

Country Study for Japan's Official Development Assistance to the Kingdom of Nepal

— Beyond Poverty and Conflicts —

May 2003

Institute for International Cooperation
Japan International Cooperation Agency

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Although it has been decided that, starting from FY2002, certain types of JICA schemes are to be collectively called “Technical Cooperation Projects,” this report refers to these types of schemes as “Project-type Technical Cooperation,” or using other traditional names, in order to avoid confusion.

Likewise, the JICA schemes conducted in cooperation with local or Japanese NGOs, such as Community Empowerment Programmes and the JICA Partnership Programme, have been officially recognized as part of “Technical Cooperation Projects” or “Grassroots Assistance Projects” since the start of FY2002. To avoid confusion, however, this report refers to these schemes by their traditional names as well.

The analysis and recommendations of this Report do not necessarily reflect the views of JICA. It is the fruit of a collaborative effort by the study committee headed by Prof. Hiroshi Ishii, Research Institute for Languages and Cultures of Asia and Africa, Tokyo University of Foreign Studies.

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Foreword

The Japan International Cooperation Agency (JICA) has been pursuing a development approach designed to be better suited to the state of development in each developing country and to the consideration of related issues. The idea is that, while it is increasingly important to address global issues, including environmental degradation, population growth, and food problems, developing countries need assistance finely tuned to their respective characteristics as well as to their stage of development. To explore the optimal approach for Japan's assistance to these countries, JICA has to date organized a total of 38 country-specific study committees on Japan's Official Development Assistance (ODA). These committees have compiled their findings into their respective reports. This report for Nepal is the latest of such reports.

Japan has been extending assistance to Nepal as its largest donor, taking into account the seriousness of the poverty situation and the undeniable need for assistance to the country. In March 1993, following the 1990 democratization movement in Nepal, JICA compiled the first Country Study for Japan's Official Development Assistance to Nepal. Subsequently, Nepal underwent drastic changes, including the intensification of the Maoist insurgency (led by the Communist Party of Nepal) during the latter half of the 1990s. While the poverty situation remained more or less the same, new developments emerged, including the formulation of a Poverty Reduction Strategy Paper (PRSP) as advocated by the World Bank and the IMF. These political and socio-economic changes in Nepal, as well as changing international trends of aid to the country, made it necessary for Japan to urgently review its own approach. This was the background to the establishment of this study committee – the Second Committee on the Country Study for Japan's Official Development Assistance to the Kingdom of Nepal.

This study committee was chaired by Prof. Hiroshi Ishii, Research Institute for Languages and Cultures of Asia and Africa, Tokyo University of Foreign Studies. Its 15 members and advisors included academics, and JICA staff. The committee met six times and sent missions to Nepal. The findings of these activities are compiled in this report.

After November 2001, when this committee was moving toward the final stage of its activities, the Maoist conflict in Nepal expanded in both scale and intensity. The turmoil in politics and public administration reached the highest level. Prime Minister Sher Bahadur Deuba, after taking over his predecessor, who had resigned due to his handling of the Maoist conflict, was dismissed by the King in October 2002. The King then appointed Mr. Lokendra Bahadur Chand as Prime Minister by extralegal means, but the Chand Administration faced a fierce backlash. At the end of January 2003, however, the government and the Maoists agreed to a ceasefire and the commencement of a dialog. The committee is glad to be able to publish this report when the situation is turning around.

We hope that this report will be put to good use as a basic reference for planning and implementing aid programs for Nepal. We also hope that the organizations directly involved will make good use of this report.

Finally, we would like to take this opportunity to express our sincere gratitude to the chairperson, members and advisors for their tireless efforts, and to the organizations concerned.

May 2003

Keiichi KATO
Managing Director,
Institute for International Cooperation, JICA

Preface

The traditional image of Nepal as a poor but peaceful country with few conflicts seems to have been marred in recent years. The Maoists (the Communist Party of Nepal) incited an insurgency in the mountainous region in the west during the latter half of the 1990s. The conflict was especially intense in 2001-2002. Though a ceasefire was announced in January 2003, no concrete solution has been realized to date. In June 2001, the King, the Queen and other royal family members were shot to death in the Royal Palace, raising people's concerns and distrust of the regime.

Earlier, the Panchayat system led by the King, which lasted for three decades from the 1960s, was abolished in 1990 amid growing calls for democratization. The constitution was revised and party politics was restored. The new constitution incorporates the sovereignty of the people and freedom of speech as its main principles. As a result, people have become active in initiating various movements and in claiming their rights. Party politics, on the other hand, have remained unstable to date. Analysts say that the public administration is increasingly mired in corruption. On the economic front, many problems remain unsolved, and the vicious circle of poverty remains in place. Economic disparities are clearly widening and a sense of dissatisfaction with the disparities, the politics and the public administration seems to be growing faster.

The Maoist movement has emerged under these circumstances. Dissolution of this movement requires a fundamental political, administrative, economic and social reform. The elimination of poverty and economic disparities, together with improvements in governance, are a major challenge and must be tackled as forcefully as ever.

Japan has been the top bilateral donor for Nepal since 1980, with the exception of 1988. Japan should continue its aid while assessing its effectiveness, because this may also contribute to political stability in Nepal in the future. It is quite important for Japan to focus on poverty reduction in the light of global aid trends and the policy of the Nepalese government, as well as due to the seriousness of the problems.

This report thus advocates the pro-poor growth strategy as a basic approach and thereby aims for the achievement of both economic growth and the reduction of economic disparities. To accomplish this important but difficult task, the report has identified short-term, medium-term, and long-term goals. The short-term goal is to reduce poverty while encouraging the initiatives of local governments and communities. The medium-term goal is to achieve sustainable growth based on local governments and communities. The long-term goal is to build a basis for industrial development aimed chiefly at earning foreign currency and to achieve human resources development and environmental conservation.

The committee held a total of six meetings between February and July in 2001. In these meetings, the committee analyzed the current situation and discussed directions for the development of Nepal and then the optimal approach for Japan's aid to the country. The committee also sent missions to Kathmandu in May-June and September of the same year. These two missions gathered additional information, and exchanged views with officials of the Nepalese government, other donors and organizations. The committee has incorporated the findings of these missions in this report.

As these findings show, the situation in Nepal is now more serious than in 1993, when the first Country Study for Japan's ODA to Nepal was published. We sincerely hope that our report will be of help to Nepal in improving its overall situation and the standard of living of its people in particular.

Finally, I would like to take this opportunity to express my sincere gratitude to the Nepalese government officials, international aid agencies, the Embassy of Japan and Japanese experts in Nepal for their advice

and concerned support provided to our fact-finding missions. I would also like to thank the fourteen committee members and advisors, and the staff at the relevant departments of the Ministry of Foreign Affairs, as well as the JICA staff and senior advisors concerned.

May 2003

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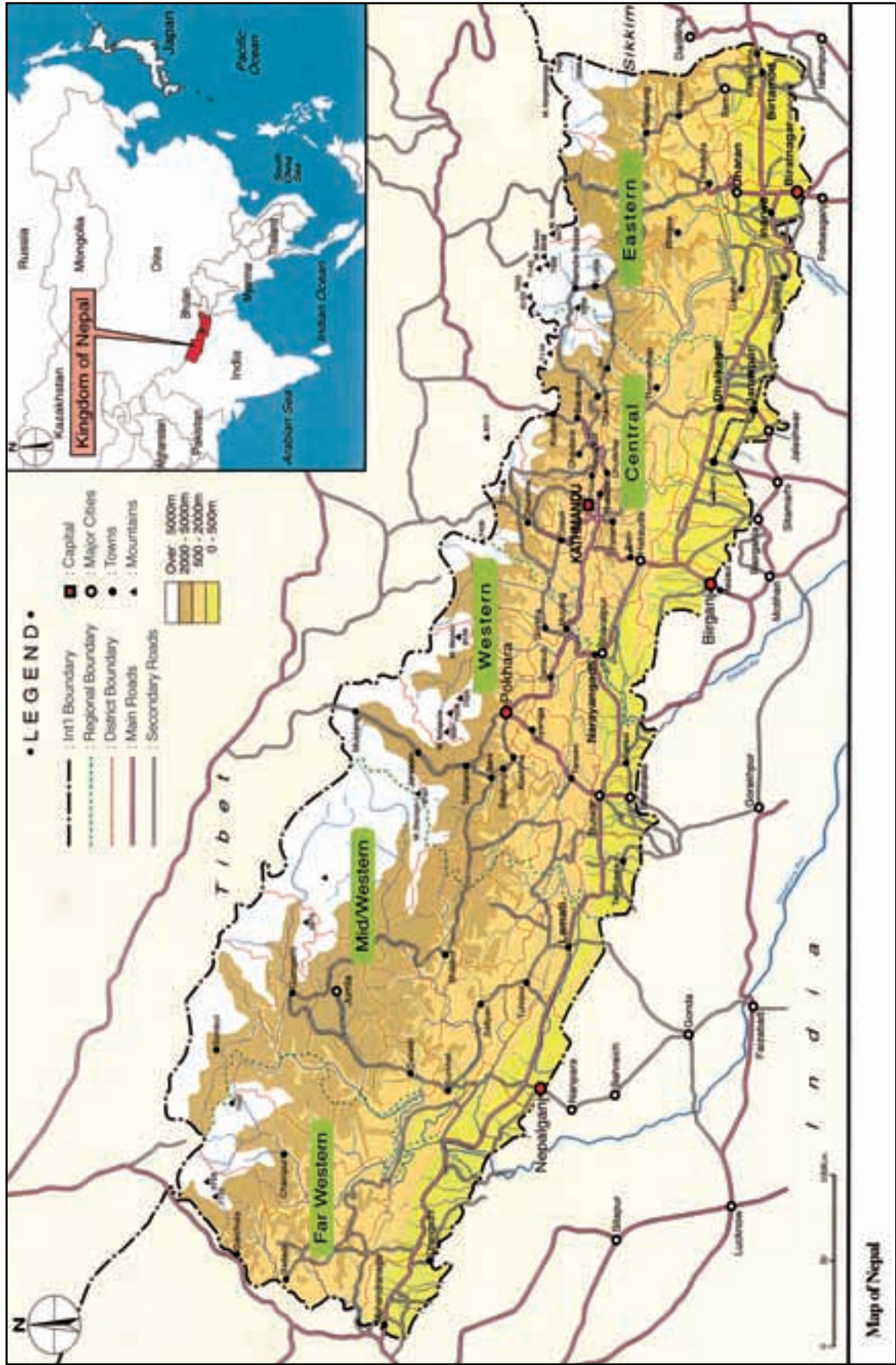
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Map of Nepal



Source: JICA (2001) Study on the Agricultural Marketing Development Project in the Kingdom of Nepal

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Highlight of the Country Study for Japan's Official Development Assistance to the Kingdom of Nepal

In the Kingdom of Nepal, the Maoists are stepping up their armed struggle against the government since in the latter half of the 1990s. Although the government and the Maoist rebels finally declared a ceasefire at the end of January 2003, there are no prospects for a solution to the conflict yet. The escalation of the Maoist insurgency is significantly deteriorating security and hurting the tourism industry. The agriculture sector remains sluggish due to bad weather. As a result, the economy as a whole is deteriorating, significantly constraining the donors' outreach to rural areas.

Based on the recognition that the Maoist insurgency is closely associated with poverty and disparities, this report advocates an approach to achieving disparity reduction and economic growth simultaneously, along the lines of the "pro-poor growth strategy." To this end, the report identifies short-term, medium-term, and long-term goals. The short-term goal is to reduce poverty while encouraging local (district) initiatives. The medium-term goal is to achieve sustainable growth based on local governments and communities. The long-term goal is to build a basis for industrial development aimed at earning foreign currency and to achieve human resources development and environmental conservation.

The report then discusses what approach Japan's ODA should take in relation to these goals. In short, the report proposes that Japan should adhere to the two principles of encouraging local initiatives and promoting cooperation and coordination with other donors in extending support for the pro-poor growth strategy for Nepal.

Major points of the report are given in Chapter 2, Table 2-1 (Proposed pro-poor growth strategy for Nepal and the basic perspectives of Japan's aid).

This report is composed of two chapters: Chapter 1 describes current situation and future directions of the development of Nepal, and Chapter 2 proposes the optimal approach for Japan's ODA to the country.

Chapter 1 Current Situation and Future Directions of the Development in Nepal

1-1 Nepalese government development plans and policies

1-1-1 From the First to the Eighth Five-Year Plans

The history of the development of Nepal begins with the First Five-Year Plan (issued in 1955 and implemented from 1956¹). To date, a total of eight Five-Year Plans have been implemented. As of April 2002, the Ninth Five-Year Plan (1997/98-2001/02) is being implemented. These national development plans from 1950 up to the late 1990s are outlined in Table 1-1.

Table 1-1 Nepalese government development plans from 1950 up to the late 1990s

Period	Outline of the development plans and their outcomes
From 1950 to the 1960s (1st to 3rd Plans)	Emphasis was placed on “infrastructure development” (roads, communications, power supply, etc.) based on the need for national integration. The malaria eradication programme paved the way for the development of the Terai, which was once covered with thick forests. Forest clearing and the construction of the Birganj Road (between Kathmandu and the Indian border) formed the foundation for the development of cities in the Terai.
During the 1970s (4th to 5th Plans)	The concept of “regional development” was introduced through these plans. The country was divided into four Development Regions. A north-south axis for development was established in each of these regions that linked the Terai and the Hills. Development bases were planned along these axes. In addition, Nepal went ahead with the construction of an east-west road that would link these districts, and pursued national economic integration and development. The Nepalese economy, however, slowed due to such factors as declining levels of aid from India after the outbreak of the India-Pakistan War in 1971, rising costs related to the oil crisis, and drought. The GDP growth rate fell to 2.6% and 2.3% for the periods of the 4th and 5th Five-Year Plans, respectively. Overall, the Five-Year Plans showed relatively poor performance.
During the 1980s (6th to 7th Plans)	Top priority was given to the “production sector,” particularly agriculture, rather than infrastructure development in the past. As a result, the GDP growth rate increased to the order of four percent. However, sluggish exports of primary commodities and other products adversely affected the trade balance and resulted in a chronic current account deficit. The concentration of investment in the Terai and Kathmandu widened the disparities between these areas and the Hills and the Mountains. Nepal divided the Far-Western Development Region into the Mid- and Far-Western Regions as part of its efforts to accelerate development in the Region, which was the most underdeveloped.
From 1990 to 1997 (8th Plan)	The Eighth Five-Year Plan (1992/93-1996/97) was formulated during the major move towards democracy in which the new constitution was promulgated in 1990 and a parliamentary system was started in 1991. This plan set out three major objectives: (i) sustainable economic development, (ii) poverty reduction, and (iii) reduction of regional disparities. Poverty reduction was given top priority. Regarding investment, priority was given to in the following order: the promotion of agriculture, energy development, infrastructure development in rural areas, job creation, population control, the promotion of industry and tourism, export promotion, macroeconomic stability, and civil service reform. The Eighth Plan also emphasized decentralization. A shift toward approaches based on economic liberalization was another feature of the plan. The plan produced mixed outcomes. Tertiary industry, particularly such sectors as transport and communications, finance, and social services, expanded. GDP grew at the targeted average annual rate of 5.1%. On the other hand, the key industries of agriculture, forestry, fisheries, and mining fared badly with major indicators falling far short of the targets.

¹ The fiscal year in Nepal starts in mid-July. For example, 1956/1957 is represented by FY1956.

1-1-2 The Ninth Five Year Plan and the Long-Term Development Strategy (1997-2017)

The Ninth Plan largely follows the development policy of its immediate predecessor. The plan continues with development efforts at the national level and gives priority to the fight against poverty.

Regarding the poverty reduction, the Ninth Plan aims to ensure that the poor in rural areas in particular have access to health care, education, drinking water, roads and electric power in an effort to raise their standards of living. The plan also aims to:

- (i) implement programmes in such areas as vocational training, financing, family planning, and empowerment,
- (ii) promote the rapid growth of each sector and thereby increase employment opportunities,
- (iii) increase the growth rate of the agriculture sector from 3% to 5% under the Agricultural Perspective Plan (APP) 1994/95-2014/15, which has already been formulated, and
- (iv) decrease the proportion of the poor in relation to the total population from 42% to 32% through these measures.²

In the course of developing the Ninth Plan, the Nepalese government formulated the “Long-Term Development Plans” (1996/97-2016/17), a 20-year plan covering the Ninth to Twelfth Plans. The idea was to build on the lessons learned from past experiences: the lack of a comprehensive development framework allowed numerous programmes, including sector programmes, to be independently developed and implemented, and these programmes did not effectively contribute to national development. This long-term strategy aims to reduce the poverty rate from 42% to 10% and sets out macroeconomic policies, sectoral programmes and other means to achieve this. However, this poverty reduction goal is considered too ambitious for two reasons. One is that according to the Millennium Development Goals (MDGs) discussed in 1-2-1, Nepal is required to reduce the poverty rate to 21% by 2015 which might be more realistic than the goal set out by the government. The other reason is that the outcomes so far are significantly below the goals targeted by the Ninth Plan (see Table 1-2).

Table 1-2 shows major indicators in the Eighth and Ninth Plans and the Long-Term Development Plans, together with the goals calculated by applying the MDGs to Nepal, for reference.

² The poor are defined as those living below the poverty line, where people intake 2,124 calories of energy per person per day and have the minimum allowance for basic items. This definition is also applied to Nepal. In terms of per capita annual income, the poverty line is 4,560 Rs. under the Eighth Plan and 4,404 Rs. under the Ninth Plan.

Table 1-2 The 8th and 9th Five-Year Plans and the Long-Term Development Plans

	8th Plan (1992/93-1996/97)			9th Plan (1997/98-2001/02)		Long-Term Development Plans (1997-2017)	[For reference] Millennium Development Goals (MDGs) (2015)
	Targeted	Actual	Percentage achieved	Targeted	Actual	Targeted	Targeted
Poverty rate (%)	42.0	42.0	100%	32.0	38.0	10	21
Unemployment rate (in urban areas) (%)	-	4.9	-	4.0	-	3.0	-
GDP annual average growth rate (%)	5.1	5.1	100%	6.0	4.9	8.3	-
Sectoral annual growth rate Agriculture, forestry and fisheries (%)	3.7	3.0	81%	4.0	3.2	5.0	-
Non-agriculture (%)	6.1	6.3	103%	7.3	6.0	9.7	-
Irrigated area (1,000 ha)	293.8	214.3	73%	249.4	122.9	1,686	-
Power facilities capacity (MW)	347	300	86%	606	393*	22,000	-
Proportion of the population with access to electricity (%)	-	14	-	20	17	50	-
Road construction (km)	1,778	2,863	161%	-	-	-	-
Total road length (km)	-	11,714	-	13,564	15,308	18,114	-
Number of districts with roads	-	56	-	66	-	75	-
Number of telephone lines increase	161,000	130,000	81%	-	121,800	-	-
Telephone service per 1,000 people	-	10	-	25	11	150	-
Number of hospitals	845	500	59.2%	-	-	-	-
Number of sub-health posts	3,199	3,187	99%	-	-	-	-
Number of primary health care centers (PHCs)	100	100	100%	-	-	-	-
Infant mortality rate (IMR) (per 1,000 live births)	130	74.7	61%	62	64	34.4	-
Child mortality rate (per 1,000 live births)	80	118	68%	102.3	-	62.5	54
Maternal mortality rate (per 100,000 live births)	475	447	72%	400	439	250	213
Access to drinking water (%)	72	61	85%	100	69	100	73
Access to clean drinking water (%)	-	15	-	25	-	85	-
Net primary school enrollment rate (%) (6-10 years of age)	90	70	77%	90	-	100	100
Net secondary school enrollment rate (%) (14-15 years of age)	45	45	100%	60	-	100	100
Literacy rate (15 years or above) (%)	60	48	80%	70	52.7	100	-
Population growth rate (%)	-	2.5	-	2.37	2.27	1.5	-
Number of tourists (1,000)	1,907	1,764	93%	676**	-	1,247***	-
Tourism revenue (million dollars)	375	374	100%	528**	-	1,663***	-

Notes: * The goal is expected to be achieved if Kaligandaki and other power stations can be completed during the period of the Ninth Plan.

** Goals for FY2002.

*** Goals for FY2015.

Sources: • The goals under the Eighth and Ninth Plans and the Long-Term Development Plans are compiled from NPC (1998).
 • NPC (2002b) for the actual figures under the 9th Five-Year Plan (as of the end of the fourth year).
 • The goals for 2015 in the MDGs are calculated by applying the United Nations Millennium Development Goals (<http://www.un.org.np/>) to the 1990 actual figures for Nepal.

1-1-3 Development of the Poverty Reduction Strategy Paper and the Medium Term Expenditure Framework

The Interim Poverty Reduction Strategy Paper (I-PRSP) for Nepal was issued in July 2001. The Nepalese government developed this strategy in response to a decision by the World Bank and the IMF. In September 1999, the two international institutions agreed at a joint meeting to call on certain developing countries to come up with a national Poverty Reduction Strategy Paper (PRSP) to be used as a criterion for the application of the Heavily Indebted Poor Countries (HIPC) Initiative and IDA lending.

The Nepalese government issued a draft I-PRSP as early as November 2000. Based on comments from donors, local governments, NGOs, the private sector, and other stakeholders, the government revised the draft, and in July 2001, the final draft was issued. Earlier, the Nepalese government organized an expert group comprising 17 representatives from the government, NGOs, community organizations, the private sector, universities and other stakeholders to formulate the I-PRSP. For reference, the group used poverty surveys by such organizations as UNDP, the World Bank and NGOs. They also sought extensive input. For example, the group held dialogues with local residents (and separately with women's groups) in the regions and rural areas.

The I-PRSP consists of the following key strategies:

- (i) Macroeconomic Stability and Incentives;
- (ii) Broad-Based Economic Growth;
- (iii) Social Sector Development;
- (iv) Targeted Programmes and Employment Generation;
- (v) Improved Public Expenditure Management;
- (vi) Governance; and
- (vii) Poverty Assessment and Monitoring System for the Programme.

Based on these key strategies, the I-PRSP has set out specific measures to reduce poverty. To establish the Programme framework, the I-PRSP has identified 14 sectors, including "governance and decentralization," "agriculture and natural resources management," and "education." For these 14 sectors, the I-PRSP has laid down a total of 140 specific strategies, as well as the action plan and the expected outcomes for each strategy (Table 1-3).

Table 1-3 Outline of the I-PRSP

Sector	Objectives	Major policies, Programmes, etc.
• Macroeconomic stability and incentives	• To maintain macroeconomic stability and reform trade policy	To reform fiscal policy To improve public expenditure management To pursue prudent monetary policy
• Private sector development	• To create conducive environment for private sector development	To improve corporate governance To improve law enforcement capacity and infrastructure
• Governance and decentralization	• Civil service reforms to increase efficiency and accountability	Right-sizing of the bureaucracy To promote performance-based career promotion To link promotion with fiscal discipline To increase transparency and accountability Strengthened reward and punishment system To implement a HRD programme for enhancing civil service efficiency
	• To strengthen local government institutions • Fiscal decentralization • To ensure accountability and transparency • To create successful models of decentralization for learning the effects	To grant authority to local governments; decentralization To conduct a study for the reform of local administration To conduct awareness programmes Public disclosure of local government information
• Targeted Programmes and Employment Generation	• To create and expand income generating activities	To increase employment opportunities with training and skills development programmes To increase the effectiveness of the present training programmes Employment creation through flexible public works projects in rural areas with the incorporation of a strong gender component
	• To provide social safety nets and minimum needs to the poor	To establish a Poverty Alleviation Fund (PAF) to mobilize resources and implement Programmes To provide the poor with greater accessibility to market and public services, income-generating activities, security; to lower their vulnerability to external shocks
	• To improve the working environment	Development of sectoral and overall productivity strategies
	• To protect women and children from exploitation and abuse	To protect children from illegal recruitment To protect women from exploitation and abuse To reduce trafficking in girls To rehabilitate exploited women and children
• Agriculture and natural resources management	• To contribute to sustainable agricultural growth	To implement APP for higher agricultural growth
	• Enhanced participatory natural resources management for sustainable production systems	To promote eco-tourism and forest-based microenterprises
	• To expand pro-poor employment opportunities in rural areas	Special treatment for the poor
	• To ensure food security	To expand income opportunities, food availability and access for the poor
• Education	• To ensure a higher rate of enrollment of primary school children • To improve the quality of primary education • To improve the quality of secondary education and enhance access • To promote vocational skills for self-employment • To increase literacy rate • To improve the quality of pre-primary education	To improve school facilities To train teachers and management staff To improve access to schools To use existing secondary schools for vocational courses To expand adult literacy programmes; expand out-of-school programmes To ensure access to pre-primary schools

Sector	Objectives	Major policies, Programmes, etc.
• Health and drinking water	<ul style="list-style-type: none"> • To control and prevent communicable diseases • To ensure child survival • To ensure safe motherhood • To improve the general health status • To reduce the population growth rate • To enhance access to safe drinking water in rural areas 	<p>To create awareness of the need for public health care</p> <p>To improve maternal health care services and to train birth attendants</p> <p>To improve maternity and gynecological services</p> <p>To enhance access to health services</p> <p>To maximize the participation of adolescents and youth in family planning and population management programmes</p> <p>To institute sustainable water supply schemes</p>
• Tourism	<ul style="list-style-type: none"> • Shift towards a tourism industry that benefits the poor (Shift toward pro-poor tourism) • To expand client base for mass tourism 	<p>Diversification of tourism activities to cover rural areas</p> <p>To encourage community-based tourism products</p>
• Information Technology (IT)	<ul style="list-style-type: none"> • To increase awareness and education of rural/poor people concerning various economic activities through IT 	<p>To expand IT services to rural/poor people to provide agricultural, business and other information</p> <p>To provide distance learning services through IT</p>
• Water resources	<ul style="list-style-type: none"> • To provide electricity to rural areas to enhance their educational and productive environments 	<p>To promote irrigation and rural electrification</p> <p>To promote the use of electricity in irrigation and small-scale agro-industries during the off-peak hours</p>
• Trade	<ul style="list-style-type: none"> • To increase the contribution of trade to economic growth • To increase income and employment of the poor through trade • To promote indigenous domestic products 	<p>To increase employment through expanding exports of such products as carpets, garment, leather goods and handicrafts</p> <p>To expand exports of agricultural and other products</p>
• Industry	<ul style="list-style-type: none"> • To increase industrial production and its contribution to national economic growth • To increase self-employment opportunities in the industrial sector 	<p>To provide incentives for the development of indigenous industries</p> <p>To increase opportunities for raising income levels in rural areas</p>
• Resource conservation and utilization	<ul style="list-style-type: none"> • To increase livelihood opportunities for the rural poor • To expand eco-tourism and conserve biodiversity • To ensure security and increase production • To conserve land against erosion 	<p>Land use planning</p> <p>To manage protected areas and to expand sustainable eco-tourism</p> <p>Sustainable land use planning</p> <p>Watershed management</p>
• Road infrastructure	<ul style="list-style-type: none"> • To increase access to transport services 	<p>To establish a road management fund</p> <p>To extend the transport network and improve the level of services</p> <p>To improve transport accessibility at the district level</p>

Source: NPC (2001)

In January 2002, the Nepalese government issued the Concept Paper of the PRSP/10th Plan for the Full-PRSP, based on the I-PRSP. The government had planned to complete the Full-PRSP as the 10th Five-Year Plan by around July 2002.³

This concept paper projects that the GDP growth rate for 2001 will stay at 2.5%, citing a number of factors, including: (i) a decrease in agricultural productivity due to bad weather, (ii) civil disturbance caused by the Maoists, and (iii) a drop in external demand due to the terrorist attacks on the United States in September 2001. The paper also describes the situation in which the government has no choice but to slash the budget for development as security expenses are increasing in response to the Maoist insurgency.

The concept paper identifies three key sectors: “broad-based growth,” “social sector development,” and “targeted programmes and safety nets.” One of the basic strategies in the I-PRSP, “macroeconomic stability and incentives,” has been deleted and the emphasis has been placed on “poverty assessment and monitoring.” In other words, the concept paper sets out the following six basic strategies:

- (i) Broad-Based Economic Growth;
- (ii) Social Sector Development;
- (iii) Targeted Programmes and Employment Generation;
- (iv) Improved Public Expenditure Management;
- (v) Governance; and
- (vi) Poverty Assessment and Monitoring System of the Programme.

The Concept Paper on the PRSP/10th Plan says that, to seek comments from a broad spectrum of stakeholders, the Nepalese government plans to complete the draft PRSP and hold meetings in five locations across the country, as well as separate meetings with women’s groups, workers, trade unions and other parties. The government plans to complete the Full-PRSP after studying the comments from these stakeholders. The concept paper also says that donors are discouraged from developing their own assistance strategies separate from the PRSP and are instead encouraged to select the areas for their assistance from the programmes listed in the PRSP.

As of June 2002 the Nepalese government is compiling not only the 2002 budget and the PRSP/10th Plan, but also the Medium Term Expenditure Framework (MTEF) for FY2002-2004. The MTEF has been introduced as part of the Public Expenditure Reform. It intends to ensure realistic budget control by solving the long-standing problem, i.e., the large gaps between the budget allocations under the Five-Year Plans, the annual plans and the annual budgets on the one hand, and the amounts actually allocated on the other. The government is required to achieve the poverty reduction goals under the PRSP/10th Plan under fiscal pressures, where revenues are declining while expenditures for maintaining order are rising. To this end, the government plans to give priority to five sectors in the budget allocations: agriculture, health care, education, water resources, and key infrastructure.⁴

At present, security expenditures are increasing while the proportion of the development budget in the total expenditures is declining. Moreover, the fiscal deficit is growing rapidly.⁵ Table 1-4 shows a comparison of the budgets for FY1999, FY2001, and FY2002.

³ The final draft of the Tenth Plan was issued in January 2003 and its summary - the PRSP was brought out in May 2003, but as of this moment the I-PRSP has not been endorsed by the World Bank/IMF Boards.

⁴ According to the statement made by the National Planning Commission (NPC) at the Nepal Development Forum (NDF) in February 2002.

⁵ In and after the 8th Plan, the Nepalese government committed itself to poverty reduction as the top priority. In the FY2002 budget, however, restoration of public order topped the agenda, followed by poverty reduction and economic recovery. To increase the budget allocations for the restoration of public order, the government decreased the development budget by 23.1% and the ordinary budget by 16.46% over the initial budget for FY2001. The total budget stood at 1.22 billion dollars, posting a year-on-year decrease (3.06%) for the first time in Nepal’s history. The government says that it plans to fight poverty with Targeted Programmes for the poor and the projects funded by the Poverty Alleviation Fund (PAF), which will be established soon.

Table 1-4 Comparison of the budgets for FY1999, FY2001, and FY2002

Item	FY1999 (actual)	FY2001 (revised)	FY2002 (initial)
Total expenditure (million Rs.)	59,579	82,400	96,124
Regular expenditure (%)	52.1	59.6	59.8
Development expenditure (%)	47.9	40.3	40.2
Total revenue (million Rs.)	41,587	59,217	71,714
Foreign Grant (%)	24.1	14.7	20.3
Fiscal deficit (million Rs.)	-17,992	-23,183	-24,410
Foreign Loans (%)	65.9	47.2	50.8
Domestic borrowing (%)	26.2	43.1	49.1
Central bank's outstanding loans to the government at term end (million Rs.)	18,844	2,237	0

Source: MOF (2000a; 2002)

1-1-4 Development of Foreign Aid Policy

While preparing the PRSP, the Nepal government is also developing its Foreign Aid Policy (FAP) in an effort to take the initiative as a recipient country. Given the fact that, contrary to expectations, a large amount of aid has not led to economic development, the FAP plans to put forth the government's policy and specific strategies to ensure that aid is used more effectively for the development of Nepal.⁶ The Nepalese government recognizes that smooth implementation of the FAP will be necessary to achieve the major objective of poverty reduction in the PRSP/10th Plan. Based on this recognition, the government says it wants to vigorously implement the FAP in cooperation with donors (see Box 1-1).

⁶ The Nepalese government committed itself to develop the FAP at the NDF in April 2000 (in the keynote address by the Minister of Finance). After seeking comments from donors and other stakeholders, the government issued the final draft at the NDF in February 2002. As of August 2002, the government is in the process of completing the FAP after considering discussions at the NDF.

Box 1-1 Brief description of the Foreign Aid Policy (FAP)

The latest draft of the FAP presented to the Nepal Development Forum (NDF) in 2002 identifies a number of constraints to development. Among them are a lack of ownership and leadership, top-down planning, priorities not clearly defined, a plethora of projects, poor supervision and monitoring, a lack of transparency, budget misappropriations, and corruption. The draft stresses the need for the FAP in order to solve these problems and thereby increase aid efficiency.

The draft FAP identifies aid priorities for both the short and long terms. The short-term priorities include the implementation of the Medium Term Expenditure Framework (MTEF). For the long term, priority is given to such sectors as infrastructure, agriculture, human resources development, social sector development, and Targeted Programmes for poverty reduction.

Major policies set forth in the draft include careful selection of loans, expansion of grant aid, as well as gradual reduction of dependency on foreign technical assistance by strengthening domestic institutional capacity and utilizing domestic resources. The draft stresses the concept of “selection and concentration” in implementing aid projects. In addition, the draft welcomes the technical cooperation among developing countries (TCDC).

The draft FAP plans to make the Social Welfare Council (SWC) serve as the exclusive origination in the Nepalese government for dealing with the registration and management of international non-governmental organizations (INGOs). The idea is to streamline the necessary procedures and strengthen the monitoring of INGO activities. On the issue of ownership and leadership, the draft stresses the essential role of donors as facilitators. The draft also calls for decentralization, as well as the transfer of responsibility to the national stakeholders with regard to project preparation and implementation. To achieve these objectives, the draft puts forth a number of strategies. These include: (i) proper allocation of financial resources, including government funds and foreign aid, in relation to sector plans, (ii) ensuring transparency and accountability, (iii) enhancing the quality of aid, and (iv) strengthening aid coordination.

The draft FAP identifies major policy instruments, including:

- Realistic budgeting (due to the limited budget, allocations should follow the order of priority for projects and the completion of ongoing projects should take precedence over the launch of new projects.)
- Effective project implementation by, for example, making counterpart funds available in a timely manner and decentralizing decision-making authority all the way down to the project or programme managers in the field
- Basket-funding approaches in combination with assistance to stand-alone development projects (two-window method)
- Improvements in disbursements and procurement to reduce the cost of coordination

Source: HMG (2002)

1-2 Current situation of the development in Nepal and its problems

1-2-1 Current situation of the development

(1) Progress in development and the state of socio-economic disparities in Nepal

Nepal implemented a total of eight national development plans over the past half a century, as discussed in the previous section. The priority was given to: infrastructure development between the 1950s and the 1970s (1st to 5th Plans), productive sectors (agriculture in particular) during the 1980s (6th to 7th Plans), and poverty reduction during the 1990s (8th to 9th Plans). These plans made some progress in the sectors related to the social and agricultural infrastructure. Progress was also made in some social indicators (see Box 1-2 and Table 1-5).

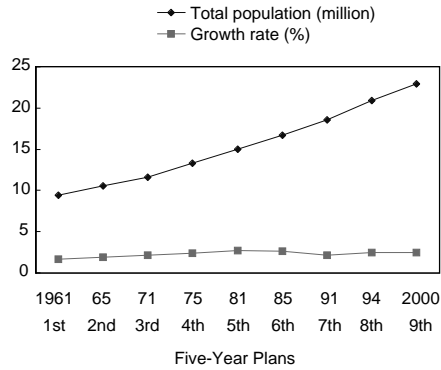
Box 1-2 Examples of progress in the development of Nepal

- The total length of road increased from 624 km in 1956 to 15,305 km in 2000.
- The number of telephone lines rose from 8,703 in 1975 to 153,782 in 1997, an almost 20-fold increase in a little over two decades.
- The amount of irrigated area rose from 5,200 ha in the early 1950s, when the 1st Plan was developed, to 200,640 ha in 1998/1999, an almost 40-fold increase in nearly five decades.
- Production of major grains increased from 3,778,000 tons in 1974/1975 to 6,465,000 tons in 1998/1999. Unit crop yields, however, increased by only 12.68% during the same period.
- The under-5 mortality rate (U5MR) fell from 314 per 1,000 live births in 1960 to 107 in 1998, almost one-third decrease in four decades.
- The proportion of people with access to safe water in relation to the total population rose from 5.7% in 1970 to 37.0% in 1990, a more than sixfold increase in two decades.

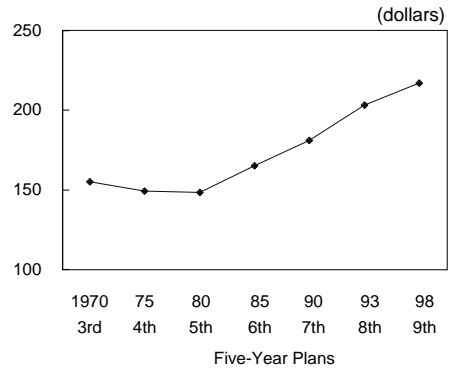
Source: Compiled from Appendix.

Table 1-5 Trends in selected indicators for Nepal

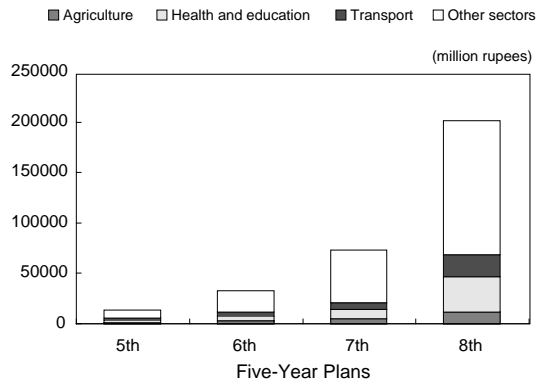
(1) The total population and the growth rate



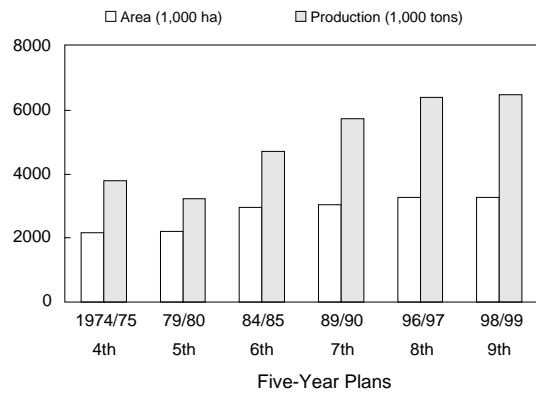
(2) Per capita GDP



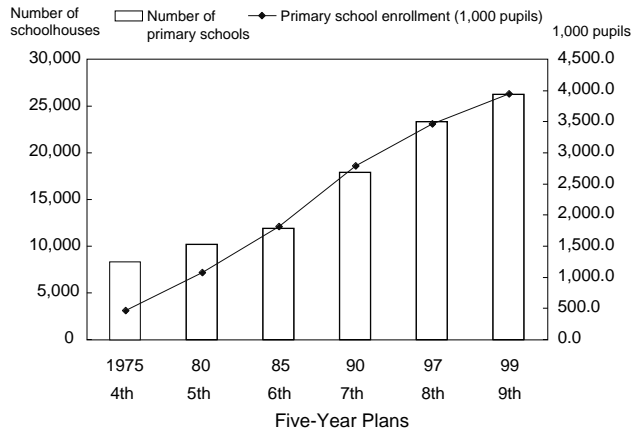
(3) Total expenditure and the share of each sector



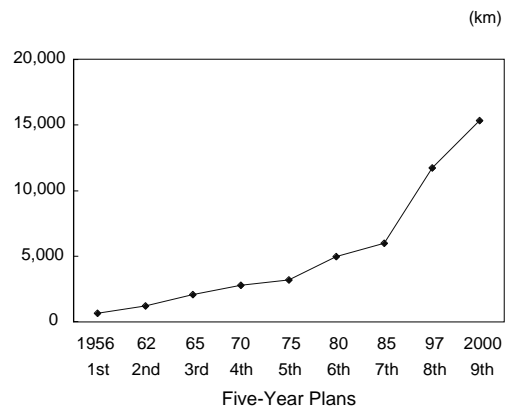
(4) Production and cultivated acreage for major grains



(5) Primary school enrollment and the number of primary schools



(6) Total road length



Source: Compiled from Appendix.

It should be noted, however, that Nepal had to start from scratch when it began its development efforts in the 1950s. This is in sharp contrast to other developing countries that began their nation building after gaining independence from their colonial powers. (For example, many developing countries in Africa and other regions that became independent in those days had already established a certain level of infrastructure that had been developed during colonial times.)

Therefore, the level of development is still low in Nepal, although some progress has been made in the sectors related to the social and agricultural infrastructure. In terms of social indicators, Nepal still ranks quite low when compared with Southwest Asian countries, or even compared with all the countries in the world (see Box 1-3). Moreover, regional and gender disparities are large in Nepal (see Table 1-6).

Nepal is thus one of the poorest countries in terms of the levels of both poverty and disparities.

Box 1-3 International comparison of social indicators for Nepal, particularly with South Asian countries

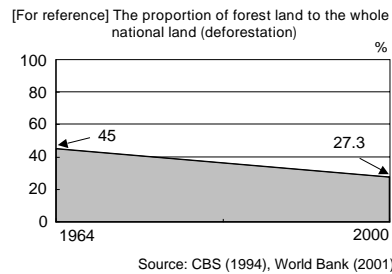
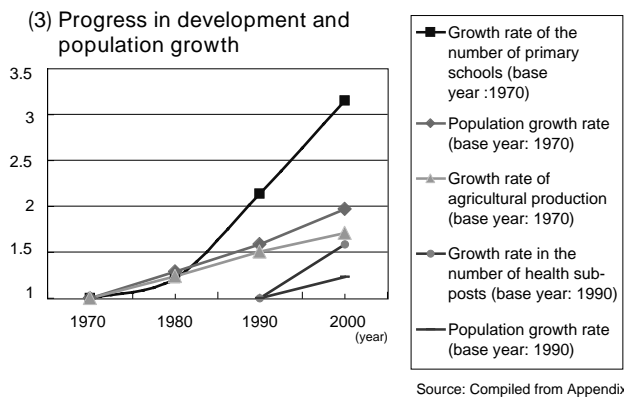
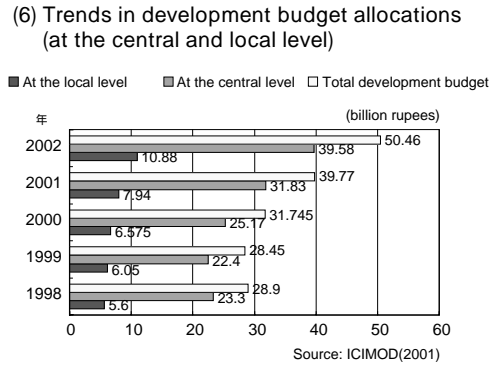
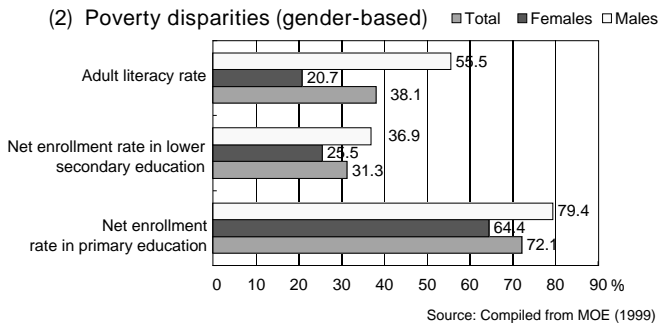
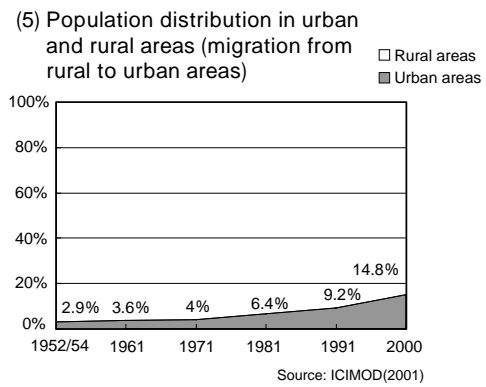
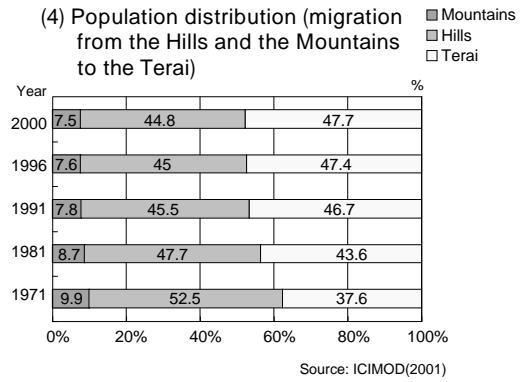
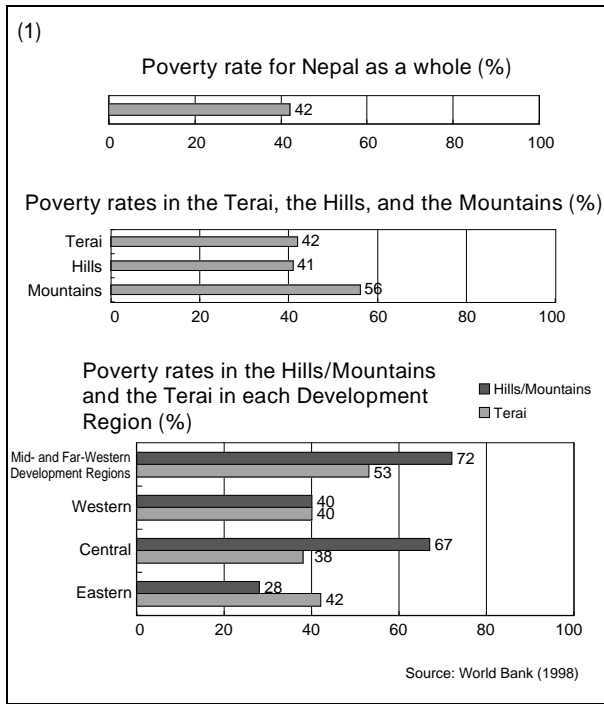
- With per capita GNP of 220 dollars (in 1999), Nepal ranks 12th from the bottom among all the countries in the world. Note that the 11 poorest countries are all in Africa, except for Tadjikistan.
- The Human Development Index (HDI)* for Nepal is 0.480 (in 1999), meaning that the country ranks 34th from the bottom among 162 countries. Even among the South Asian countries, Nepal is one of the lowest, together with Bangladesh with 0.470 and Bhutan with 0.477.
- With 42% of the population living in poverty (1995/96), Nepal is one of the poorest countries in South Asia. The percentage of the poor is 35.6% for Bangladesh, 35.0% for India, 25.0% for Sri Lanka. (The poverty data for other South Asian countries is not available.) In terms of the Human Poverty Index (HPI)** as well, Nepal at 49.7 is poorer than any other country in South Asia; the HPI is 48.3 for Bangladesh, 46.8 for Pakistan, and 46.3 for India.
- With the infant mortality rate (IMR) being 75 per 1,000 live births (in 1999), Nepal ranks third from the bottom among the South Asian countries, following Pakistan with 84 and Bhutan with 80.
- The maternal mortality rate of 539 per 100,000 live births for Nepal (in 1996) is the worst figure in South Asia.
- The adult literacy rate (15 years or older) increased from 25.6% in 1992 to 40.4% in 2001, but this rate is still the worst among the South Asian countries.

* HDI is an indicator developed by the UNDP in its Human Development Report. The idea is to assess the relative performance of a given country, with the focus on three essential elements of human development: longevity, knowledge and a decent standard of living, rather than economic indicators.

** In contrast to the HDI, the HPI focuses on the levels of deprivation in terms of the three elements of longevity, knowledge and a decent standard of living, which reflects the distribution of the fruits of development.

Sources: HMG (1996), UNDP (1995; 2000; 2001a) and the World Bank (2001)

Table 1-6 State of disparities in Nepal



(2) The state of efforts being made towards the Millennium Development Goals

Based on the discussions at a series of international summits and United Nations (UN) meetings during the 1990s, the UN, the Organization for Economic Co-operation and Development (OECD), the IMF and the World Bank studied targeted items and indicators at the global level in such sectors as poverty reduction, improvements in health and education, and environmental conservation. Following the UN Millennium Declaration in September 2000, the UN General Assembly in 2001 adopted the Millennium Development Goals (MDGs), which consist of eight goals and 18 numerical targets. The eight major goals to be achieved between 1990 and 2015 are as follows:

- (i) To eradicate extreme poverty and hunger;
- (ii) To achieve universal primary education;
- (iii) To promote gender equality and empower women;
- (iv) To reduce child mortality;
- (v) To improve maternal health;
- (vi) To combat HIV/AIDS, malaria and other diseases;
- (vii) To ensure environmental sustainability; and
- (viii) To develop a global partnership for development.

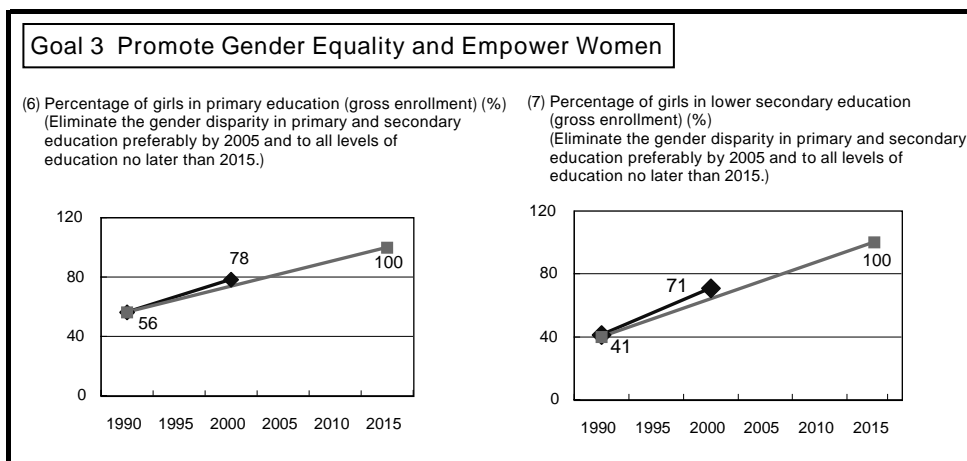
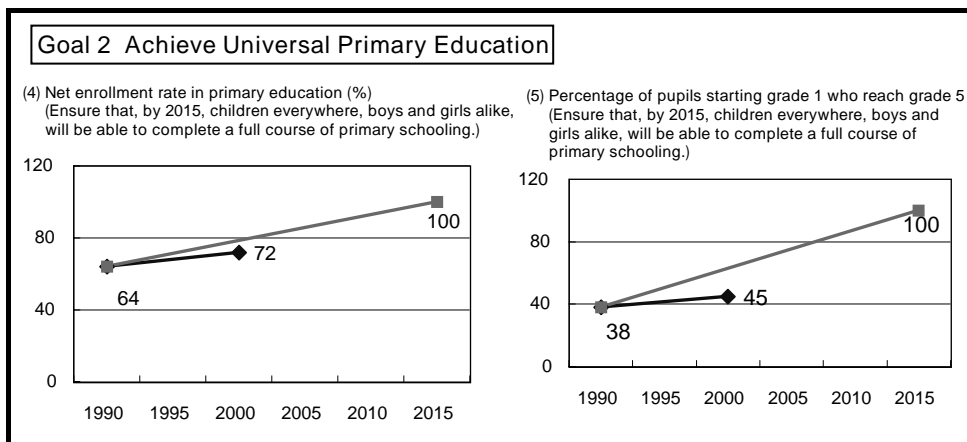
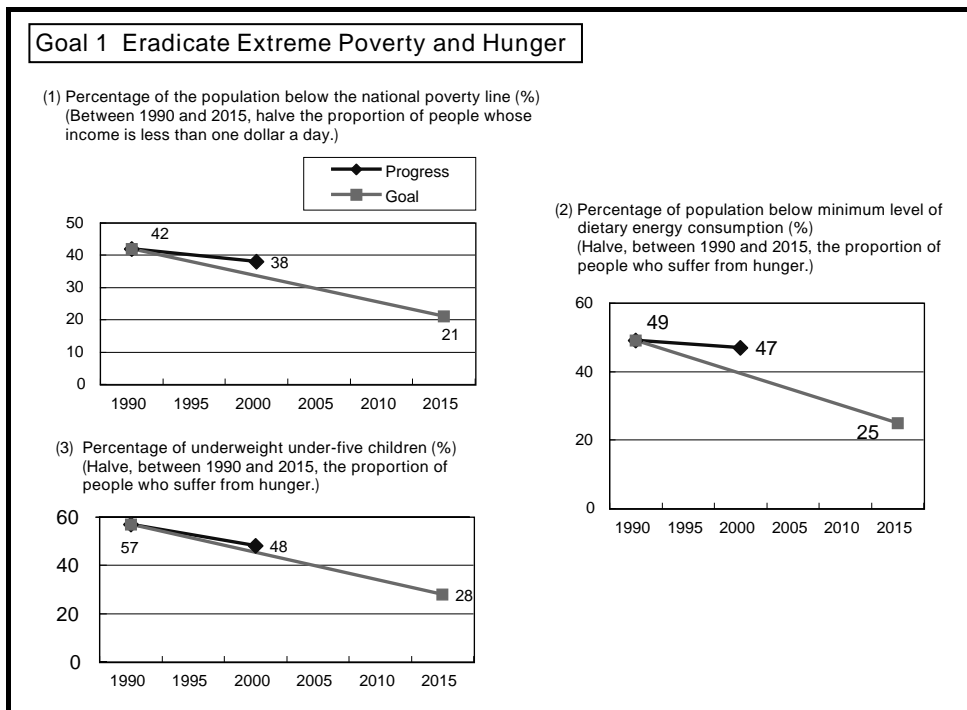
Table 1-7 shows the progress made in terms of the MDGs as they apply to Nepal. As Table 1-2 shows, the Nepalese government has not set out long-term goals in relation to the MDGs.

The Nepal government aims to halve the poverty rate from 42% in 1990 to 21% by 2015. During the 1990s, significant progress was made in such areas as the primary school enrollment rate, health indicators, and access to drinking water. However, notable disparities remain in both the quality and distribution, as discussed above. It is expected that each of the MDGs will be difficult to achieve due to a number of factors, including: the political and economic turmoil caused by the Maoists, grim economic conditions, and the lingering wide disparities between the regions, genders, and social classes. Weaknesses have been pointed out in a number of areas: the capacity to collect and analyze statistics, the quality of poverty data, appropriate reflection of these data in policies and resource allocation, and the evaluation and monitoring regime.⁷

As described earlier in this subsection, the Nepalese government plans to implement more effective measures to reduce poverty in the PRSP/10th Plan, following the Ninth Plan. The following subsections analyze, in more detail, the potential for and problems with the development of Nepal, particularly in relation to poverty, and then discuss the preferred development strategies for Nepal.

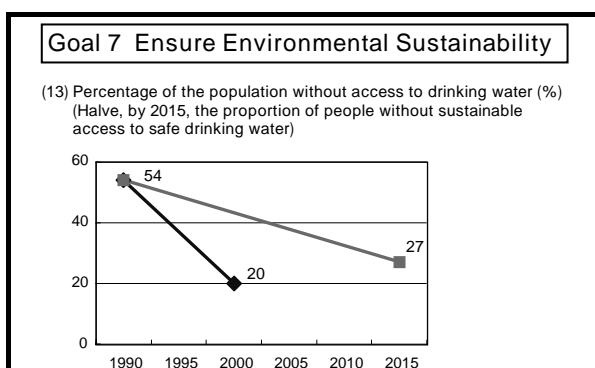
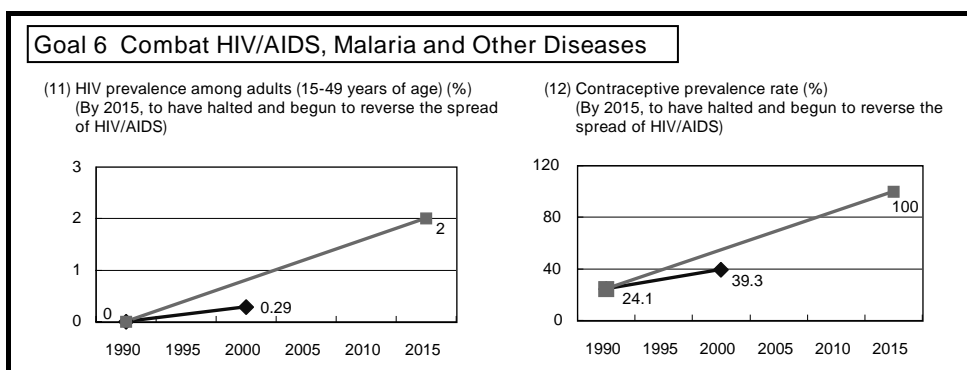
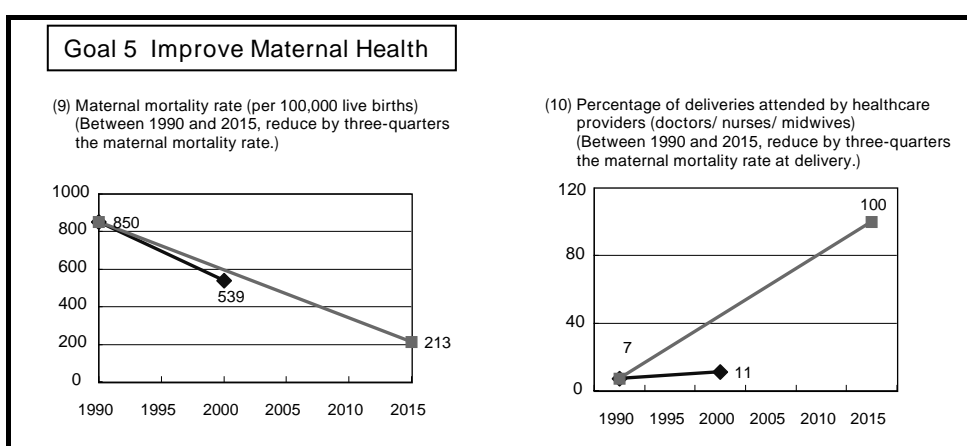
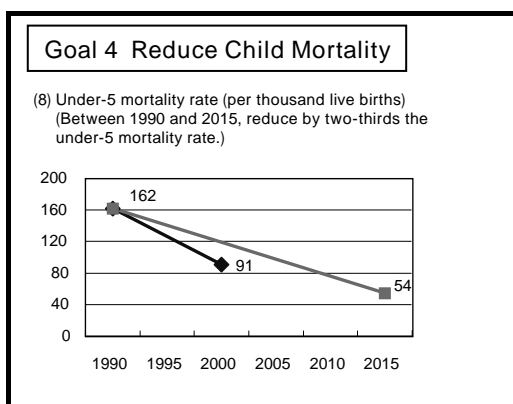
⁷ HMG/ UN Country Team (2002)

Table 1-7 MDGs and progress (1)



Source: HMG/UN (2002)

Table 1-7 MDGs and progress (2)



Source: HMG/UN (2002)
The Progress report focuses on Goals 1 to 7

1-2-2 Development potential

With a number of natural and social constraints, Nepal is slow to develop and is ranked as one of the poorest countries in the world. However, the overall development potential of Nepal is in no way low if two conditions are met. One condition is that economic foundations are strengthened to a certain extent by the development of the key industry of agriculture. The other is that progress is made in the development of tourism and water resources development; these two sectors are said to enjoy comparative advantages.

(1) Agriculture

The Agricultural Perspective Plan (APP; 1994/95-2014/15) charts the future of agriculture in Nepal as follows:

The Terai has similar conditions to those in the neighboring regions, including the Punjab in India, where the green revolution occurred two to three decades ago. Therefore, the Terai has a good chance as well to put in place a green revolution if access to roads, irrigation (mainly shallow well irrigation), electricity, fertilizers and the relevant technologies are assured. If this happens, the Terai is likely to develop into Nepal's grain belt and also a market for products from the Hills. In fact, the Terai has plenty of irrigable land and underground sources of water for irrigation. The Hills region, on the other hand, has high potential for the production of high-value commodities, including livestock products, citrus, apples, vegetables, and apiculture and sericulture products. In addition, the Hills can take advantage of differences in season and turn the Terai and India into a market for its products.

In short, the APP charts a scenario in which: (i) the agricultural sector will develop by taking advantage of the complementary combination of the Terai and the Hills, (ii) this will promote the development of non-agricultural sectors, and (iii) economic growth for the entire nation will be promoted by such synergistic effects. The APP stresses the development of the Hills among other regions. The APP states that by developing the unique potential of the Hills, Nepal will be able to achieve comprehensive poverty alleviation and make the Hills an equal partner to the Terai for the nation's economic development. Comprehensive poverty alleviation embraces increasing income for all social classes, alleviating food shortages, and decreasing migration to cities.

However, the agricultural sector remains sluggish, although it has been prioritized for many years. To develop the agricultural sector by taking advantage of the potential described above, the Nepalese government will have to carry out infrastructure development and the development and dissemination of technologies as planned under the APP.

(2) Tourism

Nepal has plenty of tourism resources, such as its beautiful mountain ranges, especially the world's highest peak of Mt. Everest, geographical diversity, rare flora and fauna, historical and cultural heritage as exemplified by old buildings and many temples, and the warm-heartedness of the Nepalis. Moreover, experts say that unknown historic and religious heritage property and sites of high tourism value abound across the country. There is great potential for various types of tourism, including eco-tourism, scientific tourism, festival tourism, and adventure tourism. An "unlimited potential" for tourism development exists in Nepal (according to the Ninth Plan). Experts point out that Nepal has a good chance of becoming a "major tourist destination in the world" if infrastructure development, improved services, market research, and promotional campaigns outside Nepal are fully implemented.⁸

The tourism sector not only contributes to the revenues of the service sectors and employment as a

⁸ World Bank (1999)

Table 1-8 Trends in the number of tourists and foreign exchange earnings

Year	1995	1996	1997	1998	1999	2000	2015 (projections)
Number of tourists* (1,000)	363.4	393.6	421.9	463.7	491.5	447.0	1,247
Growth rate* (%)	11.3	8.3	7.2	9.9	6.0	-9.1	-
Foreign exchange earnings** (from tourism) (million dollars)	116.8	116.6	115.9	152.5	163.2	167***	1,663

Source: * IMF (2001), p. 43, NPC (1998), p. 467

** Ministry of Culture Tourism and Civil Aviation (2000), p. 143

*** The Economist Intelligence Unit Limited (2002)

whole, but also constitutes a crucial element for the national economy as a foreign currency-earning industry (see Table 1-8). Foreign exchange earnings from tourism for 1999 stood at 163.2 million dollars,⁹ accounting for 3.6% of the GDP for 1999. The Nepalese government naturally stresses tourism development. Its long-term plan (for 2015) projects 1.24 million tourists and 1,663 million dollars in foreign exchange earnings.

Due to this tourism potential and government policies, the tourism sector steadily grew for several years until recently. Since around 2001, however, it has remained sluggish¹⁰ due to a number of factors, including the hijacking of an Indian airliner in December 1999 (after the incident, Air India suspended its services to Nepal for six months, resulting in a sharp drop in the number of Indian tourists, which account for a significant proportion of tourists to Nepal) and the escalation of the Maoist insurgency. Decreasing surpluses in the balances on service and income are having a serious impact on the national economy.

(3) Water resources

Nepal is one of the world's richest countries in terms of water resources. Total annual river flows stand at 220 billion cubic meters, and the per capita river flow ranks one of the highest in the world. Of the annual precipitation of 1,530 mm, 64% runs directly into rivers, and 36% remains on the high ranges of Himalayas as snow and ice and trickles down to the rivers over many years. Underground water sources abound in the hill valleys in the Terai and Kathmandu. The annual use of underground water now stands at 1.04 billion cubic meters, accounting for only 20% of the amount of recharge. Due to their steep inclination, rivers in Nepal have vast potential for power generation. Nepal has potential hydroelectric power capacity of 83,000 MW, of which it is technically and economically feasible to exploit 43,000 MW. At present, Nepal generates only 369 MW.¹¹ However, consideration should be given to a few constraints, including seasonal differences in water resources (82% of the annual precipitation is that during the rainy season of June-November), and regional disparities in demand (demand is concentrated in the cities, and underground water sources are being overexploited in Kathmandu). Nonetheless, Nepal uses only a small amount of its vast water resources, and there is significant room to meet growth in demand in the future.

Nepal's water resources are important for Southwestern Asia as well. Nepal is located upstream from the Ganges, and all the river flows in the country run into the Ganges. The watershed of the Ganges suffers from the long-lasting vicious circle of poverty and population growth, as well as chronic water

⁹ According to the figure for FY1998 in MOF (2000b). The exchange rate is 74.576 rupees to the dollar.

¹⁰ The number of tourists between January and October 2001 fell by 14% year-on-year (The Kathmandu Post, 6 and 24 December 2001). Tourist arrivals by air dropped by 21% year-on-year (ADB (2002)).

¹¹ Water and Energy Commission (2001)

shortages. In 1996, the Indian and Bangladeshi governments signed the Ganges Water Sharing Treaty, putting an end to the water dispute that had run since 1951, at least for now. This treaty is about the sharing of flows at Farakka, and therefore cannot deal with water shortages. (To deal with water shortages, it is necessary to increase the flows of the Ganges during the dry season by, for example, the accelerated development of water resources in Nepal.) It is expected that electricity will be in short supply over the long term in this watershed. In this respect, renewable and clean energy generated by Nepal's water resources is valuable compared with electricity generated by coal in India and natural gas in Bangladesh. For the future, Nepal's participation in the Electricity Grid in South Asia¹² will help alleviate power shortages in the region and contribute to the country's economy through foreign currency earnings. (However, the present gaps in power charges between India and Nepal make it difficult to export electricity in large quantities. Under these circumstances, the Nepalese government plans to reduce costs with private sector participation in the short term. The government also plans to promote the establishment of a framework and the implementation of a joint study on the development and utilization of water resources on an equal footing with the neighboring countries concerned.)

As with other sectors, the water resources sector in Nepal faces numerous problems that require solving. Nevertheless, there is vast potential for Nepal's water resources to help in overcoming water and energy shortages, alleviating poverty, and achieving long-term development in Nepal and even South Asia as a whole.

1-2-3 Problems with the development of Nepal - the mechanism of poverty

Constraints to medium-term development

Nepal remains one of the poorest countries in the world, despite large amounts of aid from many donors and the above-mentioned development potential. Based on a number of reports,¹³ constraints to poverty reduction in Nepal are identified in Figures 1-1 and 1-2, and Table 1-9.

These constraints are diverse and not easy to solve. However, the problems of inefficient public service delivery, corruption, and the lack of transparency would be solved through full implementation of civil service and fiscal reforms. The Nepalese government has already taken a number of measures with the support of international aid agencies, such as the World Bank and the Asian Development Bank (ADB).¹⁴ Still, the whole government, including politicians, is advised to redouble its efforts towards implementing these reforms.

The state of poverty in rural areas is highlighted by low educational standards, low health care standards, and a slowdown in economic activities, as shown in Figure 1-2. Poverty reduction in rural areas requires both quantitative improvements in the social and economic infrastructure and qualitative improvements in the management of this infrastructure.¹⁵ As a precondition, it is necessary to increase budget allocations to rural areas. However, politicians from urban areas have a bigger say than those from rural areas. As it stands, it is practically difficult to effect a shift in the budgeting focus from urban to rural areas. Debates on poverty reduction have so far focused on sectors, but attention should

¹² USAID supports South Asia in the electric power sector through the South Asia Regional Initiative/Energy Program (SARI/E). As part of this initiative, USAID is promoting partnerships with electricity grid companies in India, Bangladesh and the US. USAID is expecting the participation of Nepal as well (USAID (2001)).

¹³ Among them are JICA (1996), Nagoya University (2000), the World Bank (2000).

¹⁴ Such measures include: prioritizing central government budget allocations as part of the Medium Term Expenditure Framework, reducing the number of projects (from 714 to 640 in FY2001), giving precedence to ongoing projects over new ones, realistic revenue planning, as well as decentralization efforts, which will be discussed in the next section 1-3.

¹⁵ Specific measures are being studied in this respect as well. For example, such measures in the education sector include: requiring all teachers to take a qualification test to screen out unqualified teachers, establishing a school management committee in each Village Development Committee (VDC) with the aim of recruiting and monitoring teachers. In the healthcare sector, plans to place health posts, health sub-posts, and Ayurvedic clinics (facilities for the traditional Indian system of healing) under the authority of VDCs are being studied (NPC (2000a)).

also be paid to budget allocations among the regions in future.¹⁶

Due to the level of poverty in Nepal, the number of Nepalis working outside the country is increasing year by year. This in turn is contributing to the spread of AIDS, forming a vicious circle of disease and poverty within Nepal. These migrant workers, however, are also making a considerable contribution to the national economy through their remittances, which have been increasing rapidly in recent years.¹⁷ The existence of such migrant workers should be taken into account in the overall approach to development, at least in the short term. This is because building a basis for establishing industries that earn foreign currency requires a long-term perspective, given the present political and social instability in Nepal.

¹⁶ Finance Minister Ram Saran Mahat said in his budget speech for FY2002 that he was making efforts to effect a shift in the focus of budgeting to the regions. In reality, however, the proportion of budget allocations to the regions is increasing only marginally, although its absolute amount is increasing in line with the increase in the total national budget (see Table 1-6 (6)). Of the total development budget of 50,460 million rupees for FY2001 (initial budget), 39,580 million rupees (78.4% of the total development budget) have been allocated to central-level projects, and 10,880 million rupees (21.6%) to regional-level projects (Ministry of Finance, Budget Speech 2001/2002).

¹⁷ In 1990/91, total remittances to Nepal stood at 549,654,000 Rs., accounting for 0.91% of the GDP. In 1997/98, total remittances jumped to 4,084,200,000 Rs., representing 4.79% of the GDP. (Sources: MOF (2000) Economic Survey FY1999-2000; and the website of Nepal Rastra Bank)

Figure 1-1 Mechanisms of poverty and directions toward poverty reduction (at the central government level)

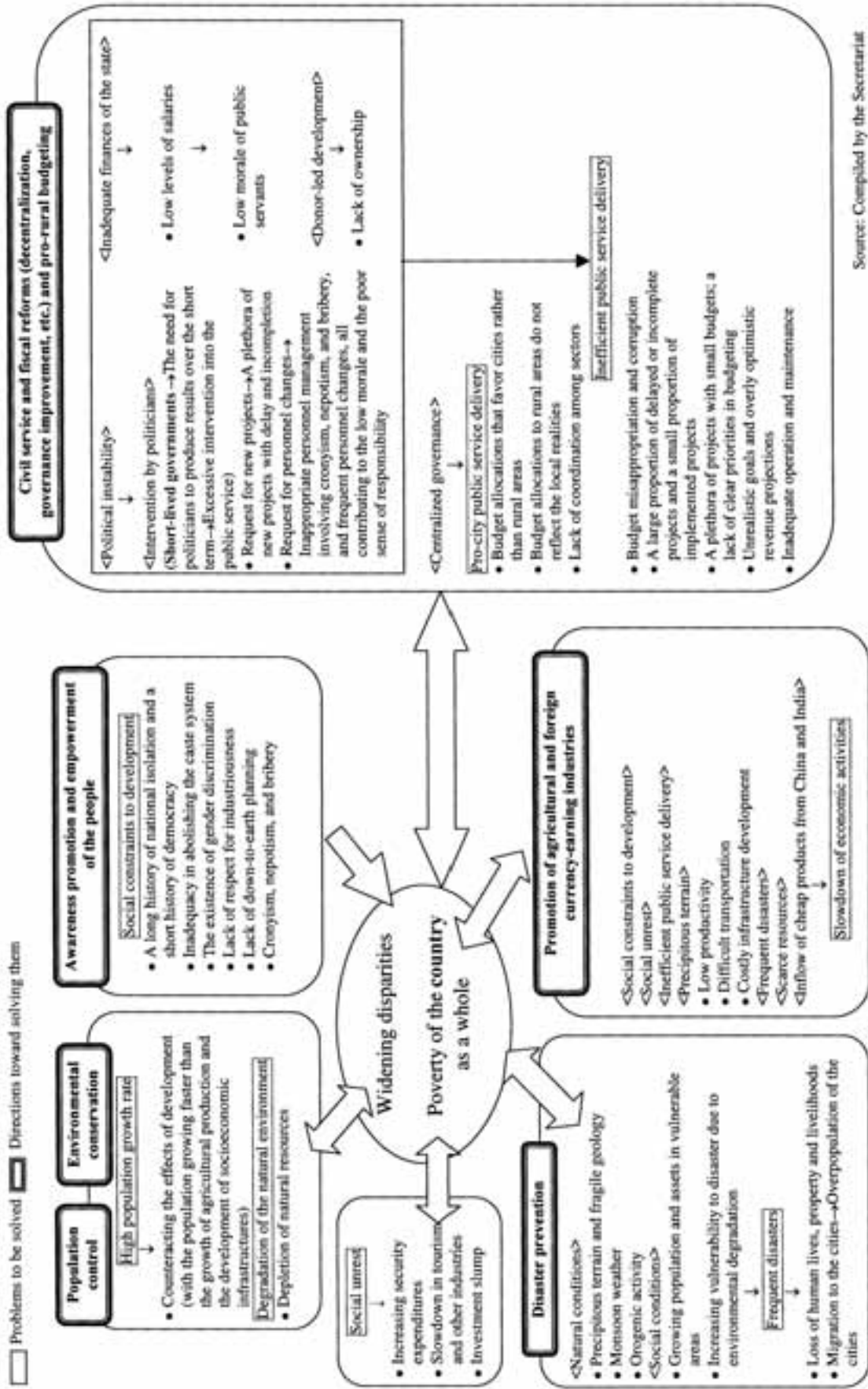


Figure 1-2 Mechanism of poverty and directions toward poverty reduction (at local levels)

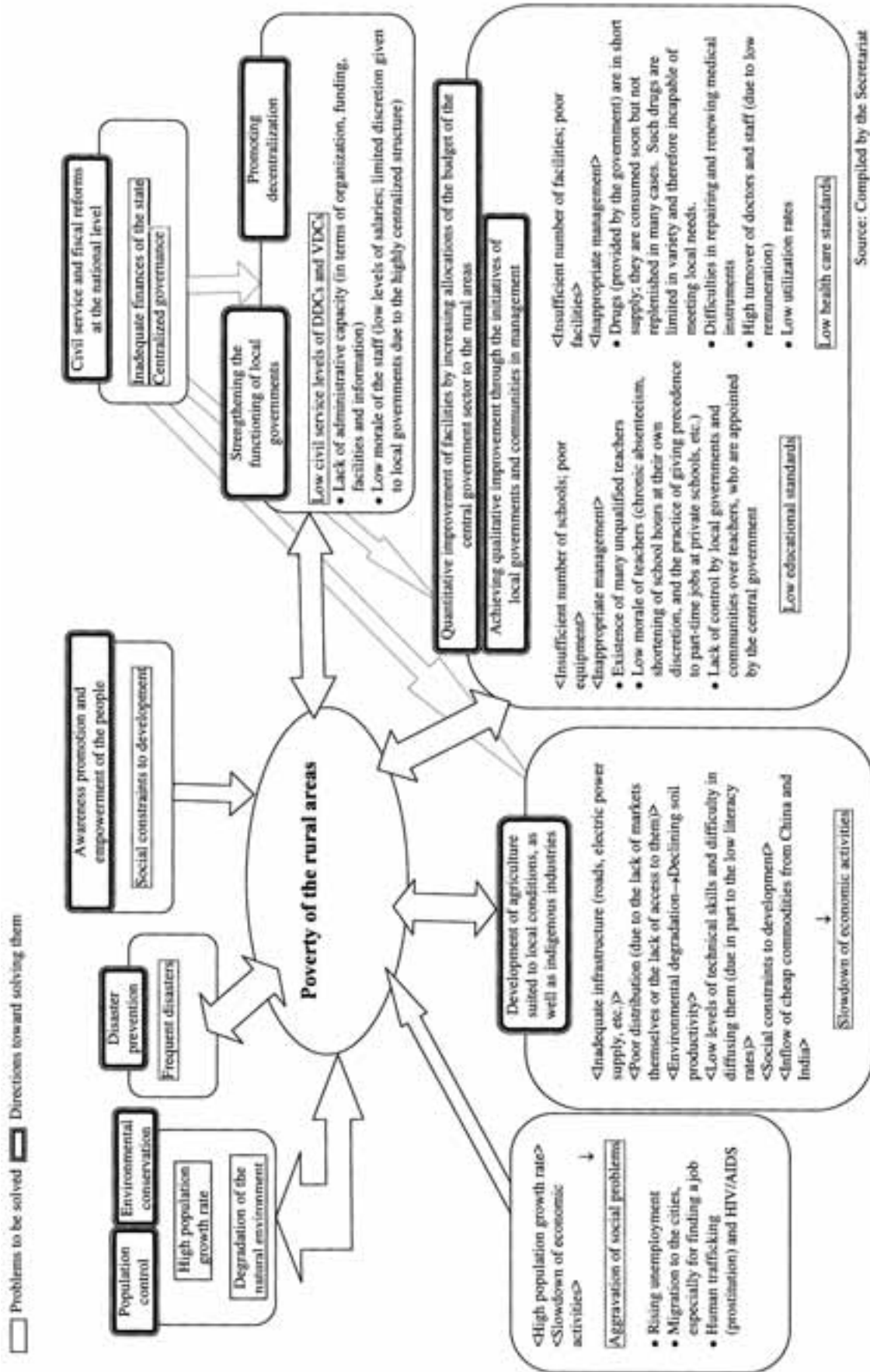


Table 1-9 Brief review of the mechanism of poverty and directions toward poverty reduction

Central government levels	Local levels
<p>· “Centralized public administration” favors the cities (as exemplified by budget allocations that favor the urban areas rather than rural areas), causing “widening disparities.”</p> <p>Other harmful effects include budget allocations that do not reflect the local realities (in Nepal, it is difficult for central government offices to keep abreast of the state of local governments and communities) and the lack of coordination among sectors.</p> <p>The central government determines budget allocations after comprehensively studying numerous factors, including investment efficiency and the execution capacity of local governments and communities. However, if the government wants to reduce poverty, it clearly has to increase allocations to rural poor areas. To ensure that development projects reflect the local needs or realities and thus produce the expected results, the government also has to promote decentralization and respect the local initiatives in implementing such projects.</p>	<p>· “Centralized public administration” is reducing the incentive to undertake development since budget allocations to local governments are limited and so is their discretion. Decentralization should be further promoted so that these entities may be encouraged to pursue development with their own initiative.</p> <p>· “Centralized public administration” is impeding the development of infrastructure, including public facilities, and thus widening disparities between urban and rural areas. The delay in infrastructure development is in turn hindering production activities.</p> <p>It is necessary to increase budget allocations to the rural areas.</p>
<p>· “Inefficient public service delivery” constitutes a bottleneck in development. Some donors take a firm stand in providing aid saying that unless this problem is solved, aid efficiency is not to be expected.* However, just calling for governance improvement and appealing to the moral sense of the parties concerned will not solve the problem. Behind this problem lies a pattern in which the inadequate finances of the state lead to low levels of salaries, and this in turn translates into public services having low levels of morale and practicing corruption.** Intervention by politicians plays a large part as well. To ensure that public servants concentrate on their duties and implement efficient service delivery, Nepal needs to strengthen national finances based on a long-term economic development policy.</p>	<p>· The “health care” sector has many problems, including the shortfall in the capacity of health care facilities or equipment and the personnel to run them. Health care providers tend to reduce the hours of duty at their own discretion or fail to perform their duties due to the low levels of salaries. However, local governments cannot deal with this problem since the central government manages personnel affairs. Health care is an integral part of the BHN strategy. The first step to raising healthcare standards is to make quantitative improvements in facilities, and sustainable management of these facilities is a prerequisite. To this end, local governments and communities need to have the financial support that is commensurate with the scale of such facilities. Raising the financial capacity is required from different perspectives as well. For one thing, future progress in aspects of local self governance will increase the responsibility of local governments and communities. For another, the construction of public facilities will be expedited.</p> <p>Raising the income levels of local residents is also necessary to ensure that these facilities will be fully used by them and thus benefit them.</p> <p>Local management of personnel affairs is under study. Possible options include giving precedence to local residents in recruiting healthcare providers, and the participation of DDCs and VDCs in the management of these facilities to conduct monitoring and provide support, although the issue of low levels of salaries should be addressed as well.</p>
<p>· “Social unrest” is raising expenditure on security, stagnating such industries as tourism, and inviting an investment slump, all constituting major constraints to development. Because poverty lies behind social unrest, it is essential to achieve development and raise living standards in poverty stricken areas.</p>	<p>· Similar constraints are identified in the “education” sector as well, including an insufficient number of schools, poor equipment, and the poor quality of teachers. In fact, many teachers do not have qualifications and/or are prone to chronic absenteeism. However, these problems cannot be addressed since personnel affairs are managed by the central government (in many cases, nepotism or bribery is involved). Private schools are consequently increasing in number, widening the disparities between private and public schools. Education is an integral part of the BHN strategy and, at the same time, an important tool for development. It is therefore necessary to improve facilities quantitatively as well as qualitatively through local initiatives in management.</p>
<p>· The high population growth rate is causing the depletion of forests and other resources and also land segmentation, thus reducing productivity in rural areas. The cities, on the other hand, are becoming overpopulated, resulting in environmental degradation and an increasing proportion of the poor.</p> <p>Population growth is also counteracting the effects of development.*** In fact, with the population increasing at an exponential rate, the capacity of the limited resources in Nepal to support it may sooner or later be exceeded.</p> <p>Population control is a pressing issue for Nepal. The government is urgently required to implement a comprehensive set of measures aimed at controlling population growth, including family planning education, raising healthcare standards, and education designed for women.</p>	<p>· “Poor areas” are increasingly suffering from a vicious circle in which “poverty” prompts people to move to the cities for jobs and increases the risk of contracting HIV/AIDS and this in turn exacerbates poverty. To rectify the situation, it is necessary to invigorate production activities and thus raise income levels and create jobs.</p>
<p>· “Frequent disasters” are causing the impoverishment of afflicted areas, stress on national finances, and the overpopulation of cities, all constituting constraints to development. Moreover, the frequency of disasters is leading to higher numbers of people living in disaster-prone areas (the poor in particular), thus increasing the vulnerability to disasters in Nepal as a whole. The Nepalese government is required to reduce the damage by applying disaster prevention measures, which should be coordinated with poverty reduction measures.</p>	<p>· A vicious circle of poverty is in place: “Poverty” leads to low enrollment and literacy rates for women. This translates into few employment opportunities for women, and therefore gender disparities remain wide and the population remains growing. This situation in turn reinforces poverty.</p> <p>Both the central and local governments are increasingly focusing on education for women.**** Still, they should redouble such efforts from the viewpoint of poverty reduction.</p>

* The World Bank links its lending level to the progress made in civil service and fiscal reforms. The progress is assessed in consultation with the Nepalese government.

** This pattern is highlighted by the gaps in pay levels and service records between local staff and government officials involved in development projects.

*** As of 2000, Nepal had a population of about 23 million. With the annual growth rate of 2.5%, the population will increase by about 0.57 million every year. If the growth rate remains unchanged, the population will double in 30 years to more than 46 million.

**** See the I-PRSP.

1-3 Medium- to long-term directions for the development of Nepal

In Nepal, the intensified insurgency by the Maoists is raising security concerns. This situation makes it essential for the Nepalese government to come up with a policy aimed at dealing with the Maoists in the short term. In fact, top priority has been given to security measures in the 2002 budget. It should be noted, however, that poverty lies at the root of the Maoist movement. As their insurgency intensifies, it is important more than ever to tackle the root causes of poverty. Given the seriousness of the Maoist problem, this report also analyzes the factors behind the conflict and discusses support measures that need to be emphasized in the short term (see 2-4-1 and Annex 2). For the medium- to long-term directions for the development of Nepal, the report gives priority to poverty reduction and discusses strategies to this end.

1-3-1 Proposed pro-poor growth strategy for Nepal

(1) Poverty reduction is a top priority for Nepal

As described in 1-2: Current situation of the development in Nepal and its problems, a significant proportion of the Nepalese people are poor. Although the past three decades have seen improvements in national income levels and access to public health and education, some 40% of the population live in poverty. The number of people living in extreme poverty soared from 5.7 million in 1976 to about 9.2 million, although the proportion to the increasing total population remained largely unchanged.¹⁸ In terms of the Human Development Index, Nepal ranks among the lowest in South Asia.¹⁹ Within the country, regional disparities are wide. The proportion of the poor is higher in rural areas than in urban areas, in the Mountains than in the Terai and the Hills, and in the Mid- and Far-Western Development Regions than in the Eastern and Central Development Regions. Gender-based economic disparities are significant as well (see Table 1-6).

These circumstances have prompted the Nepalese government to give a top priority to reducing poverty and tackling unemployment in the Ninth Five-Year Plan (1997-2002), as discussed above. The plan aims to reduce the proportion of the poor in relation to the total population from 42% to 32% during the five-year period. This is part of the long-term goal of reducing the proportion to 10% or less within the next 20 years. The Ninth Five-Year Plan also sets out specific measures to reduce poverty in each sector with special emphasis on agricultural development. The plan, however, has not produced the expected results.²⁰

Since the end of 2001, the violent campaign by Maoist rebels has intensified, posing a serious threat even to the very survival of the country. Analysts say at the root of such social upheavals lies the pent-up frustration of people in areas where poverty is extreme combined with the very slow pace of development.

Given the state of poverty and the Maoist insurgency, poverty reduction is a top priority for the development of Nepal. As discussed earlier, this view is shared by the Nepalese government, which formulated the I-PRSP in July 2001 as a joint effort between the government, the private sector and civil society in Nepal on the one hand and major donors on the other. In the I-PRSP, the Nepalese government clearly states that for the next three years at the shortest, it will focus on poverty reduction in each of its policies and plans.

¹⁸ World Bank (1998)

¹⁹ UNDP (2001a)

²⁰ See Table 1-2. The proportion of the poor in 1999 stood at 38%. This is interpreted to mean that the goal has not been achieved, although some progress has been made.

(2) The “Pro-poor growth strategy,” aimed at promoting growth while reducing disparities, represents the preferred approach for Nepal

It is important that poverty reduction measures should be aimed at achieving both economic growth and disparity reduction. In other words, it is important to promote growth that will improve the situation of the poor so that economic disparities will not be exacerbated.²¹

More specifically, efforts to reduce poverty should incorporate measures by the central government to improve the standards of living of the population, improve their potential capacity, raise their income levels, and encourage the poor to participate in development activities and decision-making processes, all with a special emphasis on community development, as well as measures to ensure macro economic stability and economic growth designed to promote such community development.²²

As exemplified by a series of five-year plans, Nepal has attached importance to poverty reduction, but it has not been sufficiently successful. A major factor in this result is that the logic of poverty reduction strategies has not been firmly established. Although the I-PRSP sets out the directions for poverty reduction, the substance is too generalized. The full PRSP is due to be completed after securing consistency with the Tenth Five-Year Plan. To this end, the parties concerned are now studying specific policy targets and measures to deal with poverty reduction and are developing a time frame for the expected results. To ensure the effectiveness of these new policies and measures, it is necessary to set out a clear approach to poverty reduction together with an order of priorities.

As discussed in the previous subsection, the centralized administrative mechanism produced many problems and hindered the poverty reduction process. As part of the process of democratization and decentralization, the Local Administration Act came into force in 1992. This law replaced the traditional administrative units based on the Panchayat system with new units, including the Village Development Committee (VDC) and the Municipality, as well as the higher level unit of the District Development Committee (DDC). The Local Self Governance Act of 1999 granted more authority to these new units, regarding them as competent units for decision-making and the formulation and implementation of development programs at the local level.²³ In considering the pro-poor growth strategy, it is therefore important to take an approach that is designed to strengthen the functioning of these local governments and take advantage of their initiatives in the light of developments in the decentralization process.

Based on the above discussion, the pro-poor growth strategy that is desirable for Nepal is shown in Figure 1-3. In the short- to medium-term, the Nepalese government will need to adopt a strategy that integrates its sector-specific programs with community development programs, promotes the initiative of DDCs and other local entities in these development programs, improves the situation in the social

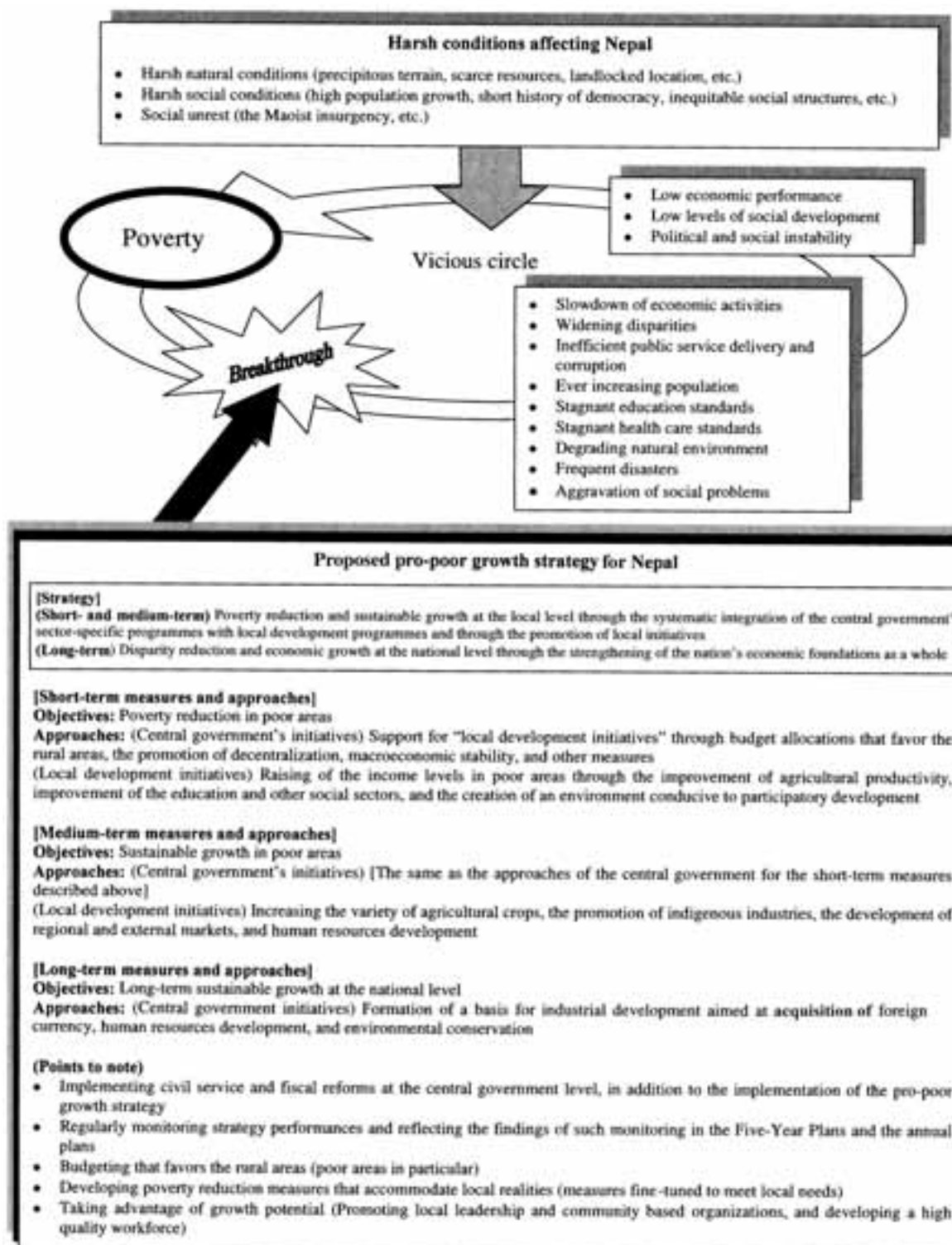
²¹ This has been pointed out in many studies. See, for example, Chapter 1 of JICA’s study report (2001), DAC (2001), and Kanbur, Ravi and Squire, Lyn (1999).

²² See Note 20. These studies examined the relationship between growth and disparities, growth and human development, and the political and social situation of the poor and development, from a historical perspective. Then they concluded that it is important to use the fruits of economic growth to improve public social services in such sectors as education and health care through budget allocations, and also to create an environment in which such improvements in educational and social levels will lead to improvements in income levels. The studies also concluded that it is important as well to offer opportunities for the poor to participate in development projects so that the efficiency and effectiveness of these projects can be improved and also enable the poor to engage in production activities that will produce high returns. These conclusions were in line with recent trends in which poverty is defined not only in terms of income, as in the past, but also in terms of elements associated with living standards, such as life expectancy, the literacy rate, the nutritional and health status, or even social and political elements such as vulnerability to external factors and the extent to which public concerns are taken into account.

²³ According to the speech regarding the 2001/2002 budget given by the Finance Minister on July 9, 2001, primary education, primary health care, postal services, agricultural extension services, and other services will be directly managed at the VDC level based on the concept that the rights of villages should be in the hands of villagers. Evaluation of the management of these services will be conducted at the district level. The Nepalese government will phase in these decentralization programs. In primary education, for example, five districts including Jhapa, Chitwan, Syanja, Bardiya, and Dadeldhura will take over the management of these services as the first step. Based on the performance of these districts, the government will decide whether it will expand the program to other parts of the country. The program will be carried out with aid from DANIDA and under the guidance of experts at the National Institute of Education and Planning in India (The Kathmandu Post, May 9, 2002).

sector at the community level, and raises income levels with a special emphasis on the key industry of agriculture. Budget allocations that favor rural areas are necessary to implement this strategy in a broad-based manner and achieve the goal of reducing poverty and economic disparities. To this end, the Nepalese government may need to shift the focus from the urban to the rural areas in the allocation of the budget. Along with this strategy, the Nepalese government will be advised to aim to alleviate extreme poverty and attain sustainable development in rural areas. In the long term, the Nepalese government will adopt a strategy aimed at strengthening the nation's economic foundations for the development of industries that will increase the nation's foreign currency reserves and at pursuing sustainable growth through human resources development and environmental conservation. The effective implementation of this strategy requires that the central government improve its governance and build up its capacity to formulate and implement policies, including the capacity to monitor and review poverty reduction projects. Development based on local initiatives may lead to greater efficiency in public administration and the streamlining of central government mechanisms. It is therefore necessary to carry out fiscal, administrative and other public sector reforms simultaneously.

Figure 1-3 Vicious circle of poverty in Nepal and the development strategy that meets the country's needs



Compiled by the Secretariat

1-3-2 Approaches of Nepal's pro-poor growth strategy

This subsection discusses specific approaches of the pro-poor growth strategy that meets the needs of Nepal. These approaches are classified into three types: short-term measures that should produce results in two to three years, medium-term measures that cover a period of about five years, and long-term measures that should be implemented now but will produce results in ten years or so. Specific approaches of local development initiatives are also discussed.

(1) The short- to medium-term strategy should make improvements in social sectors and raise income levels with a special emphasis on the key industry of agriculture.

Encouraging local development initiatives is especially important in the short- and medium-term. The immediate goal is to increase the income of villagers by such means as increasing the variety of crops, promoting the agro-processing industry, and developing distribution systems. The short- to medium-term strategy should also raise people's capabilities through improvements in education, health care, and other social sectors. Such efforts are expected to achieve synergies in poverty reduction.

Short-term measures (poverty reduction based on local initiatives):

With regard to specific measures, Nepal is required to promote direct pro-poor activities designed to make improvements in such social sectors as education and health care at the district level. The district is clearly defined as a local decision-making entity in charge of the formation and implementation of development plans. Specific activities will vary depending on the actual situation of the wards, villages and districts. Nonetheless, a special emphasis should be placed on: (i) improving income levels in poor areas through increased agricultural productivity, (ii) strengthening people's capabilities (empowerment) through improvements in education and health care, and (iii) creating an environment conducive to participatory development through village improvement projects (i.e., strengthening the functioning of DDCs and VDCs and raising people's awareness). These short-term measures are designed to support poverty reduction at the local level. Therefore, they should continue to be implemented in all poor districts until poverty in Nepal is substantially alleviated.

In carrying out this strategy, it is essential to attach importance to the socially vulnerable, including the poor and lower-caste groups. A special emphasis must be placed on empowering women as part of efforts to achieve gender equality. Improvements in education and health care (including family planning activities) may contribute to population control and thereby help raise income levels.

The remoter the poor area is located, the more severe the shortage of human resources to take charge of the development and implementation of development plans that the DDC faces, even though the DDC is expected to play the central role in development efforts at the local level. In these areas, JICA will focus on direct and small-scale activities for the poor as described above. These activities by JICA should be designed to ensure coordination with UNDP's LGP and PDDP and help DDCs and VDCs strengthen their ability to function. It is important that such a design will in turn ensure the effective implementation and sustainability of JICA projects.

Medium-term measures (sustainable growth based on local initiatives):

It is important that poverty reduction efforts lead to sustainable growth. This requires medium-term measures aimed at diversifying the economic foundations to accommodate the realities of different areas, as well as the short-term measures described above. Specifically, such medium-term measures include: (i) increasing the variety of agricultural crops, including a shift to cash crops; (ii) promoting indigenous industries and micro-enterprises in the agro-processing and other non-agricultural sectors; (iii) expanding regional and external markets through the development of the distribution infrastructure; and (iv) developing human resources to support such diversification of the economic foundations (by,

for example, raising education standards and improving training programmes). As a matter of course, the implementation of these medium-term measures requires: (i) the enhancement of people's capabilities through improvements in education and health care, and (ii) the strengthening of the capacity of DDCs and VDCs to develop and implement participatory development plans.

Regarding these short- and medium-term measures, the central government, for their part, needs to create a policy environment conducive to such poverty reduction efforts at the local level. To this end, the central government is required to achieve: (i) macroeconomic stability, (ii) budget allocations that favor the rural areas (poor areas in particular), coupled with budget execution that meets local needs, and (iii) maintenance and strengthening of decentralization policies.

(2) The long-term strategy should pursue sustainable growth by building a basis for industrial development aimed at earning foreign currency and through human resources development and environmental conservation.

The short- and medium-term measures described in (1) above are expected to promote auxiliary agro-processing and indigenous industries and achieve the development and spread of cash crops at the local level. These expected outcomes will contribute to poverty reduction and sustainable growth based on local initiatives. This in turn will boost economic activities between regions and accelerate poverty reduction at the national level. In addition to development efforts at the local level, Nepal also needs to implement long-term measures so that its economy will survive international competition, which is intensifying amid globalization.

Long-term measures (sustainable growth):

Achieving sustainable growth requires two key measures. One is to promote agricultural development and thus increase agricultural incomes. This will expand consumption and the domestic market. Such economic growth will in turn promote private sector manufacturing, put in place the reinvestment cycle, increase tax revenues and expand public investment. The other key measure is to promote foreign currency-earning industries. This will lead to the advancement of the industrial structure and eventually to sustainable economic development.

To this end, the central government is required to take a number of measures, including:

Building a basis for the promotion of foreign currency-earning industries such as manufacturing, tourism, and hydropower generation (market research is recommended as the first step);

Developing the physical infrastructure for energy supply, telecommunications and other fields;

Strengthening the capacity to extend public support;

Developing human resources over the long term; and

Formulating and implementing measures aimed at forest conservation, urban environment management, and disaster prevention on a continuing basis.

(3) The “pro-poor growth strategy” for Nepal should ensure close coordination between local development initiatives and the central government’s role in supporting such initiatives.

As discussed above, the effective implementation of this strategy will not be possible unless measures that accommodate local needs and realities are carried out based on local initiatives and ownership. In other words, local development initiatives with the participation of the poor are essential here.

The promotion of local development initiatives is also important in that it will help strengthen the capacity of local development actors. This perspective has often been disregarded in the central government's approaches. At present, local governments are suffering from severe fiscal stresses and personnel shortages. Still the empowerment of people engaged in public service delivery at levels closer to the poor is expected to eventually increase the capacity of local governments. In addition, such empowerment will likely instigate the process of transforming the central government's sector-specific

programmes into those that better meet local needs.

The central government, for its part, is required to implement policies that support these local development efforts. One such policy is decentralization, coupled with the continuation of financial support for development. Another is macroeconomic stability so that neither commerce between rural and urban areas nor agricultural markets will be distorted. The central government should also make specific arrangements so that sector-specific programmes by government ministries and agencies will facilitate disparity reduction. Such arrangements include the prioritization of budget allocations that reflect the local realities of poverty. It is important that these sector-specific programmes accommodate local needs and lead to the enhanced capacity of local entities to develop and implement development plans and to the empowerment of local residents. Close coordination between sector-specific approaches of the central government and the approaches of local development initiatives is the key here.

Moreover, pro-poor growth requires a number of steps, including the assessment of poverty in each area and the compilation of such data, regular monitoring to gauge development performance, and review of development plans and activities based on such monitoring. In fact, the Nepalese government has already launched a follow-up to the National Living Standard Survey (NLSS), which was conducted in 1996 with the support of the World Bank and USAID. In 2001, the government started to prepare a “poverty map” of each district with the backing of UNDP. At present, the government is making efforts to establish a national monitoring system. As part of such efforts, the government is planning to set up a monitoring center in each district and also within the central government. In conclusion, the success of the pro-poor growth strategy essentially requires: (i) the compilation of poverty data, (ii) preparation of poverty maps, (iii) an appropriate monitoring system, (iv) regular and systematic monitoring, and (v) the reflection of the findings of such monitoring in the Five-Year Plans and annual development plans.²⁴

²⁴ With the support of donors, the Nepalese government plans to prepare poverty maps and establish a poverty monitoring regime as follows:

- In 2001/2002, the government conducted a follow-up to the 1996 National Living Standard Survey (NLSS). The government intends to carry out poverty mapping for 16-17 districts every year. After completing the poverty map of each of the 75 districts across the country, the government plans to upgrade these maps every five years (Note of the Workshop on Poverty Monitoring and Mapping, August 2001). As of September 2001, the maps for Accham and Lalitpur districts have been completed.
- The government plans to organize a team headed by a minister in order to monitor the achievements in relation to the goals under the PRSP/10th Five-Year Plan (Concept Paper on the PRSP/10th Plan, Clause 165).
The government intends to establish a unit in charge of poverty monitoring within the NPC and strengthen the monitoring capacity of local governments (2001/2002 Budget Speech, Clause 91).

Chapter 2 Exploring the Optimal Approach for Japan's ODA to Nepal

2-1 Trends of assistance by Japan and other donors

Today, when we fear that the poverty situation would worsen in the countries left out of the globalization, "poverty reduction" has been given greater significance in the field of development assistance.²⁵ Nepal has so far received vast amounts of aid from many donors but has remained a poor country to date. As a consequence, donors are now focusing on poverty reduction as the major objective for Nepal. To this end, donors are extending aid in such areas as BHNs and agriculture, the nation's key industry. They also emphasize the importance of decentralization and good governance.

For the past ten years, Japan's ODA has accounted for about one-fourth of the total amount of aid Nepal has received. Japan's ODA to the country stood at 99.9 million dollars in 2000, of which some 60% was bilateral aid and the remaining 40% was aid through international aid institutions.

The following subsections review development assistance to Nepal by Japan, other major donor countries, and international institutions.

2-1-1 Trends in Japan's ODA to Nepal

Japan has been active in extending aid to Nepal on the basis of traditional friendship between our countries. In fact, Japan has been the top bilateral donor for Nepal since 1980, with the exception of 1988. Under an agreement with the Nepal government, Japan focuses its aid on "the improvement of people's living conditions," "better living standards," "industrial promotion," and "environmental conservation" as priority sectors.

In technical cooperation, Japan extends various forms of assistance in such sectors as health care, agriculture, and infrastructure. The cumulative value of Japan's technical assistance to Nepal up to FY1999 was 42.61 billion yen. This means that Nepal is the largest recipient of Japan's technical assistance among the seven Southwest Asian countries.

As Nepal is one of the least developed countries (LDC), Japan also extends grant aid to Nepal. Japan's grant aid to the country covers disaster prevention and the development of the key infrastructure for transport and electric power supply, as well as vital sectors related to daily life such as agriculture, health care, and water supply. Japan provided a cumulative total of 135.901 billion yen in grant aid to Nepal up to FY1999. This means that Nepal is the fourth largest recipient of Japan's grant aid among the Southwest Asian countries.

Regarding loan aid, Japan has extended yen loans every few years since 1975 to large-scale, profit-earning projects. Among them are electric power-related projects, including hydropower generation projects that take advantage of ample water resources.

JICA supports the self-help efforts of the Nepalese government in "poverty reduction," which is regarded as the top-priority long-term objective under Nepal's Ninth Five-Year Plan (1997-2001). As part of such efforts, JICA gives priority to the following four sectors in its country-specific programme implementation plan for Nepal (FY2001), in line with the sectors Japan has prioritized in its aid to Nepal:

- Improvement of people's living conditions through better social services and the empowerment of

²⁵ JICA (2001)

- local communities;
- Better living standards through increased agricultural production and expanded agricultural extension services;
- The development of the socio-economic infrastructure for industrial promotion and better living conditions; and
- Environmental conservation through sustainable development.

2-1-2 Aid trends of the major donors

The largest donor to Nepal among international institutions has been the ADB since 1996, followed by the World Bank and UNDP.

The ADB states in its Nepal Country Assistance Plan (CAP) for 2001-2003 that it plans to direct more than 80% of its loans to Nepal to projects related to poverty reduction in such sectors as agriculture, road networks and basic education. While monitoring the ongoing projects, ADB intends to stress civil service reforms and good governance.

The World Bank has identified “better donor coordination” and “stronger governance” as two of the major objectives of its Country Assistance Strategy (CAS) for 1999-2001, after learning the lessons of traditional top-down development assistance. To support reforms in Nepal, the World Bank links its lending to progress in the reform process. Nepal has a “Low Case” status (lowest status) as of September 2001, which means that the country is eligible for lending of 0-150 million dollars over a period of three years.

UNDP has identified poverty reduction, decentralization, and self-reliance in its First Country Cooperation Framework (CCF-1) for Nepal (1997-2001). In the Second Country Cooperation Framework (CCF-2) for Nepal (2002-2006), the immediate objectives have been defined as, among others, building the capacity of the government to design poverty reduction policies and improving governance based on the I-PRSP. As part of its efforts to support decentralization, UNDP is implementing the Participatory District Development Programme (PDDP) and Local Governance Programme (LGP). These two programmes aim to promote decentralization and increase the opportunities for local communities to participate in the decision-making process in 60 out of the 75 districts across the country.

As far as bilateral aid is concerned, Japan has been the largest donor to Nepal since 1980, with the exception of 1988. In 2000, Japan topped the list with 99.9 million dollars, followed by Denmark with 25 million dollars, the UK with 23 million dollars, and Germany with 21.8 million dollars.²⁶

Denmark focuses on “education,” “environmental conservation and natural resources management,” and “improved governance and democratization” as priority sectors for its aid to Nepal. The UK stresses “improved governance,” as well as “good approaches to human development” and “approaches to rural life.” Germany gives priority to rural development, and also tries to ensure that all projects, including those for urban development, are directed toward poverty reduction.

2-1-3 Situation of the Nepal Development Forum

In February 2002, the Nepal Development Forum (NDF) was convened for the first time in about two years.²⁷ This is the first time that the Nepalese government has hosted and organized the NDF.

²⁶ OECD(2001)

²⁷ The Nepalese participants included Prime Minister Sher Bahadur Deuba, Finance Minister Ram Saran Mahat, NPC Vice Chairman Prithivi Raj Ligal, and representatives from academic circles, the private sector, and NGOs. The participants from the donors included representatives from Japan, Australia, Canada, Denmark, Finland, France, Germany, South Korea, the Netherlands, Norway, Switzerland, the UK, the US and the EU, as well as the World Bank, ADB, IFAD, IMF, the Saudi Fund for Development, and the UN.

At the NDF, the donors stressed the need for expediting the reforms set by the Nepalese government, including those related to the civil service, decentralization and financial reforms. In relation to the Maoist problem, they requested the Nepalese government to ensure that these reforms will directly benefit the poor, promote democracy, and eventually lead to an end to the conflict and corruption. Regarding decentralization, the donors stated that direct and bold steps should be taken to alleviate poverty in the regions and rural areas.

The Nepalese government requested the donors to continue with their aid for its efforts to reduce poverty. In response, the donors committed themselves to extending a total of 2.5 billion dollars in aid over the next five years.

In mid June 2002, the UK organized an international conference on aid to Nepal. At the conference, the UK announced a plan to increase its ODA to Nepal from 29 million dollars in 2001 to 40 million dollars and its military aid from one million dollars in 2001 to ten million dollars.

2-2 Rationales of Japan's ODA to Nepal

Japan has the following three rationales regarding its ODA to Nepal:

(1) Nepal is the poorest country among the Southwest and Southeast Asian countries with a per capita GNP of 220 dollars (in 1999) and some 40% of the population living below the poverty line. It is the 12th poorest country in the world next to 10 African countries and Tadzhikistan (See Box 1-3). To support economic and social development of such a poor country in Asia through active aid extension is due responsibility of Japan, the second largest economic power in the world and a single major donor in Asia.

(2) Nepal has a basic policy of nonaligned neutrality and multilateral-diplomacy. Situated between India and China, the country has great geopolitical significance for the region. The solution of the social problems in Nepal is vital for the stability of Southwest Asia. Japan's ODA to Nepal therefore has great importance for building political stability and promoting social development in the whole region of Southwest Asia.

(3) Japan and Nepal have traditionally had good relations. Since the establishment of diplomatic relations in 1956, exchange of visits by the members of the Royal Family of Nepal and the Imperial Family of Japan, and high-level official interactions of both countries have taken place. Exchanges at private levels have been active as well. The Nippon NGO Network for Nepal (NNNN), based in Tokyo, states that 52 Japanese NGOs are registered with NNNN as of January 2002. In reality, however, as many as about 150 NGOs are said to be active.²⁸ Moreover, many Japanese are visiting Nepal for mountaineering or sightseeing. In 1998 the number of Japanese tourists to Nepal was the second highest one in South Asia behind India.²⁹ Not only beautiful nature of the country but also warm-hearted kindness of Nepali people has created a feeling of affinity among Japanese people and a

²⁸ According to the NNNN secretariat. In addition, 12 Japanese NGOs are registered in the Social Welfare Council (SWC), an affiliate of the Ministry of Women, Children and Social Welfare. All international NGOs are required to register in the SWC if they want to operate in Nepal. However, some of them register as a corporation, or do not register at all in order to avoid procedures.

²⁹ CBS (2000)

³⁰ Japan's business sector has a broad cooperation agreement with its counterparts in Nepal and other Asia-Pacific countries through the Confederation of Asia-Pacific Chambers of Commerce and Industry (the CACCI, established in 1996, is an economic organization principally comprised of the national chambers or associations of commerce and industry in 22 countries/regions, including Japan. Nepal joined it in 2000). It is hoped that exchanges through such a channel will be further promoted.

friendly relationship between two countries. To help such a “friend” in difficulties through ODA is, as it were, moral responsibility of Japan.³⁰

2-3 Basic perspectives of Japan's ODA to Nepal

Following the discussion in Chapter 1 (Current Situation and Future Directions of the Development in Nepal) and in Chapter 2, 2-2 (Rationales of Japan's ODA to Nepal), this study committee recommends the following basic perspectives of Japan's ODA to Nepal (see Table 2-1). It should be remembered that apart from Japan's ODA discussed below, commercial exchanges between Nepal and Japan constitute an important part of the efforts to build a basis for the promotion of foreign currency-earning industries over the medium and long term.

(1) Japan should support Nepal's pro-poor growth strategy from two perspectives: encouraging local development initiatives and promoting coordination with other donors.

1) In line with decentralization efforts, a participatory local government regime is being established with DDCs and VDCs at its center at the district and village levels, respectively. Japanese aid to Nepal has been traditionally focused on the sectoral programmes of the central government, but Japan should attach greater importance to development plans by these local government institutions so that its aid will benefit poor areas in a more direct manner³¹. Since it is necessary to assess and maximize the impact of each development programme on poverty reduction, Japan should preferably fully utilize poverty surveys/mapping and the development plans of the DDCs. Also, Japan should preferably include in its aid components the implementation of baseline surveys, the formulation of sectoral development programmes at the DDC level, and support for monitoring and evaluation where necessary.

2) For better aid effectiveness, it is important to have a common understanding and ensure coordination with the Nepalese authorities and other donors. To this end, Japan should take advantage of policy consultations and other opportunities to share views on the pro-poor growth strategy so that this strategy will be clearly regarded as the development strategy of the Nepalese government under the Five-Year Plans and annual plans.³²

Donor coordination is important from microscopic perspectives as well as these macroscopic ones. Poverty reduction requires a comprehensive approach since poverty has multiple aspects. At present, many donors, including NGOs, are independently extending aid in various forms. It is desirable, however, to systematically coordinate these different forms of aid so as to maximize the aid impact on poverty reduction. Japan, for its part, should strengthen coordination with other donors and make use of its competitive advantage to provide aid more efficiently and make a more effective contribution to poverty reduction.

³¹ For more details on the advantages and disadvantages of the approaches of “local development support” and “sector support,” see OECD (2001), pp. 64-68; and JICA (1996) pp. 116-118, 166. The approach of “local development support,” which was widely applied during the 1980s, was stymied in the face of central government bureaucracy. Although this approach was giving way to the “sector support” approach until recently, it has regained the attention of donors as decentralization progresses.

³² The importance of macroscopic perspectives has been pointed out in “1-2-4: JICA Enjo eno Shishin [Guidelines for JICA Assistance]” in JICA (2001).

Table 2-1 Proposed pro-poor growth strategy for Nepal and the basic perspectives of Japan's aid

	Pro-poor growth strategy preferable for Nepal	Basic perspectives of Japan's aid
Strategies	<p><Objectives></p> <ul style="list-style-type: none"> · <u>Over the short- to medium-term</u>, poverty reduction and sustainable growth at the local level through both the systematic integration of the central government's sector-specific programmes with local development programmes and the promotion of local initiatives. · <u>Over the long term</u>, disparity reduction and economic growth at the national level through the strengthening of the nation's economic foundations as a whole. <p><Points to note></p> <ul style="list-style-type: none"> · Improving governance of the central government · Regularly monitoring strategy performance and reflecting the findings of such monitoring in the Five-Year Plans and the annual plans · Budget allocations that favour rural areas (poor areas in particular) · Developing poverty reduction measures that accommodate local realities · Taking advantage of potential for growth 	<p><Orientation></p> <ul style="list-style-type: none"> · To provide aid in line with the "pro-poor growth strategy." Specific aid measures will be selected from "measures for the pro-poor growth strategy" in line with the short-, medium- and long-term objectives and approaches. · To provide aid aimed at poverty reduction (short- and medium-term) for both "support for the central government's sector-specific programmes" and "support for local development initiatives" · To ensure that the central government's sector-specific programmes have a greater impact on poverty reduction · To ensure that support for local development initiatives focuses on DDCs as the central entities and stresses local ownership and the empowerment of women · To pursue cooperation and coordination with other donors
Short-term measures and approaches	<p><Objectives></p> <ul style="list-style-type: none"> · Poverty reduction in poor areas <p><Points to note></p> <ul style="list-style-type: none"> · The participation of local residents is essential, especially to assess their needs accurately. <p><Approaches></p> <p>The central government's initiatives</p> <p>To support local development initiatives through:</p> <ul style="list-style-type: none"> · Budget allocations that favour rural areas, budget execution that meet local needs, and other measures · Promotion of decentralization · Macroeconomic stability <p>Local development initiatives</p> <ul style="list-style-type: none"> · Raising income levels in poor areas through the improvement of agricultural productivity · Improvement of people's capabilities and population control through improvements in education and health care sectors · Creation of a conducive environment for participatory development 	<p><Specific approaches></p> <p>Support through the central government's sector-specific programmes</p> <p>To implement the following measures that are likely to increase the impact on poverty reduction, while respecting the Five-Year Plans and long-term programmes in each sector:</p> <ul style="list-style-type: none"> · Budget allocation and execution that attach importance to local needs · Support for policies that benefit poor areas · Coordination among sectors <p>Development aid to poor districts</p> <p>Targets: DDCs with high levels of poverty</p> <p>Concept: Projects in each DDC's development plan will be selected according to the level of need for aid. Relatively small-scale aid will be provided for those projects through such schemes as technical cooperation, aid through NGOs, and grant assistance for grassroots projects.</p> <p>Priority issues:</p> <ul style="list-style-type: none"> · Improvement of agricultural productivity (through such means as irrigation, road construction, wider fertilizer use and agricultural skills extension) · Education improvement (in such areas as primary education and literacy programmes) · Health care improvement (through such means as primary health care, maternal and child health, and water supply) · Awareness promotion and empowerment of people · Strengthening of the functioning of DDCs and VDCs

	Pro-poor growth strategy preferable for Nepal	Basic perspectives of Japan's aid
Medium-term measures and approaches	<p><Objectives></p> <ul style="list-style-type: none"> · Sustainable growth in poor areas (linking the fruits of poverty reduction and sustainable growth at the local level) <p><Approaches></p> <p>The central government's initiatives</p> <ul style="list-style-type: none"> · To support local development initiatives through the same measures described in [The central government's initiatives] under the "Short-term measures and approaches" above <p>Local development initiatives</p> <ul style="list-style-type: none"> · Increasing the variety of agricultural crops · Fostering indigenous industries · Formation and expansion of regional and external markets · Human resources development 	<p><Specific approaches></p> <p>Support through the central government's sector-specific programmes</p> <p>To implement the following measures that are likely to increase the impact on poverty reduction, while respecting the Five-Year Plans and long-term programmes in each sector:</p> <ul style="list-style-type: none"> · Budget allocation and execution that attach importance to local needs · Coordination among sectors · Support for policies that benefit poor areas <p>Assistance programmes for priority districts</p> <p>Targets: DDCs with growth potential and relatively high levels of poverty</p> <p>Concept: Priority areas will be selected and provided with assistance for poverty reduction and sustainable development</p> <p>Priority issues:</p> <ul style="list-style-type: none"> · Diversification of agricultural products (a shift to cash crops, for example) · Fostering indigenous industries (agricultural product processing and non-agricultural industries as well as small businesses in these industries) · Development of distribution systems (roads, communications, etc.) · Human resources development
Long-term measures and approaches	<p><Objectives></p> <ul style="list-style-type: none"> · Long-term sustainable growth at the national level <p><Approaches></p> <p>The central government's initiatives</p> <ul style="list-style-type: none"> · To build a basis for industrial development aimed at earning foreign currency · Human resources development · Environmental conservation 	<p><Specific approaches></p> <p>To build a basis for industrial development aimed at earning foreign currency</p> <ul style="list-style-type: none"> · For the manufacturing industry: market research and promotion policy for promising sectors · For tourism: development of infrastructure including roads (tourism development itself will be driven by the private sector) · For hydroelectric power generation: development of the framework for cooperation with neighboring countries (for joint research, development, use, etc.) <p>Human resources development</p> <p>Environmental conservation</p> <ul style="list-style-type: none"> · Forest conservation · Urban environment conservation · Prevention of natural disaster

(2) From a short-term perspective, Japan should introduce the approach of supporting local efforts at pro-poor growth in Nepal. Specifically, Japan should focus on education, health care and agriculture – including irrigation, fertilizer use and agricultural skills extension, depending on the local situation – in relatively poor areas to increase income and make simultaneous improvements in the social sectors. Such support embraces people's participation and the role of women in development. It also targets community development that takes forest and soil

conservation into consideration. This does not mean, however, that support for the central government is unnecessary. Japan should support both the central government's sectoral programmes and local development initiatives.

1) Although some progress is being made towards decentralization, the government ministries and agencies still manage much of the development funds as far as aid through the central government's sectoral programmes is concerned.³³ Japan should therefore ensure that these sectoral programmes assisted by Japan will support local initiatives and have a greater impact on poverty reduction.

The Nepalese government is committed to focusing all policies and programmes on poverty reduction over the short term. To put this commitment into practice, the Nepalese government is advised to:

- (i) Prioritize poor areas in budget allocation in an effort to reduce economic disparities;
- (ii) Ensure that sectoral programmes are consistent with the development plans of the DDCs in order to accommodate local needs (by, for example, confirming that local needs are reflected in DDC development plans); and
- (iii) Secure coordination among sectors.

2) Japan should support the development plans of the DDCs. DDCs are responsible for programmes aimed at reducing poverty at the local level in cooperation with the VDCs, local institutions, and branch offices of the central government. DDCs are assuming a larger role as decentralization progresses. Therefore, support for the development programmes of DDCs is effective in poverty reduction at the local level. Some DDCs may not have even prepared development plans due to delays in the process of organizing local communities and acute shortages of human resources. Instead of focusing on such DDCs, Japan should give priority to DDCs that are poor but committed to poverty reduction with clearly defined development plans.

Specifically, Japan should select and support projects with higher levels of need for aid within the development plans of the DDCs through: (i) advice, guidance and training offered by experts, Japan Overseas Cooperation Volunteers, and Senior Overseas Volunteers; (ii) technical cooperation, including the provision of equipment; (iii) NGO-based support, including community empowerment programmes, development partnership programmes, and grant assistance through grassroots projects; and (iv) grant aid. Given the shortage of human resources in DDCs and their inadequate planning and implementation capacity, it may be important to support sectoral development planning according to need. The targeted areas (DDCs and sites targeted for development activity), for their part, are advised to preferentially select areas with high levels of poverty, as appropriate, while taking account of security and other concerns. (As a matter of procedure, Japan investigates each aid project to DDCs after receiving a request from the Ministry of Local Development (MLD).)

(3) From a medium-term perspective, Japan should select priority areas and extend comprehensive aid aimed at both reducing poverty and promoting sustainable growth to such areas.

Japan should study a scheme in which it: (i) selects one or two priority areas with high potential for growth, (ii) develops a comprehensive framework for supporting autonomous and participatory development planning and implementation by the DDC(s) concerned, and (iii) concentrates its aid on these priority areas, with the aim of reducing poverty and promoting sustainable growth. Specific steps include:

³³ Of the total development budget of 50,460 million rupees for FY2001 (initial budget), 39,580 million rupees (78.4% of the total development budget) have been allocated to central-level projects, and 10,880 million rupees (21.6%) to local-level projects (Ministry of Finance, "Budget Speech 2001/2002").

- (i) Arranging an aid package that covers everything from agricultural promotion to the development of social sectors and infrastructure, in line with the development plans of the DDCs. The idea is to reduce poverty, promote indigenous industries, and develop physical distribution systems in a comprehensive manner.
- (ii) Making quantitative and qualitative improvements in human and physical infrastructure and diversifying the economic structure.

The purpose of this scheme, which focuses on priority areas, is not to develop a model for development assistance, but to provide a practical example of poverty reduction and the achievement of sustainable growth at the local level.

The following items should be remembered in studying this scheme:

- (i) It is necessary to select priority areas among those areas where Japan or other donors have already produced results.
- (ii) It is important to ensure coordination with efforts to improve the capacity of DDCs and VDCs and with local assistance programmes, especially UNDP's Participatory District Development Programme (PDDP) and Local Governance Programme (LGP). (See 2-4-2 for the criteria for selecting priority areas.)

The concept of providing support through the central government's sectoral programmes is similar to the concept described in (2), 1) above.

(4) From a long-term perspective, Japan should support Nepal in building a basis for the promotion of foreign currency-earning industries, as well as in human resources development and environmental conservation to ensure sustainable growth.

To ensure long-term sustainable growth for Nepal, Japan should support the country in developing policies aimed at promoting foreign currency-earning industries. Japan should also extend loan aid and grant aid for the development of key economic infrastructure, the continued development of human resources, as well as technical assistance for environmental conservation.

Possible measures include:

- (i) Conducting marketing and price surveys in the Indian and other markets for promising sectors in foreign currency-earning industries to support the formulation of policies aimed at promoting these sectors;
- (ii) Supporting the development of infrastructure that forms the basis for socio-economic development, particularly infrastructure for energy supply, transport, and telecommunications (Japan has extensive experience in this sector);
- (iii) Supporting efforts to improve the quality and standards of basic education to assist in the continued development of human resources; and
- (iv) Supporting environmental conservation efforts in such areas as forest conservation, urban environment improvement, and natural disaster prevention.

2-4 Basic approaches of Japan's ODA to Nepal

This section discusses the basic approaches and criteria for selecting priority areas in relation to support for local development initiatives. Such support should be provided from short- and medium-term perspectives, as discussed in the previous section (2-3) on the basic concepts of Japan's ODA to Nepal. This section then looks at the concepts behind the selection of priority sectors for overall assistance to Nepal from the short-, medium- and long-term perspectives.

2-4-1 Proper way to support local development initiatives

(1) Approaches of assistance for local development initiatives

This study committee has recommended in the previous section (2-3) that Japan's short- and medium-term assistance should focus on districts as the key unit for assistance and support their efforts at poverty reduction and sustainable growth, through close coordination with the central government's sectoral programmes and the assistance schemes of other donors. This aid approach is outlined in Figure 2-1.

In the short term, Japan should pick viable poor districts and carry out small-scale aid projects in these districts. Such projects should take into consideration the management and administrative capacity of the districts, and where appropriate, take advantage of NGO support schemes. In the medium term, Japan should select priority areas after considering the expected aid effectiveness and efficiency. Then Japan should support the development plans of the DDCs in the selected districts in a comprehensive and sustainable manner.

Japan should identify specific assistance measures under the development plans of the DDCs concerned through coordination with other assistance measures (e.g., sectoral programmes executed by the central government and programmes by other donors and NGOs). Such development plans are now being formulated based on the poverty profile of each district, including a poverty map. Box 2-1 shows a poverty map of Accham District, the first of its kind in Nepal. For an example of a DDC development plan, see the development plan of Sindhuli District in Box 2-2.

(2) Criteria for selecting priority areas

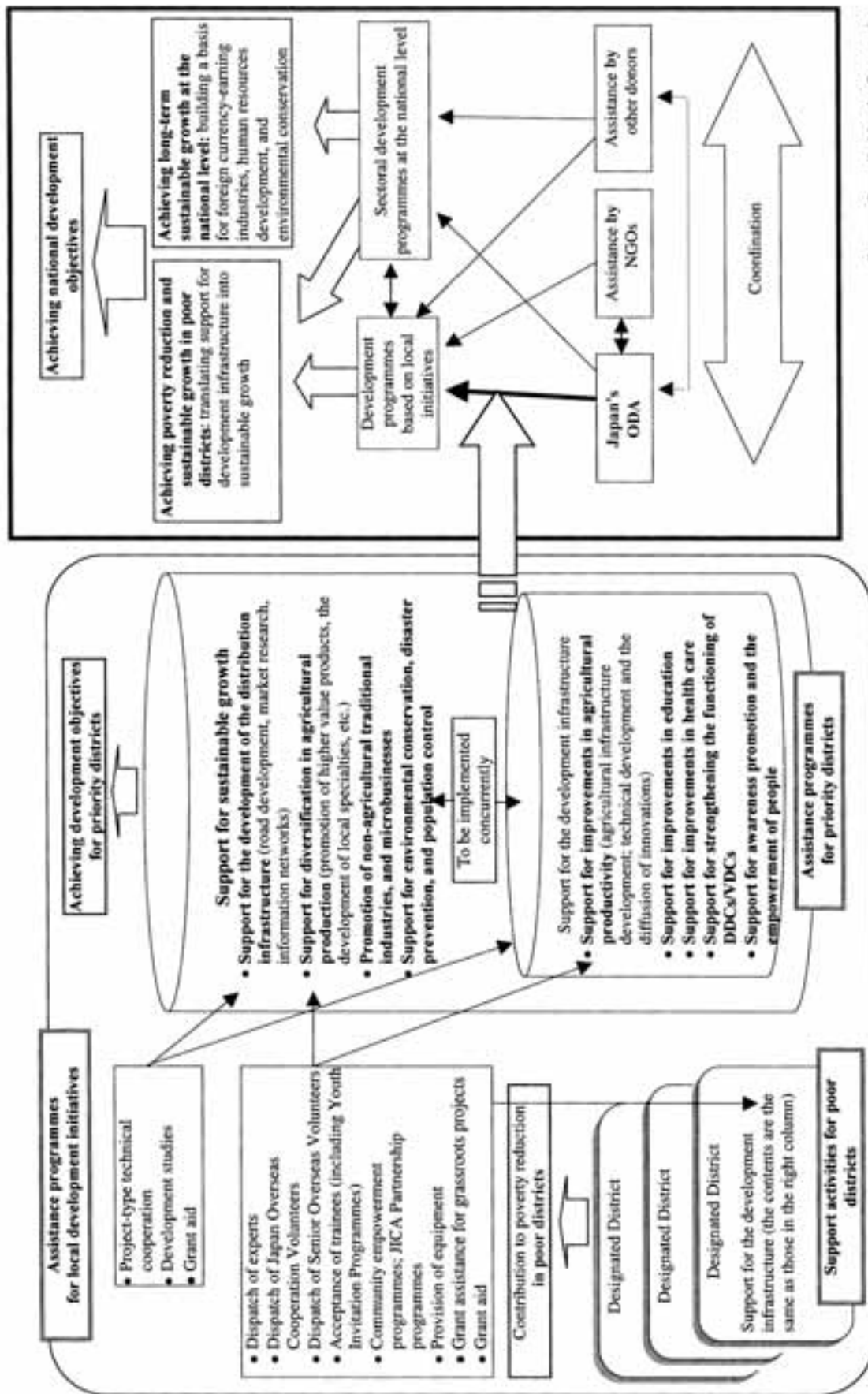
In the process of providing medium-term assistance, it is necessary to select priority areas (districts) that are judged to have high potential for development with Japan's aid, based on five criteria: (i) poverty levels, (ii) the institutional capacity of the DDCs, (iii) activities by other donors, (iv) the track record of Japan's development assistance, and (v) the aid environment. A practical way of selecting these areas may be to look at the status and outcomes of short-term efforts at poverty reduction in many districts first and then to narrow them down based on these five criteria.

2-4-2 Selection of priority sectors

As described in the previous section, Japan should focus on local development initiatives over the short and medium term, and on the building of a basis for foreign currency-earning industries over the long term. As far as support for local development initiatives is concerned, Japan should focus on districts as the key unit for assistance and support their efforts to alleviate extreme poverty and achieve sustainable growth. Then Japan should select the sectors and menus for its assistance in consideration of the district development plans and coordination with other donors. For this reason, this study committee refrains from defining the priority sectors, as other committees on country studies for Japan's ODA have done in the past. Agriculture (including agro-processing and physical distribution) and social sectors (education and health care) may be prioritized for the short and medium term. However, the actual priority sectors and issues should be identified in accordance with Nepal's pro-poor growth strategy. Table 2-3 shows examples of sectoral measures for the proposed "pro-poor growth strategy" for Nepal, coupled with short-, medium- and long-term objectives. Actual sectors and measures for Japan's aid should be selected with consideration given to sectoral long-term plans developed at the central government level³⁴ (and with consideration given to district development plans in the case of support for local development initiatives), and in cooperation with other donors, as a matter of principle.

³⁴ Among such plans are: the Agricultural Perspective Plan (APP) 1995-2015; the Basic and Primary Education Programme II (BPEPII) 1999-2003; the Second Long Term Health Plan (SLTHP) 1997-2017, and the 20-Year Road Plan (Long Term) 2001-2021.

Figure 2-1 The context and basic approaches of assistance programmes for local development initiatives



Source: Compiled by the Secretariat

Box 2-1 Poverty mapping of Accham District

The Nepalese government plans to complete poverty mapping of all the districts throughout the country. The poverty mapping of Accham District is the first report of its kind. This district is located in the hills of the Far-Western Development Region. With 75 VDCs, the district has a population of 224,186 and an area of 1,682 square kilometers. In terms of HDI, the district ranks 68th among the 75 districts in the country.

For poverty mapping, household sample surveys have been conducted on the following items in order to calculate the HDI and the HPI for each VDC and the DDC as a whole. Major indexes are plotted on the poverty map.

Population:	Sex, caste, tribe, family make-up
Life expectancy:	Under-40 mortality, causes of death (diarrhea, natural causes, other causes)
Literacy:	(by sex)
Income sources:	Agriculture, non-agriculture, livestock farming
Agriculture:	Grain production (rice, wheat, corn, barnyard grass), the area of irrigated land
Food Sufficiency	(equivalent number of months): Less than 3, 3-6, 6-9, 9-12, more than 12
Land ownership:	Average area, sex of owner
Education:	Mean years of schooling (by sex), type of school last graduated from (by sex), distribution of schools (community schools, private boarding schools, primary schools, lower secondary schools, secondary schools, higher secondary schools, and colleges), and access (within 1 km, 1-2 km, 2-3 km, or more than 3 km from home)
Health care:	Health Services (hospitals, PHCs, health posts, sub-health posts, and Ayurvedic clinics), Accessibility for settlement (within 1 km, 1-2 km, 2-3 km, or more than 3 km from home), the spread of family planning, number of the physically disabled, nutritional status, and access to drinking water (within 1 km, 1-2 km, more than 2 km from home)
Road network:	Road accessibility of motorable road (within 2 km, 2-4 km, 4-6 km, or more than 6 km from home), distribution and accessibility of major foot trails (within 0.5 km, 0.5 km or more)
Post offices/phones:	Distribution

Worst and best VDCs in terms of major indicators; average values for major indicators for the DDC as a whole

Indicator	Worst	Best	DDC average
Adult Literacy (15 years and above)	Chalsa VDC 0.31%	Bajianath VDC 57.65%	28.8%
Mean Years of Schooling	Chalsa VDC 0.05 year	Bajianath VDC 2.55 years	1.09 years
Proportion of households with less than 3 months Food Sufficiency	Patakot VDC Khaptad VDC 100%	Batulasen VDC Chalsa VDC 0%	17.67%
Average household income	Bannatoli VDC 0 Rs	Kulika VDC 18,306 Rs	5,673 Rs
Proportion of households living 3 km or more from the nearest health service	100% in 10 VDCs	0% in 7 VDCs	47.63 %

Poverty mapping has a number of advantages. For example, it allows project planners to omit much of the baseline survey in the districts where poverty mapping has already been completed, since it entails a detailed survey covering socioeconomic and other aspects. Poverty mapping also makes it possible to assess, from a macroscopic perspective, how much impact a given project has had on the HDI in the targeted VDC and the DDC as a whole, even if the project is designed to improve a specific indicator.

Source: PDDP/NPC/MLD/UNDP NEP/DDC of Accham (2001)

Box 2-2 Sindhuli District Development Plan (2001/2002)

Sindhuli District is located in the hills of the Central Development Region. Consisting of 53 VDCs and one municipality, this district has a population of 223,900 and an area of 2,491 square kilometers. In terms of HDI, the district ranks 53rd among the 75 districts across the country.

In its preface, the Sindhuli District Development Plan stresses the importance of community participation in the development process. It also states that the plan has been formulated with transparency, i.e., with community participation at a wide range of levels. The process of formulating the development plan began with holding a seminar on the budget draft proposed by the government. The development plan was first debated in village meetings, sectoral meetings and a district meeting. Then the plan was finally adopted by the DDC.

The development plan details the project contents and locations and the amount of funds for each budget item in all sectors, as shown below:

Agriculture: Improving productivity and diversification of production concerning grains, vegetables and fruits; fertilizers, seeds and farm equipment; and commercialization

Livestock farming:

Breeding through such means as artificial insemination; pasture; veterinarians; and commercialization

Gender in Development:

Seminars, training, etc. in cooperation with USAID, UNFPA and other institutions

Education: Schoolhouse construction and equipment improvement; special programmes for women and lower social classes; literacy programmes; training in school management

Health care: Construction of health posts and other facilities; family planning; mother and child health care; vaccination; and nutrition improvement

Cottage and Small-scale Industries:

Needlecraft; carpentry; repair of TV sets, clocks/watches, and sewing machines; bamboo plywood; ginger production; apiculture; soap production

Roads: Formulation of a business plan for routes to be developed over the next five years and that for FY2001

Irrigation: River improvement; construction of irrigation facilities

Soil conservation and flood prevention:

Prevention of bank erosion; prevention of landslides; conservation measures for denuded hills; diffusion of improved kitchen ranges

Forests

Drinking water

Power generation

The development plan, coupled with its budget execution report and budgetary request, were approved at the DDC meeting. At the meeting, the DDC debated requests to the central government, as well as strict measures and business improvement requests in response to inappropriate actions by the branch offices of ministries and agencies. The DDC also discussed requests to donor countries and institutions for aid. For example, the DDC decided to request JICA, through the central government, to provide aid regarding measures against landslides and flooding taken by the Disaster Prevention Technical Centre.

This formulation process of the development plan suggests that Sindhuli District is quite advanced in local self-governance. It is presumed that districts like Sindhuli have relatively few problems regarding ownership and transparency. In districts with a detailed development plan like Sindhuli, donors may well find it relatively easy to appropriately determine the target sectors and contents of assistance for local development initiatives.

Sindhuli District is where the Janakpur Agricultural Development Project was implemented over the long term under JICA's scheme of project-type technical cooperation. This project has left in place valuable human and physical resources. Technical assistance programmes should preferably take advantage of these resources and develop the accomplishments of this project further. Under Japan's grant aid scheme, Sindhuli Road is under construction in the region. Road construction generally has both positive and negative impacts. It is desirable to maximize such positive impacts by, where possible, combining such road construction project with a technical assistance programme. In this regard, it is important to ensure that the benefits of road construction will trickle down from the areas along the road to the surrounding areas so as to reduce poverty in the district as a whole. Likewise, it is also desirable to minimize negative impacts, including environmental destruction, social and cultural disruption, the outflow of young people to cities, and the spread of HIV/AIDS. In this way, JICA's technical assistance programmes should preferably be integrated with Japan's other aid programmes (past and present) to produce complementary effects or even synergies.

Source: UNDP (2001b)

Table 2-2 Criteria for selecting priority areas

1	Poverty levels References: HDI for each district	Prioritize poorer areas. Reasons: The impact of poverty reduction efforts is greater when such efforts are focused on poorer areas. Prioritizing poorer areas is necessary from another viewpoint—reducing regional disparities.
2	DDC's institutional capacity References: DDC's organization and budget; progress in the formulation and implementation of the development plan; and the presence or absence of basic information, including the findings of the poverty survey.	Prioritize DDCs with higher institutional capacity. Reasons: Higher aid effectiveness is expected in DDCs that are advanced in the development of a participatory administrative regime through PDDP and LGP, since they are more likely to have higher levels of ownership, transparency and accountability.
3	Activities by other donors and NGOs	Prioritize DDCs where other donors are active. Reasons: Poverty reduction requires a comprehensive approach. High aid effectiveness is expected as a whole if Japan, or any donor for that matter, focuses on sectors in which it has a competitive advantage and maintains donor coordination rather than covering all sectors.
4	Track record of Japan's aid	Prioritize areas where Japan's aid projects were implemented in the past or are currently under implementation. Reasons: Higher aid effectiveness is expected as a whole if a linkage is assured with past or current aid projects implemented by Japan, as this produces synergy. For example, a poverty reduction project, if carried out in areas along the Sindhuli Road, which is under construction as of April 2002 under Japan's grant aid scheme, would turn the positive impact of the road construction on the economy to good use for poverty reduction. Such a poverty reduction project would also minimize the negative impact of the road construction. Areas where development projects were implemented in the past have another advantage in that the human and physical resources developed by such projects can be put to good use.
5	Aid environment (remoteness of areas)	Prioritize DDCs with no or few aid environment constraints to project implementation. Reasons: Effective aid implementation requires a favorable aid environment. Remote areas in general are disadvantaged in terms of transport, communication, and even the recruitment of Japanese personnel.
6	Security situation	Prioritize areas with no or few security concerns. Reasons: In areas where the Maoists are active, there may be constraints to aid activities, such as security concerns about the parties involved and possible obstruction of aid implementation. It is necessary, however, to explore ways to overcome these security concerns and implement aid projects since these areas are generally poorer than other areas.

Table 2-3 Major development issues and measures in selected sectors under the proposed “pro-poor growth strategy” for Nepal

(Measures expected to produce short-term outcomes) Measures for poverty reduction based on local initiatives	(Measures expected to produce medium-term outcomes) Measures for sustainable growth based on local initiatives	(Measures expected to produce long-term outcomes) Measures for long-term sustainable growth
Promotion of agriculture (see the Agricultural Perspective Plan (APP))		
The promotion of agriculture, the nation's key industry, will result in increased income levels in poor areas and the promotion of non-agricultural sectors. Increased agricultural income will in turn expand the domestic market and result in more job opportunities. To this end, it is important to produce synergies for national economic growth by making complementary use of the competitive advantage of the Terai and that of the Hills.		
<p>Major issue: [increasing the production of major crops in the Terai] To increase the production of major grains, including wet-land rice, maize and wheat in the Terai. Rich in irrigatable land and underground water, the region is a potential grain belt for Nepal.</p> <ul style="list-style-type: none"> · Expand irrigation (especially shallow well irrigation). · Extend roads. · Expand the power grid (required for irrigation). · Increase the provision of fertilizers. <p>Major issue: [increasing production in the Mountains and the Hills] To promote livestock farming and also the production and processing of high-value crops, including citrus (mandarin), deciduous fruits such as apples, and tropical fruits such as mangos and water melons in the Mountains and the Hills. These regions have potential for the production of high-value crops, and there is potential demand for these crops from the Terai and other regions.</p> <p>Livestock farming and the production of high-value crops are preferable for the Mountains and the Hills, where farm land is fragmented. Such farming is also an effective means of improving the role and status of women.</p> <ul style="list-style-type: none"> · Quantitative and qualitative improvements in irrigation (construction of small-scale irrigation facilities; rehabilitation of the existing facilities) · Extend roads. · Increase the provision of fertilizers. 	<p>Major issue: [diversification of agriculture]</p> <ul style="list-style-type: none"> · Increase the variety of crops, including a shift to cash crops. · Promote livestock farming and sericulture as part of agricultural diversification. · Promote agro-processing. 	<p>Major issue: [developing human resources, including the training of agricultural extension workers; strengthening the regime for agricultural research and extension service]</p>

Promotion of non-agricultural industries		
	<p>Pursuing local sustainable growth through quantitative and qualitative improvements in human and physical infrastructure and through diversified economic structures</p> <p>Major issue: [invigorating the local economy]</p> <ul style="list-style-type: none"> · Promote indigenous industries. · Expand internal and external markets. 	<p>Promoting industries aimed at earning foreign currency so that the national economy can gain international competitiveness</p> <p>Major issue: [promoting foreign currency-earning industries (industries with a comparative advantage)]</p> <ul style="list-style-type: none"> · Promote tourism through private-sector initiatives (e.g., diversification of tourism in the regions, development of eco-tourism, and promotion of local specialties). · Promote hydropower generation. · Promote the manufacturing industries (carpets, garments, and cement) and certain food industries (through an improved regulatory climate, the development of industrial parks, and other means). · Human resources development
Education (see the Basic and Primary Education Programme II (BPEPII))		
<p>Education is a basic element of the BHN strategy and, at the same time, an essential factor for sustainable socio-economic development. Inadequate education leads to poor health and also constitutes a constraint on socio-economic development. Improved education, on the other hand, will result in population control and improvement in the status of women.</p>		
<p>Meeting BHNs and improving people's capabilities through improved education.</p> <p>Quantitative and qualitative improvements in primary education with a special emphasis on raising the extremely low school enrollment rates for ethnic minorities, low-caste groups, and women.</p> <p>Major issue: [quantitative and qualitative improvements in primary education]</p> <ul style="list-style-type: none"> · Improve access and facilities. · Raise the awareness of parents. · Establish appropriate qualifications for teachers. · Expand training for teachers. · Improve the curricula and teaching materials. · Reasonable regional distribution of teachers · Reduce educational disparities (through such means as: conducting activities exclusively aimed at pupils from ethnic minorities, low-caste groups and other vulnerable groups who need special treatment; increasing the number of female teachers with the aim of raising school enrollment rates for girls; 	<p>Improving human resources development through such means as upgrading of secondary education and vocational and technical education, in addition to making further quantitative and qualitative improvements in items listed in the left column.</p>	<p>Improving tertiary education and vocational and technical education with the aim of industrial development, in addition to making further quantitative and qualitative improvements in the items listed in the left column.</p> <p>Major issue: [improving tertiary education]</p> <p>Major issue: [quantitative and qualitative improvements in vocational and technical education]</p> <ul style="list-style-type: none"> · Improve the existing vocational schools. · Construct more engineering schools.

<p>and installing more restrooms for girls).</p> <ul style="list-style-type: none"> · Raise the percentage of pupils who have completed primary education. · Improve the academic achievements of primary school children in lower grades, in particular. <p>Major issue: [improving early childhood education programmes]</p> <ul style="list-style-type: none"> · Quantitative and qualitative improvements in early childhood education. <p>Improving school management with community participation and through the development and strengthened implementation of education plans that meet local needs</p> <p>Major issue: [improving education management]</p> <ul style="list-style-type: none"> · School management based on local initiatives (e.g., management by VDCs, education that meets local needs, and preferential recruitment of locals as teachers). <p>Raising literacy rates is another pressing issue. Low literacy rates constitute a root cause of many social problems, make it difficult to diffuse knowledge and skills, and hinder local development.</p> <p>Major issue: [promoting literacy programmes]</p> <ul style="list-style-type: none"> · Expand literacy education (quantitative and qualitative improvements in literacy education for adults). · Expand out-of-school education and other non-formal education. 		
<p>Health Care (See the Second Long Term Health Plan (SLTHP))</p>		
<p>Health care is a basic element of the BHN. Strengthening primary health care (through improvements in public health standards and health care systems at the local level) will improve the health of the socially vulnerable, including women, children and the poor. Improvements in the health sector, as well as other social sectors, are crucial for poverty reduction, since such improvements result in enhancement of people's capabilities and population control.</p>		
<p>Meeting BHNs and improving people's capabilities through improved health care.</p> <p>Major issue: [improving the health environment]</p> <ul style="list-style-type: none"> · Improve maternal and child health (e.g., improved maternal health care, training of auxiliary nurses-midwives, and quantitative and 	<p>Making quantitative and qualitative improvements in the items listed in the left column.</p>	<ul style="list-style-type: none"> · Promote family planning in parallel with improvements in education and health care. · Train healthcare providers with appropriate assignment of personnel.

<p>qualitative improvements in the services for pregnant women).</p> <ul style="list-style-type: none"> · Implement awareness programmes on public health. · Make quantitative and qualitative improvements in drinking water supply facilities and sanitary arrangements. · Ensure the treatment, prevention and control of major infectious diseases. <p>Major issue: [establishing an adequate health care regime]</p> <ul style="list-style-type: none"> · Make quantitative and qualitative improvements in local health care facilities, including health posts. · Improve health care administration at the central level. · Strengthen management based on local initiatives (e.g., management by VDCs, the establishment of an evaluation regime by DDCs, and preferential recruitment of locals as health care staff). 		
Environment		
(The mountainous environment)		
<p>Conservation of the natural environment in the Mountains, particularly the Himalayas, is important not only in itself, but also for their conservation as a world heritage and for the promotion of tourism. Deforestation is causing topsoil erosion, reduced soil productivity, disasters, and depletion of water resources. Forest conservation is essential for the sustainable development of not only the region but also the nation as a whole.</p>		
	<ul style="list-style-type: none"> · Conserve landscapes. · Protect rare species. · Promote community-based forest conservation activities (community forestry). 	
(Urban environment)		
<p>In the urban areas, the degradation of the environment began to become obvious in the late 1980s, as exemplified by the inadequate collection of waste, the pollution and foul odor in rivers, and air pollution. During the 1990s, such environmental degradation became serious. It is necessary to solve these pollution problems, which harm people's health and blight the urban landscape.</p>		
	<ul style="list-style-type: none"> · Control water pollution (rivers, underground water, and tap water). · Control air pollution. · Alleviate traffic congestion in Kathmandu. · Treat municipal waste appropriately. <p>Major issue: [improving environmental management]</p> <ul style="list-style-type: none"> · Strengthen the administrative machinery. · Develop an environmental monitoring system. 	

	<ul style="list-style-type: none"> · Take advantage of private-sector initiatives. · Human resources development.
(Disaster prevention)	
<p>The precipitous terrain, vulnerable soils, monsoon downpours, and Himalayan orogeny all contribute to flooding, landslides, earthquakes, and other disasters. Such disasters have a serious impact on the vulnerable economic foundations and thereby hinder development efforts. Due to this, disaster prevention measures need to be implemented.</p>	
<p>Establishing emergency preparedness to minimize the damage from disasters</p> <ul style="list-style-type: none"> · Establish institutional arrangements to assess the damage and relief requirements promptly and accurately. · Strengthen the functioning of communications and transport. · Establish evacuation sites and bases for stockpiling provisions in preparation for disasters. 	<p>Taking measures to prevent disasters</p> <ul style="list-style-type: none"> · Prepare hazard maps and encourage people living in dangerous areas designated on hazard maps to move to other areas or improve their habitation situation. · Promote disaster prevention programmes. · Promote earthquake disaster prevention arrangements in the metropolitan area.
Infrastructure	
(Energy and telecommunications)	
<p>Only 15% of the population have access to electric power supplies. In rural areas alone, the electrification rate is about 5%, highlighting wide regional disparities. Electrification of rural areas is particularly important for improving living standards, promoting indigenous industries and conserving forests. Less than half of the VDCs have access to telephone lines. Increasing the number of telephone lines for better communication between the regions is vital for Nepal to ensure even levels of development across the country and to overcome its backwardness. The use of wood for fuel is one of the factors behind deforestation and the heavy workload of women. It also reduces the productivity of the land and thus aggravates poverty. This is why alternative energy sources need to be developed.</p>	
	<p>Hydropower development is required not only for meeting power demand in Nepal and the neighboring countries but also for earning foreign currency.</p> <ul style="list-style-type: none"> · Develop hydropower generation and export the generated electric power to neighboring countries through multilateral cooperation with donors. · Construct reservoir-type power plants with measures taken against environmental degradation, flooding, sedimentation, and landslides. · Improve the electrification rate by developing power grids across the country. · Develop and promote the use of alternative energy sources, including biogas, small-scale hydropower generation, and solar power generation. · Expand and improve telephone line networks.

(Roads) [See the 20-Year Road Plan (Long Term) 2001-2021]	
Roads play a vital role in socio-economic development in a mountainous country like Nepal. Although a series of development plans have given priority to roads, it is necessary to continue efforts to develop roads.	
	<p>Since most imports come via India, highways linking Kathmandu with India and Terai are the lifelines of the Nepalese economy. However, these roads are often disrupted due to disasters and other factors.</p> <ul style="list-style-type: none"> · Develop and keep trunk roads in good repair with proper maintenance and disaster prevention measures. <p>It is necessary to improve access to ten districts and other areas with no road access.</p> <ul style="list-style-type: none"> · Develop local road networks.
Cross-sectoral issues	
<ul style="list-style-type: none"> • Resolute implementation of civil service and fiscal reforms (governance improvement) and monitoring of programmes and measures are essential for the effective implementation of short-, medium- and long-term measures and the solutions to sectoral problems. <ul style="list-style-type: none"> · Strengthen the fiscal position. · Promote decentralization (e.g., strengthen the functioning of DDCs/VDCs [through, among other measures, the establishment and utilization of district technical offices to support the local technical base], and strengthen coordination with NGOs). · Implement civil service reforms. · Reflect the findings of the monitoring of programmes and measures in Five-Year Plans. • Gender issues are at the root of poverty in Nepal. These issues need to be tackled in order to achieve sustainable local development as well as gender equality. <ul style="list-style-type: none"> · Empower women. · Take gender issues into consideration in every sector (e.g., take steps to gender equity). • Diffusion and application of IT <ul style="list-style-type: none"> · Provide production and market information. · Provide education in remote areas through IT. · Train IT technicians. 	

2-5 Proposed approaches of Japan's ODA to Nepal in consideration of peace facts

The Maoist uprising, which has been escalating since the end of November 2001, is seriously affecting a wide range of aspects of the politics, economy and society of Nepal. The aggravated security situation is both directly and indirectly affecting development aid activities. In view of such serious impact of the Maoist insurgency on development and assistance, it is considered essential for this report to deal with this issue as a matter of importance.

This section first reviews the state of the Maoist conflict and then discusses the concepts of Japan's aid with a view towards peace building.

2-5-1 Escalation of the Maoist problems and responses of the major donors

Prime Minister Sher Bahadur Deuba has been trying to solve the Maoist problems as a priority issue since he took office in July 2001. Such efforts brought about an interim truce between the Nepalese government and the Maoists and subsequent peace negotiations. However, before the peace negotiations produced tangible results, the Maoists broke the ceasefire agreement and relaunched the armed rebellion. In response to the worsening security situation, the Nepal government declared a three-month state of emergency in November 2001. The state of emergency was twice extended in February and May 2002 before being lifted in late August. In early September 2002, however, the Maoists attacked garrisons of the security forces in the Central and Eastern regions. Amid the intensifying conflict, security expenditures soared 50% after the state of emergency was declared. The fiscal pressures mounted and the Nepalese government had to slash the development budget and allot the budget portion thus saved to security spending. The Central Bureau of Statistics (CBS) of Nepal projects that the economic growth rate for FY2001 will be 0.76%, the lowest level in 18 years. The worsening security climate is having a significant impact on the economy, especially inward foreign investment and tourism. On the political front, the nation is in disarray as well. Parliament was divided and subsequently dissolved over how to cope with the Maoists. The ruling Nepali Congress Party, to which Prime Minister Deuba belongs, is also divided. Moreover, the Maoists stated that they plan to disrupt the general elections slated for November 2002.

The Maoists have recently been attacking bridges, roads, airports and other infrastructure installations, in addition to the traditional targets of police facilities. The intensifying insurgency is directly and indirectly affecting the implementation of development programmes. For example, the closure of banks is making it difficult to remit funds to the sites of development projects. Both the Maoists and the government are stepping up pressure on public assembly (the holding of meetings, training sessions, etc.). VDC chairmen and staff, fearful of being embroiled in the conflict, are fleeing to the district halls or out of the districts altogether. Furthermore, the central government is suspending its programmes. This situation is fanning the people's fear and distrust of both the government and the Maoists, as even people's daily life is being affected in some areas.

Meanwhile, there has been no major change in international aid to Nepal in general. However, donors are exchanging information with one another. In addition, donors are independently or collectively analyzing the current conflict and reviewing their aid strategies.³⁵ It is reported that the Maoists have

³⁵ See, for example, Loocke, J.H. & Philipson, L. (2002) and UNDP (2002d). In May 2002, Conflict Assessment Mission Nepal was conducted at the initiative of the UNDP Nepal office. Coupled with interview surveys in Nepal, this study examined approaches to preventing the prolongation or aggravation of the Maoist conflict, as well as peace considerations at the project level. Among the participants were Hidetomi Oi, a member of this study committee, and representatives from the JICA Nepal Office and JICA Headquarters. The findings have been compiled in a UNDP report (2002b). Also in May, USAID/Nepal organized a donor conference to study aid strategies in response to the escalating conflict.

rarely directly obstructed aid activities that involve communities at the grassroots levels, benefit the poor, ensure transparency, and enjoy support from the local communities.³⁶

For the future, donors are still in search of viable aid strategies in the rapid turn of events surrounding the Maoist problems and amid uncertain situation in Nepal. Nonetheless, donors are exploring ways to continue, rather than suspend, aid programmes while minimizing the risks involved, since they understand that people in Nepal are all the more in need of assistance due to the current disruptions. For example, UNDP is studying a number of measures, including: prioritizing programmes designed to create jobs and increase income levels for many local residents; prioritizing programmes designed to directly benefit the poor; encouraging youth to engage in productive activities; maintaining transparency; assigning as many local staff as possible; and maintaining a certain level of contact or dialogue with the Maoists.³⁷ The EU has proposed that it is important to continue analysis of the Maoist problems in order to address it appropriately and in a timely manner, consult with other donors, and extend assistance based on the initiatives of local communities.³⁸

2-5-2 Proposed approaches of Japan's ODA to Nepal in consideration of peace facts

The poverty problem is said to be at the root of the Maoist problems. Some of the major donors, after conducting a series of analyses of the conflict in Nepal, now suggest that the conflict has been prompted by socio-economic disparities among regions and ethnic groups and, in particular, inequitable development. In the light of this suggestion, this study committee emphasizes, as peace considerations, the following three points in planning and implementing Japan's development assistance to Nepal.³⁹

(1) Behind the escalation of the Maoist violent campaign lie regional disparities between urban and rural areas, as well as social inequality based on ethnicity, caste and gender. Therefore, in extending development assistance, two considerations should be made. One is to attach importance to poor areas in planning and implementing development aid projects. The other is to improve the access of ethnic minorities, low-caste groups, women and the poor to social services, and involve them in the decision-making process. In other words, it is important to ensure that development assistance will not leave behind the socially poor and depressed groups. It is also important to ensure that development assistance will not result in wider disparities among regions and ethnic groups.⁴⁰ Aid programmes targeted at ethnic minorities, low-caste groups, women or the poor are viable. In these programmes, further coordination with NGOs is important.

(2) Inadequate governance is a major factor behind the Maoist insurgency and the pent-up frustration of the people; inadequate governance is exemplified by an inefficient civil service, the slow pace of democratization, excessive centralization, and corruption. This situation makes it more important than ever to support improvement in governance, in particular the prevention of corruption and capacity building for local governments in line with decentralization. In addition, the police are inefficient and corrupt in the eyes of the Nepali people, although they are an important actor in improving the nation's capacity to maintain order and in preventing conflicts. Under these circumstances, it is worth studying the possibility of continuing and improving the police training programmes that JICA has so far provided to Nepal, with a view to strengthening the civil police force in Nepal.

³⁶ UNDP (2002b)

³⁷ UNDP (2002b)

³⁸ Loocke, J.H. & Philipson, L. (2002)

³⁹ These points were brought based on the discussions of UNDP (2002b).

⁴⁰ On the geographical spread of development programmes, the mission pointed out that UNDP programmes are largely clustered around districts with relatively higher HDI statistics, and where national highways are located, and they have contributed to a widening of regional disparities (UNDP (2002d)).

(3) Donor coordination is all the more important during the conflict and in the conflict prevention phase, when crisis information sharing and response coordination are essential.

2-6 Points to be noted in extending aid to Nepal

Based on the basic concepts and approaches of Japan's ODA to Nepal discussed above, this study committee has identified the following six points that should be noted in extending aid to Nepal from medium- and long-term perspectives.

(1) Support for local development initiatives requires observation of progress in local self-governance and respect for the initiatives of local governments (DDCs and VDCs). The support should also take account of transparency and others for the improvement of the quality of aid.

As decentralization progresses, local self-governance is taking shape. Among the examples of these moves are devolution from the central government to local authorities, the increased institutional capacity of DDCs/VDCs, and the participation of women, the social vulnerable and community organizations in public service delivery. These moves toward the establishment of participatory local self-governance are at the nascent stage, and there are many challenges for local entities. Nonetheless, such self-governance is essential to ensure that democracy is firmly in place and the long-term development of Nepal is achieved. The DDCs/VDCs play a pivotal role in this respect.

To support the establishment of such self-governance, the implementation of development projects in the regions requires respect for the local self-governance system and ownership by the DDCs/VDCs. Specific measures include: (i) involving DDCs/VDCs as counterparts; (ii) integrating aid projects into the development plans of DDCs; (iii) organizing user groups; (iv) encouraging the participation of NGOs; and (v) ensuring coordination with other donors on the initiatives of DDCs/VDCs.

Project implementation within the framework of participatory local self-governance will improve the quality of development assistance. This is because such implementation will ensure the efficiency, sustainability and transparency of projects, and even the successful outcomes and subsequent ripple effects of model projects.

As it stands, however, Nepal is still in the process of shifting from centralized governance to participatory local self-governance. Even at the local government level, traditional practices and the mentality of the centralized regime have yet to be eradicated. It is therefore necessary to carry out rigorous monitoring of the management and outcomes of aid projects and pursue high levels of transparency and notable accomplishments. This is what local communities in Nepal are watching for closely. Accountability in these aspects is an important responsibility of JICA as pointed out in the recent reviews of Japan's ODA.

(2) Since there are security concerns in most parts of the country due to the Maoist insurgency, it is necessary to explore ways of extending low-risk assistance with top priority given to security considerations.

Top priority should be given to security in extending aid. However, there are security concerns in most parts of the country. Moreover, there is a correlation between poverty levels and the level of the Maoist campaign. In other words, the more dangerous a given area is, the more the area is in need of poverty reduction. Under these circumstances, it is necessary to explore ways to implement programmes with the minimum risk by giving priority to security considerations.

One such way is to deploy Nepali staff as far as possible and limit the scale and scope of activities by Japanese nationals. Many excellent staff are locally available. In fact, JICA has already taken steps to deploy local community organizations in the development welfare assistance programme. In another

JICA project,⁴¹ Nepali staff have been employed at the DDC level, and VDC staff themselves have served as facilitators at the VDC level. It is necessary to build on such approaches and explore the possibility of further diversifying aid modalities. Regarding security, a number of measures should be taken, including: (i) establishing a base for Japanese staff in a safe area (e.g., the district capital) regardless of whether or not such an area is covered by the project concerned; and (ii) planning security arrangements so as to cope with changes in the security situation in a prompt and appropriate manner.

In the future, when the Nepalese government's management of the Poverty Alleviation Fund (PAF) and other fund gets off the ground, Japan should explore the possibility of offering financial support to specific DDCs and leaving local activities under the management of local organizations (local governments, NGOs, etc.) in coordination with other donors. In this case, Japan should monitor the outcomes and the poverty reduction impact at the DDC level. Japan should also make adequate interventions to ensure the effectiveness of its aid.

Many donors continue their activities in areas with a certain level of risks.⁴² It is desirable to exchange information frequently with such donors in order to explore ways to extend aid in a low-risk manner. It is also desirable to maintain a certain level of response coordination with other donors.

(3) It is essential to accumulate as broad-ranging experience as possible of successful aid programmes that will improve aid effectiveness at the DDC level. Such successful experience should be made known and shared as extensively as possible.

Donors tend to implement model projects and expect that the accomplishments of such projects will spill over to other part of the district or even into other districts. However, projects implemented so far did not always have such spillover effects.

In Nepal, which is diverse both socially and geographically, a development project that has proven effective in some areas will not necessarily have a similar impact elsewhere. It is not practical for Japan alone to raise the overall socio-economic standards of a given district in its support for the development initiatives of the DDC and other local entities. Nor is it appropriate for Japan to concentrate its aid on a given district. It is more practical for Japan to focus its aid projects on several VDCs or on the institutional capacity building of DDCs. As such, for the model projects to have wide spillover effects, it is essential to accumulate successful aid programmes as many and various as possible which contribute to the economic development and poverty reduction at DDC level.

Such successful experience should be shared extensively in Nepal. To this end, it is preferable (especially from the viewpoint of respecting the ownership of DDCs) to utilize, where available, the training programmes and facilities of the DDCs that are being developed as part of the efforts to strengthen local governance, as discussed in (1) above. Among such facilities is a technical center to be constructed in every DDC starting in FY2002. Meanwhile, ex-post evaluations of development projects conducted so far have identified a number of conditions for such a project to have wide spillover effects. Firstly, the project has to bring direct benefits to local communities in a visible manner. Secondly, the project has to be technically simple, inexpensive, and easy to manage. Thirdly, the project has to be made widely known through an information dissemination campaign. Especially the active publicity efforts for the successful aid experience should be made.

⁴¹ The Community Development and Forest / Watershed Conservation Project Phase II in Nepal based in Pokhara. This project has an advantage in that its sustainability is assured since the VDC personnel plan to continue the ongoing activities even after the project is completed.

⁴² GTZ is implementing a forest development project (1992-2006) in Siraha, Saptari and Udaypur districts in the Eastern Region. Two Germans and 12 Nepalis have been assigned to this project. In its primary health care project (1994-2001) in Siraha and Dhading districts, GTZ again assigned two Germans and 12 Nepalis. USAID is implementing extensive aid programmes throughout Nepal, ranging from the Far-Western Region to the Eastern Region, through international and local NGOs. These programmes are targeted at agricultural and rural development, health care and family planning, and the empowerment of women.

Box 2-3 Lessons from past projects and recommendations

- Projects that consider poverty and gender problems, but actually fail to target those concerned carry the risk of bringing about wider economic disparities. In this regard, accurate targeting is important.
- It is necessary to minimize inputs and maximize outputs by taking a functional approach (a comprehensive development approach that addresses a number of issues simultaneously with a package of different schemes). Evaluation should focus on the overall performance of such a package, rather than individual schemes.
- Effective implementation of participatory local development projects requires: consideration of the living environment and social/cultural diversity of local residents; coordination with NGOs that have developed from community organizations; consideration of the remuneration and posting of local staff; and arrangements to minimize negative effects in and outside the village concerned (e.g., the depopulation of the surrounding areas).
- In order to: (i) strengthen the institutional capacity of the government to support community activities, and (ii) support the development activities of communities, it is necessary to simultaneously promote the decentralization of ministries and agencies and strengthen coordination among the relevant institutions at the local level.
- It is necessary to demonstrate flexibility to plan each participatory development project that fully accommodates local realities and to fine-tune it whenever necessary.
- It is necessary to make the most of local organizations and human resources. This will encourage local self-help efforts and contribute to sustainable development.

Sources: Nagoya University (2000), JICA (1996).

(4) It is important to take advantage of lessons learned from JICA's past projects and the experience of other donors

JICA conducts ex-post evaluations of its projects for better development assistance in the future. In addition, JICA makes efforts to improve such evaluations itself, including the use of third-party evaluations and joint evaluations with other donors. Moreover, now it is practicable to learn a lot about the experience of other donors as it has more opportunity than before to exchange information with them. However, some experts say that JICA has yet to fully take advantage of the lessons learned from past projects. They also say that the problems with JICA's projects have basically remained unsolved to date.⁴³ Despite the difficulties involved, JICA should do more to take advantage of the lessons from past projects and the experience of other donors. For example, preliminary evaluations prior to the implementation of projects should be strengthened so that evaluations at completion and ex-post evaluations will be done more effectively for use for the formulation of new projects. Box 2-3 outlines experience and lessons learned that were identified in project evaluation reports concerning Japan's ODA to Nepal. This study committee gives recommendations in the light of such experience and lessons.

(5) It is important to support the formulation, evaluation and review of key plans.

As the top donor, Japan should commit itself to supporting the key development plans of the Nepalese government. In recent years, Nepal's key plans have not been formulated by government institutions alone. Input from donors, the civil society and NGOs is reflected in these plans as well. As such, Japan should also involve itself in the formulation process and contribute to better plans. This allows Japan to become familiar with these plans, have common objectives and concerns, and thus

⁴³ Nagoya University (2000) p. 296.

improve the effectiveness of its aid.

For example, Japan can involve itself in the processes of formulating, evaluating, and reviewing Five-Year Plans and the APP. The Nepal government plans to conduct interim evaluations and overall evaluations every five years. Agriculture has been and will be a key sector for Nepal. Japan should proactively extend aid to this sector in cooperation with other donors.

The major forum for aid coordination has moved to the developing countries and even to the projects sites, where close coordination is underway on a daily basis. Nepal is no exception. Japan is required to strengthen the capacity of its activities in Nepal led by the JICA Office so as to play a more active role in formulating the key development plans of Nepal.

(6) It is important to improve the effectiveness of aid to Nepal through strengthened coordination and cooperation with Japanese NGOs, local governments, universities, and other institutions.

Many Japanese NGOs, local governments, universities, and other institutions have been extending a wide range of aid to Nepal. Some of them have made significant contributions to the development of rural areas through many years of activities. JICA is advised to keep abreast of the activities of these organizations, evaluate them properly, and then support these organizations both directly and indirectly, so that they will be able to make quantitative and qualitative improvements in their activities.

JICA may take advantage of its grant assistance for grassroots projects and community empowerment programmes in order to support NGOs and local governments, including sharing information with them. Specific measures required in this regard include improving relations between NGOs and Nepal's Social Welfare Council (SWC). To this end, JICA may need to organize joint meetings between NGO groups and SWC. It may also need to request SWC to make arrangements so as to facilitate NGO activities. In fact, SWC is required to ensure coordination with NGOs, under the ownership of the Nepalese government, regarding their target sectors and areas, so that NGOs will be able to carry out their activities effectively and efficiently. JICA is also advised to support college professors and staff by providing information and other services. Such support will often lead to universities accepting more Nepali students and working together with them. It will also encourage college professors and staff to do more to help Nepal.

In fact, these efforts have already been made by the JICA Nepal Office and NGOs to some extent. However, JICA should redouble these efforts. Such an initiative will: (i) lead to efficient implementation of Japan's aid to Nepal regardless of whether such aid is through ODA or NGOs; (ii) encourage all walks of life in Japan to help developing countries, (iii) raise awareness among Japanese people regarding Japan's aid and; (iv) hopefully raise public appreciation for the activities of JICA.

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Appendix Trends in Major Indicators (1)

Item	Unit	1st Five-Year Plan Period		2nd Three-Year Plan Period		3rd Five-Year Plan Period		4th Five-Year Plan Period		5th Five-Year Plan Period		6th Five-Year Plan Period		7th Five-Year Plan Period		8th Five-Year Plan Period		9th Five-Year Plan Period		Sources	Remarks	
		1956-61	1962-65	1966-68	1969-71	1972-74	1975-77	1978-80	1981-83	1984-85	1986-88	1989-91	1992-93	1994-97	1997/98-2001/02	1998/99	2001/02					
[Selected economic indicators]																						
Real GDP	million Rs	-	-	16,571 (1974/75)	18,606 (1979/80)	44,441 (1984/85)	56,151 (1989/90)	79,388 (1996/97)	85,346 (1998/99)	Economic Survey 1999/2000 Ministry of Finance												
Per capita GDP	dollars	-	-	155 (1970)	148 (1980)	165 (1985)	181 (1990)	203 (1993)	217 (1998)	World Development Report (WDR) (1997)												
Total expenditures (current + development)	million Rs	-	-	-	-	13,409.7	32,264.1	73,023.8	200,821.2	115,697.3*	Economic Survey 1999/2000 Ministry of Finance										* Up to 1999	
Of which, current government expenditures	million Rs	-	-	-	-	4,577.3 (34.1%)	10,171.6 (31.5%)	24,678.3 (33.8%)	88,901.4 (44.3%)	58,222.1*	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures. * Up to 1999	
Of which, government development expenditures	million Rs	-	-	-	-	8,832.4 (65.9%)	22,092.5 (68.5%)	48,345.5 (66.2%)	111,919.8 (55.7%)	57,475.2*	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures. * Up to 1999	
As a percentage of total expenditures Agriculture	million Rs	-	-	-	-	961.9 (7.2%)	2,667.4 (8.3%)	4,751.8 (6.5%)	11,419.4 (5.7%)	-	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures.	
As a percentage of total expenditures Health + Education	million Rs	-	-	-	-	2,069.1 (15.4%)	4,685.3 (14.5%)	8,960.9 (12.3%)	34,976.2 (17.4%)	-	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures.	
As a percentage of total expenditures Transport	million Rs	-	-	-	-	2,505.1 (18.7%)	4,197.4 (13.0%)	6,848.7 (9.4%)	21,437 (10.1%)	-	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures.	
As a percentage of total expenditures Other sectors	million Rs	-	-	-	-	7,873.9 (58.7%)	20,714 (64.2%)	52,462.6 (71.8%)	132,988.4 (66.2%)	-	Economic Survey 1999/2000 Ministry of Finance										Figures in parentheses show the percentage of total expenditures.	
[Selected social indicators]																						
Total population	million	9.4 (1961)	10.5*	13.3*	15.0 (1981)	16.7 (1985)	18.5 (1991)	20.9 (1994)	22.9 (2000)	Statistical Pocket Book 2000												* A preliminary figure
Population growth rate	%	1.65 (1961)	1.86*	2.37*	2.66 (1981)	2.55 (1985)	2.08 (1991)	2.41 (1998)	2.43 (2000)	Central Bureau of Statistics (Annual editions)												* A preliminary figure

Note: The figures in the table may differ from the figures in Table 1-2

Appendix Trends in Major Indicators (2)

Item	Unit	1st Five-Year Plan Period		2nd Three-Year Plan Period		3rd Five-Year Plan Period		4th Five-Year Plan Period		5th Five-Year Plan Period		6th Five-Year Plan Period		7th Five-Year Plan Period		8th Five-Year Plan Period		9th Five-Year Plan Period		Remarks
		1956/57-1960/61	1962/63-1964/65	1965/66-1969/70	1970/71-1974/75	1975/76-1979/80	1980/81-1984/85	1985/86-1989/90	1992/93-1996/97	1997/98-2001/02	1992/93-1996/97	1997/98-2001/02	1992/93-1996/97	1997/98-2001/02	1992/93-1996/97	1997/98-2001/02	1992/93-1996/97	1997/98-2001/02	1992/93-1996/97	
Percentage of the population below the absolute poverty line*	%	-	-	-	-	36.2* (1976/77)	42.6* (1984/85)	-	-	-	-	42.0*	38.0*	-	-	-	-	-	-	* An annualized equivalent of the total of food expenses required to provide an intake of 2,124 calories of energy per person per day and the minimum allowance for basic items a: 720Rs, b: 1,971Rs, c: 4,560Rs, d: 4,404Rs
Infant mortality rate (IMR)	Per 1,000 live births	195 (1960)	-	166 (1970)	156 (1973/74)	132 (1980)	-	128 (1989/90)	92 (1994)	77 (1998)	-	-	-	-	-	-	-	-	-	World Development Indicators (WDI) 2000
Under-5 mortality rate (U5MR)	Per 1,000 live births	314 (1960)	-	234 (1970)	-	180 (1980)	-	138 (1990)	160 (1995)	107 (1998)	-	-	-	-	-	-	-	-	-	WDI 2000, Economic Survey 1999/2000
Maternal mortality rate (MMR)	per 100,000 live births	-	-	-	-	-	-	850 (1988)	-	519.0 (1996)	-	-	-	-	-	-	-	-	-	Human Development Report(HDR)1992, IHMG/Nepal Family Health Survey, 1996
Life expectancy at birth	Years of age	38.3 (1960)	-	-	43.3 (1970-75)	48 (1980)	-	53.5 (1989/90)	55.3 (1994)	57.8 (1998)	-	-	-	-	-	-	-	-	-	The figures are different from those released in the 8th and 9th Five-Year Plans.
Literacy rate (age 15 and above)	%	-	-	13 (1970)	-	-	-	-	27 (1994)	39.2 (1998)	-	-	-	-	-	-	-	-	-	WDI 2000, WDI 1997, Economic Survey 1999/2000
Net primary school enrollment rate	%	-	-	-	-	-	-	64.0 (1990)	-	72.1 (1999)	-	-	-	-	-	-	-	-	-	Ministry of Education School Level Educational Statistics of Nepal 1999, 2001.
Area of land irrigated	ha	5,200	1,035	52,860	37,733	95,425	172,918	179,337	200,640*	70,461**	-	-	-	-	-	-	-	-	-	* Including figures for FY 1990 and FY 1991. ** Accumulated total of figures for FY 1997 and FY 1999.
Total length of the road network	km	624 (1956)	1,193 (1962)	2,049 (1965)	2,730 (1970)	3,173 (1975)	4,940 (1980)	5,929 (1985)	11,714 (1997)	15,305 (2000)	-	-	-	-	-	-	-	-	-	Department of Irrigation Statistical Pocket Book 2000
Per capita electricity consumption	KW	-	-	-	-	-	-	28 (1990)	-	56 (1999/00)	-	-	-	-	-	-	-	-	-	Department of Roads, Statistical pocket Book (2000)
Number of telephone lines		-	-	-	-	8,703 (1975)	11,812 (1980)	21,580 (1985)	68,886 (1992)	153,782 (1997)	-	-	-	-	-	-	-	-	-	World Bank Little Data Book 2000 Ministry of Finance Economic Survey 1999/2000

Note: The figures in the table may differ from the figures in Table 1-2.

Appendix Trends in Major Indicators (3)

Item	Unit	1st Five-Year	2nd Three-	3rd Five-Year	4th Five-Year	5th Five-Year	6th Five-Year	7th Five-Year	8th Five-Year	9th Five-Year	Sources	Remarks
		Plan Period 1956/57- 1960/61	Year Period 1962/63- 1964/65	Plan Period 1965/66- 1969/70	Plan Period 1970/71- 1974/75	Plan Period 1975/76- 1979/80	Plan Period 1980/81- 1984/85	Plan Period 1985/86- 1989/90	Plan Period 1992/93- 1996/97	Plan Period 1997/98- 2001/02		
Proportion of forestland	%	-	45 (1964)	-	-	-	-	-	37 (1994)	-	Central Bureau of Statistics 1994	
Number of hospitals		-	-	-	-	96 (1987/88)	-	114 (1993/94)	82 (1999/2000)	-	Ministry of Health Economic Survey 1999/2000	
Number of primary health care centers		-	-	-	-	-	-	39 (1994/95)	140 (1998/99)	-	Ministry of Health Economic Survey 1999/2000	
Number of sub-health posts		-	-	-	-	-	-	1,997 (1994/95)	3,187 (1998/99)	-	Ministry of Health Economic Survey 1999/2000	
Population with access to safe water		-	-	-	-	-	-	841,000 (1995/96)	380,000 (1998/99)	-	Department of Water Supply and Sewerage, Statistical Pocket Book Nepal 2000	
Number of primary schools		-	-	-	8,314 (1975)	10,130 (1980)	11,873 (1985)	17,842 (1990)	23,284 (1997)	262,216 (1999)	Ministry of Education & Sports	
Primary school enrollments	1,000 pupils	-	-	-	459 (1975)	1,068 (1980)	1,812 (1985)	2,789 (1990)	3,461 (1997)	3,946 (1999)	Ministry of Education & Sports	
Number of secondary schools		-	-	-	2,372 (1975)	4,286 (1980)	4,899 (1985)	5,917 (1990)	9,384 (1997)	11,171 (1999)	Economic Survey 2000	
Secondary school enrollments	1,000 students	-	-	-	241 (1975)	512 (1980)	496 (1985)	709 (1990)	1,188 (1997)	1,340 (1999)	Ministry of Education & Sports	
Number of tourists		-	-	-	92,440 (1975)	162,897 (1980)	180,989 (1985)	25,4883 (1990)	39,3613 (1996)	491,504 (1999)	Economic Survey 1999/2000	
Number of hotels		-	-	-	-	73 (1980)	110 (1985)	168 (1990)	706 (1997)	788 (1999)	Economic Survey 1999/2000	
Total number of hotel beds		-	-	-	-	5,109 (1980)	6,910 (1985)	10,244 (1990)	27,612 (1997)	31,353 (1999)	Economic Survey 1999/2000	
Major grains*1 (* wet-paddy rice, maize, wheat, barley and millet)		-	-	-	1974/75	(1979/80)	(1984/85)	(1989/90)	(1996/97)	(1998/99)		
Production	1000t	-	-	-	3,778	3,218	4,690	5,722	6,395	6,465	Economic Survey 1999/2000	
Cultivated acreage	1000ha	-	-	-	2,142	2,202	2,952	3,028	3,262	3,253	Economic Survey 1999/2000	

Note: The figures in the table may differ from the figures in Table 1-2