7.00	8.00	8.00	8.00	7.00	7.00	9.00	9.00	9.00	9.00	9.00	6.00	-1.2
Tobacco	Production	5.00	5.00	5.00	6.00	5.00	6.00	5.00	5.00	7.00	7.00	6.00	5.00	5.00	4.00	-1.7
	Yield	0.71	0.72	0.74	0.76	0.72	0.73	0.71	0.71	0.78	0.78	0.75	0.54	0.56	0.67	-0.4
	Area	33.00	34.00	33.00	40.00	47.00	57.00	52.00	35.00	30.00	24.00	27.00	47.00	20.00	14.00	-6.4
Jute	Production	41.00	41.00	45.00	56.00	66.00	68.00	59.00	43.00	39.00	25.00	33.00	61.00	23.00	16.00	-7.0
	Yield	1.23	1.21	1.36	1.40	1.40	1.19	1.14	1.21	1.28	1.06	1.22	1.29	1.18	1.14	-0.6
	Area	54.00	53.00	52.00	51.00	51.00	51.00	50.00	52.00	59.00	59.00	66.00	70.00	74.00	80.00	3.1
Potato	Production	307.00	314.00	270.00	272.00	279.00	278.00	281.00	321.00	373.00	383.00	420.00	357.00	395.00	566.00	4.8
	Yield	5.72	5.88	5.16	5.37	5.50	5.42	5.66	6.17	6.30	6.51	6.41	5.10	5.34	7.08	1.7

Source : Economic Survey, 1987/88

Units : Area - Thousand Hectare; Production - Thousand M.Ton; Yield - M.ton/Hectare

* Preliminary

Table 8.1 Production of Principal Industries

Industrial Product	Unit	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87**	First Nine Months 1986/87	First Nine Months 1987/88 +
Jute Goods	M. Ton	12265	15994	16803	16347	15520	14777	16264	15502	19619	21323	20026	16389	18289	13214	12629
Sugar	M. Ton	11926	10632	16351	26502	27200	14158	12020	20764	22357	17496	11039	15190	24565	23040	26771
Cigarettes	Millions of Sticks	3001.3	2446.8	1773.7	1633.7	2068.6	1642.4	1811.3	2834.5	32090	3740.7	4252	4741	5600	3985.5	4390.9
Matches	Th. Gross	649	679	658	677	724	699	626	760	858	1121	1239	1144	1314	894	812
Liquor +	Th. Liter	224	580	533	687	455	698	788	477	334	358	1027	1264	1283	916	1564
Soap	M. ton	891	970	1855	1317	1121	1174	2631	3050	5100	5594	7676	9182	11460	5718	6775
Shoes	Pairs	70044	59079	54855	59031	55779	70299	81845	61450	88148	72697	83000	112000	121000	90910	163000***
Leather	Th. Pieces	623	665	1096	1256	1320	1857	1802	1637	2800	2770	2247	2001	2877	1151	1355
Agricultural Tools	M.ton	300	92	287	313	179	207	86	153	368	481	340	391	363	246	225
Tea	M. Ton	254	366	395	413	326	387	535	625	714	827	989	1052	1112	955	828
Stainless Steel Utensils	M. Ton	156	175	157	173	294	760	470	468	374	439	580	425	421	282	301
Bricks & Tiles*	Th. Pieces	25575	33069	23737	20546	12403	33791	25642	20884	30689	29760	25254	28451	33876++	24439	20247
Beer	Th. Liters	688	816	630	788	1181	1310	1459	1276	1992	3125	2278	3016	3699	2800	3472
Cotton Textiles	Th. Meters	4200	4211	5225	3889	2429	3489	5317	6862	7966	10240	10533	14118	17822	12225	8072
Cement	M. Ton	26933	26933	42694	38080	21019	29163	32326	30278	36959	39225	31479	96043	151631	122324	148290
Biscuits	M. Ton	601	643	723	1197	2037	1912	1675	2267	2279	3638	4339	4698	4536	3269	3346
Plywood	Th. Sq.ft.	607	607	1720	1835	1809	3051	4149	4647	3867	4116	2627	2038	2488	1612	861
Synthetic Textiles	Th. Meters	1128	1128	1128	1717	1775	2190	2329	2677	3023	3591	3300	6424	11561	2181	10150

* Government Sector Units Only
** Revised
*** Canvas Shoes Included
\+ Excluding Country Liquor
++ Pvt. Unit Included
+++ Provisional
Source : Economic Survey, 1987/88

Table 9.1 National Urban Consumer Price Index

Commodities	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/84	1985/86	1986/87	Mid - April 1986/87	Mid - April 1987/88*
	Annual Average (1972/73 = 100)														
Food and Beverages	141.4	135.7	136.1	156.4	158.8	176.2	199.9	221.9	257.4	270.9	274.5	325.4	374.8	365.6	410.7
Restaurant meals	138.6	147.4	147.2	152.8	155.4	173.1	242.0	259.5	272.6	280.6	299.6	364.9	415.9	418.7	463.4
Grains and Cereal products	138.2	128.2	119.3	132.3	134.7	151.7	161.8	181.9	242.5	239.0	223.9	368.3	312.1	313.3	337.0
Pulses	143.7	124.7	137.6	198.3	198.7	214.2	252.8	264.9	274.5	309.4	341.8	394.0	412.0	413.6	513.3
Vegetables	143.4	145.8	158.4	186.6	195.5	219.6	236.6	281.2	285.1	331.7	335.5	425.6	475.7	401.4	442.3
Spices	184.7	181.8	193.6	271.8	269.2	241.3	247.0	303.3	347.7	356.3	408.2	456.7	556.5	529.5	715.4
Meat, Fish and Eggs	145.6	155.6	157.1	169.0	177.5	207.0	245.1	259.1	282.7	311.2	338.3	398.3	469.9	475.5	520.5
Milk and Milk Products	137.9	151.6	159.8	164.6	172.4	184.3	204.2	234.0	265.4	285.8	335.6	388.0	425.0	424.9	488.8
Oil and Clarified Butter	153.4	118.0	143.6	187.9	178.1	204.0	257.4	264.9	262.5	315.6	329.4	340.6	435.3	424.9	547.3
Sugar	119.1	135.5	139.0	135.6	116.0	139.1	227.0	224.3	199.5	194.5	208.3	255.8	270.0	267.1	269.8
Beverages	124.3	133.2	143.4	160.6	166.9	172.7	190.1	199.1	232.8	265.4	283.7	317.9	340.8	345.0	349.9
Non-Food Items and Services	130.3	139.8	149.6	156.2	167.8	180.7	204.8	224.0	247.7	268.7	295.3	327.1	358.1	361.2	395.8
Cloth, Clothing and Sewing Services	122.6	126.1	131.8	138.4	145.4	156.1	165.7	183.9	196.1	211.6	222.9	243.6	267.8	269.6	290.0
Footwear	130.0	146.6	144.6	145.1	153.0	162.5	182.7	198.0	214.2	228.9	246.3	277.3	299.7	300.3	304.3
Housing	135.7	147.6	161.2	172.3	194.0	214.0	247.9	274.9	315.8	350.6	398.2	441.0	474.6	476.6	536.0
Fuel, Light and Water	144.0	155.0	170.4	179.5	213.5	240.6	287.8	319.6	378.9	417.3	486.4	527.8	546.0	549.4	618.0
Transport & Communications	147.7	155.7	165.1	165.4	174.1	189.2	227.3	234.1	249.0	261.6	284.6	311.7	349.9	375.2	389.2
Medical and Personal Care	124.6	135.9	146.5	149.2	157.7	164.8	175.7	192.0	205.6	219.7	240.4	274.9	308.1	309.1	343.2
Education, REading Materials and Recreation	129.5	135.2	141.7	152.2	157.7	165.2	212.2	225.2	245.0	259.9	273.1	301.3	343.6	346.2	372.3
Cigarettes	126.5	144.7	159.3	154.1	155.5	162.1	173.6	185.4	204.4	210.7	227.8	251.8	279.5	284.1	297.6
All items	138.0	137.0	140.7	156.4	161.8	177.6	201.4	222.4	254.0	269.8	280.9	325.5	368.7	363.6	405.8
Percentage Chnage		-0.7	2.7	11.2	3.5	9.8	13.4	10.4	14.2	6.2	4.1	15.9	13.3		11.6

* Provisional

Source: Nepal Rastra Bank.

Table 10.1 Number of Students in Primary, Lower Secondary and Secondary Schools

In Thousands

Year (September)	Primary	Lower Secondary	Secondary	Total
1975	459	174	67	700
1976	644	189	74	907
1977	769	227	82	1078
1978	875	277	94	1246
1979	1013	343	106	1462
1980	1068	391	121	1580
1981	1388	170	144	1702
1982	1475	199	170	1844
1983	1626	220	198	2044
1984	1748	239	216	2203
1985	1812	254	242	2308
1986	1858	271	269	2398
1987*	2079**	275	285	2639

* Estimates. ** Target

Source: Ministry of Education and Culture.

Table 10.2 Number of Teachers in Primary, Lower Secondary and Secondary Schools

In Number

Year (September)	Primary Total	Primary Trained	Lower Secondary Total	Lower Secondary Trained	Secondary Total	Secondary Trained	Grand Total Total	Grand Total Trained
1975	18874	8063	6496	2300	3451	1441	28821	11804
1976	20775	8142	7932	3047	3439	1720	32146	12909
1977	23395	8794	8784	3432	3665	2068	28895	14294
1978	24652	9678	9416	3856	3948	2487	38016	16021
1979	26384	9731	10536	4151	4265	2687	41185	16569
1980	27805	9971	11693	4587	4683	2919	44181	17477
1981	29134	10585	12245	4833	4909	3067	46288	18485
1982	32259	11525	10820	4549	5634	3518	48713	19592
1983	38131	12914	10146	4326	5764	3380	54041	20620
1984	46484	14898	10602	4641	6467	3556	63553	23095
1985	51266	16362	11120	4663	7242	3837	69628	24862
1986	53405	17996	12529	5076	9256	4578	75190	27650
1987*	58417+	19359#	12903	5240	9851	4829	81171	29428

* Estimates. + Target. # Projected.

Source: Ministry of Education and Culture.

Table 10.3: Government Expenditure on Education by Level

	1970/71	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88 e/
	(Rs '000 in Current Prices)														
Primary	9813	37443	52682	64600	73000	88400	98624	114247	164779	224000	307094	321093	442369	467300	623503
Secondary	4253	34959	40024	48731	54500	62900	73967	79526	86776	113144	112168	145055	188868	196798	215705
Higher	37623	44120	100087	93124	93947	117464	118453	150279	202327	370850	314099	308276	614524	365618	379792
Others	-	43326	53197	51491	56224	53941	57715	85269	115014	128908	157691	136298	194956	256669	406104
Total	51689	159848	245990	257946	277671	322705	348759	429321	568896	836902	891052	910722	1440717	1286385	1625104
	(Percent of Total)														
Primary	19.0	23.4	21.4	25.0	26.3	27.4	28.3	26.6	29.0	26.8	34.5	35.3	34.7	36.3	38.4
Secondary	8.2	21.9	16.3	18.9	19.6	19.5	21.2	18.5	15.3	13.5	12.6	15.9	15.2	15.3	13.3
Higher	72.8	27.6	40.7	36.1	33.8	36.4	34.0	35.0	35.6	44.3	35.3	33.7	33.4	28.4	23.4
Others	-	27.1	21.6	20.0	20.2	16.7	16.5	19.9	20.2	14.5	17.7	15.1	16.7	20.0	24.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

e/ Estimate.

Source: Ministry of Education.

Table 10.4 Health Services

Description	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Extension of Service	529	581	614	669	718	767	821	943	958	975	975	981	1070
Hospitals	58	58	61	66	73	73	73	73	75	80	80	81	91
Health Centers	35	35	35	35	27	27	26	26	26	26	26	20	20
Health Posts	351	403	433	483	533	582	637	744	744	744	744	745	814
Ayurvedic Service Centers	85	85	85	85	85	85	85	100	113	125	125	135	145
Hospital Beds	2018	2098	2238	2495	2657	2586	2586	2586	2993	3058	3522	3742	3842
Skilled Manpower	-	-	-	-	-	-	-	-	4497	8149	9725	13076	13893
Doctors	-	-	-	-	-	-	-	-	526	572	602	710	863
Nurses	-	-	-	-	-	-	-	-	1820	1986	2109	2223	2319
Kaviraj (Ayurvedic Physician)	-	-	-	-	-	-	-	-	-	164	164	164	165
Vaidya (Ayurvedic Physician)	-	-	-	-	-	-	-	-	-	114	114	114	114
Health Assistants	-	-	-	-	-	-	-	-	778	795	795	795	795
Health Workers	-	-	-	-	-	-	-	-	1373	2918	3345	6472	7011
Punchayat based Health Workers	-	-	-	-	-	-	-	-	-	1600	2596	2598	2626

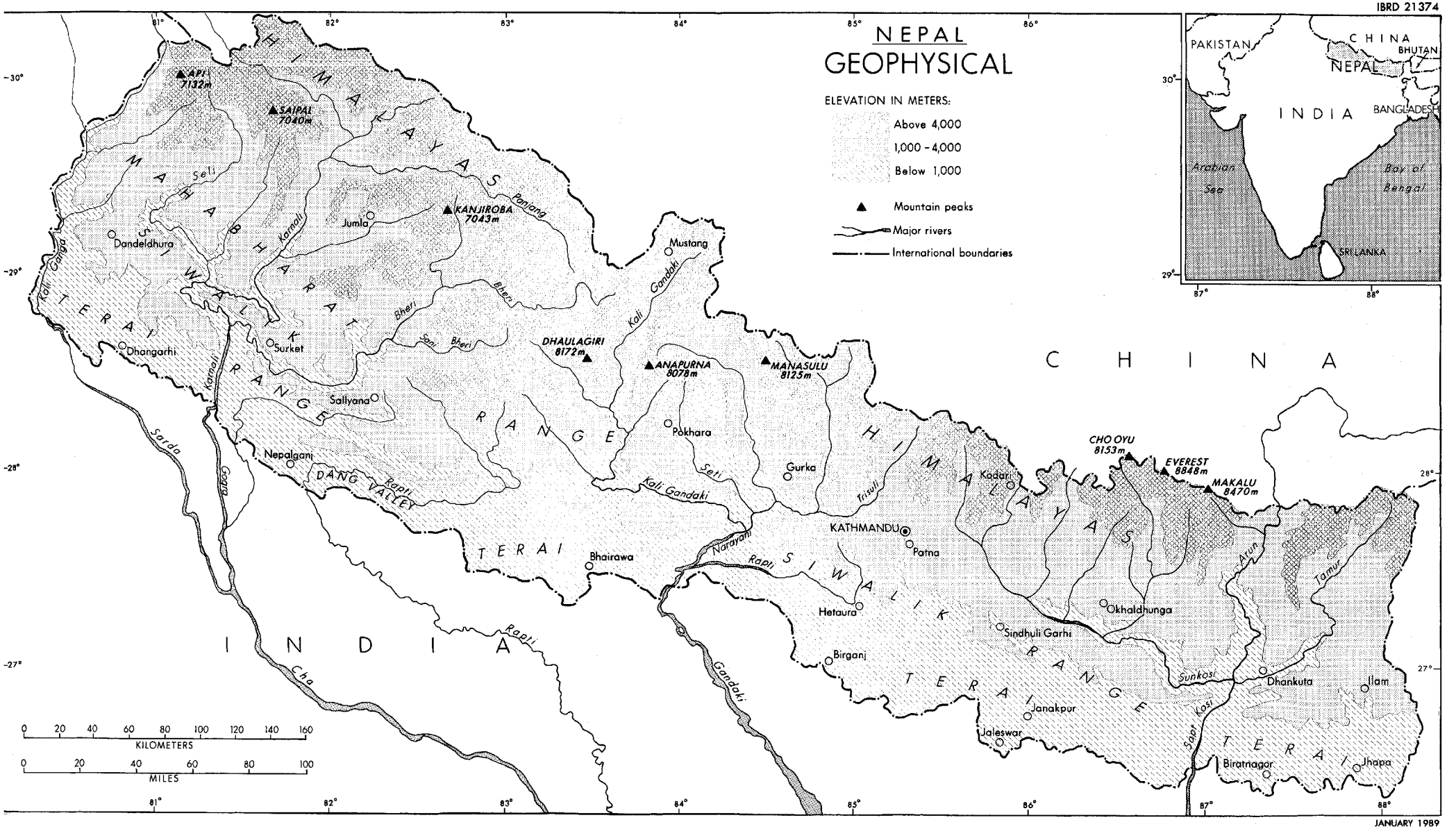
Source : Economic Survey, 1987/88

Table 10.5 Family Planning Program Achievment

Methods	1969/70	1974/75	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
IUD Acceptors (new)	1109	1110	1231	103	1304	1204	1557	1050	850	1259	1806
Vasectomy Acceptors	3888	3702	7009	4277	4802	10398	16493	26311	22736	18880	13465
Pill Acceptors (new)	10263	26943	37896	44270	49079	48752	66815	63453	72274	75647	91932
Pill Cycles Distributed	36329	197061	274544	313074	343071	341155	462367	356052	362812	449096	451286
Condom Acceptors (new)	14800	63814	106881	134099	140666	139585	166261	164737	196531	211904	230008
Condom Distributed	227636	1207731	2238955	2509944	2856822	2371488	3841261	2780888	2907382	3910486	3518398
Laproscoptic Acceptors	-	662	11208	11130	18040	20167	28507	41428	38780	30218	22945
Depo-provera Acceptors	-	81	1549	1722	2119	3109	4939	5705	9149	12312	17948
Total Acceptors (new)	29740	98312	165774	196534	216010	223215	284572	302684	340320	354220	383104

Source Ministry of Health, NFP/MCH Project, Evalution Division.

IBRD 21374



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