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*McNamara papers*

*Travel brief  
Jan. 15 -*

*Folders 5 of 8*

*Folders 5*


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 Travel briefs, Nepal 01



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ITINERARY FOR VISIT TO CEYLON, INDIA, NEPAL,  
AND PAKISTAN, JANUARY 19--FEBRUARY 1, 1972

Revised  
January 19, 1972

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Jan. 19	1830	2330	Depart Washington (Dulles)	Mrs McNamara
Wed.	1930	0030	Depart Washington (Dulles)	Mr McNamara
Jan. 20	0940	0840	Arrive Paris (Orly)	
Thurs.	0730	0730	Arrive London (Heathrow)	Bristol Claridge's
	1530		Meeting with Chancellor of the Exchequer	
	1600		Meeting with Secretary of Foreign Affairs	
	1700		Meeting with Prime Minister	
	1900	1900	Depart London (Heathrow)	BE 024 non-stop
	2100	2000	Arrive Paris (Orly)	Bristol
Jan. 21	1130	1030	Depart Paris (Le Bourget)	UT 568 via Karachi GMT 1755-1855
Fri.				
Jan. 22	0340	2210	Arrive Colombo	Galle Face Hotel
Sat.			Briefing with Cargill	
	1115		Meeting with Secretary for Planning, Dr. Gunasekera	
	1200		Meeting with Prime Minister	
	1300		Lunch hosted by Prime Minister	
	1500		Meeting with Finance Minister, Dr. N.M. Pereira	
			Meeting with Governor of Central Bank, Mr. Tennekoon	
	2000		Dinner hosted by Finance Minister	
Jan. 23	A.M.		Trip along coast to Hikaduwa or by plane to Mahaweli project in interior	
Sun.	1500	0930	Depart Colombo	Charter via Madras one-hour stop
	2030	1500	Arrive Delhi	Rashtrapati Bavan
Jan. 24	0830		Briefing in Delhi office (till 0930)	
Mon.	0945		Meeting with Mr. Subramaniam at Planning Commission (till 1130)	Mrs McNamara: Trip to Kajoraho 0640-1710 with Mrs Patel
	1315		Lunch with Mr. Subramaniam (till 1445)	
	1500		Meeting with Ford Foundation (till 1600)	
	1615		Meeting with Foreign Minister (till 1645)	
	1645		Meeting with Messrs. P.N. Dhar and Haksar (till 1800)	
	1830		Reception hosted by Mr. McDiarmid (till 2030)	
			Evening free	
Jan. 25	0700	0130	Depart Delhi	Charter
Tues.	0915	0345	Arrive Kathmandu	Government Guesthouse or Soaltee Hotel
	1000		Briefing with Kirk	
	1030		Meeting with Secretaries of Finance, Public Works, Agriculture, Commerce & Industry, Communications, Planning Commission	at Singh Dunbar
	1230		Lunch with Ambassador Laise, hosted by Mr. McNamara	
	1400		Meeting with Prime Minister Bista	

*Dinner*



Jan. 26	0900		Leave for Western Nepal (Karnali area, Bhadia, Nepalganj)	by plane
Wed.	1200		Lunch at Pokhara	
	1400		Leave Pokhara	by plane
	P.M.		Audience with His Majesty at Chitwan	
			Return to Kathmandu	
	1800		Cocktail party hosted by Mr. Kirk	
	1900		Dinner hosted by Prime Minister <i>AMB LAISE + PETER CARROLL</i>	
Jan. 27	0830		Meeting with UNDP ResRep and Deputy and FAO ResRep	at Bank office
Thurs.	0930		Meeting with Gen. Manager of Nepal Industrial Development Corp. and private industrialists	"
	1030		Meeting with Director, Center for Economic Development & Administration (CEDA)	"
	1130		Meeting with Governor of Nepal Rastra Bank	"
	1300		Lunch free	
	1630	0100	Depart Kathmandu	Charter
	1845	0315	Arrive Delhi	Rashtrapati Bavan
	2000		Dinner with I.G. Patel	
Jan. 28	1000		Meeting with Finance Minister (till 1100)	<i>Mrs McNamara</i>
Fri.	1100		Meeting with I.G. Patel (till 1145)	<i>Visits and shopping</i>
	1200		Meeting with Prime Minister (till 1300)	<i>in Delhi with Mrs Patel</i>
	1300		Lunch with Prime Minister (tentative)	
	1500		Meeting with private group, including some industrialists (till 1630)	
	2000		Dinner with Finance Minister	
Jan. 29	0800	0230	Depart Delhi	Charter
Sat.	0900	0400	Arrive Rawalpindi	Mr. Bhutto's Guest House
	1230		Meeting with Mr. Bhutto	
	1330		Lunch hosted by Mr. Bhutto	
			Muzzafar Ahmad Ford Foundation, Mr. Edwards	
Jan. 30				
Sun.				
	1600	1100	Depart Rawalpindi	Charter
	1800	1230	Arrive Delhi	Rashtrapati Bavan
			Evening free	
Jan. 31			<i>DEPART DELHI</i>	
			<i>ARR. Dacca</i>	
			<i>DEPART Dacca</i>	
			<i>ARR. DELHI</i>	
	2300	1730	Depart Delhi	LH 649 via Athens GMT 0250-0350
Feb. 1	0635	0535	Arrive Frankfurt	
Tues.	0930	0830	Depart Frankfurt	PA107 via London 0955-1130



Dinner by Honourable Minister  
and Mrs. B.P. Lohani  
in honour of World Bank President and Mrs.  
Robert McNamara  
on January 25th, 1972

-----

- ✓ 1. Rt. Honourable Prime Minister and Mrs. K.N. Bista
- ✓ 2. Honourable Minister and Mrs. G.B. Karki
- ✓ 3. Honourable Minister and Mrs. C.P. Singh
- ✓ 4. Honourable Minister and Mrs. S.P. Gyawali
5. Her Excellency Carol C. Laise
- ✓ 6. UNDP Resident Representative and Mrs. Y.J. Joury
7. Mr. and Mrs. Alexander Kirk
8. Gen. and Mrs. C.B. Rana
- ✓ 9. Mr. and Mrs. K.B. Malla
10. Prof. and Mrs. Y.N. Khanal
11. Mr. and Mrs. Harihar Jung Thapa
- ✓ 12. Mr. and Mrs. R.C. Malhotra
13. Mr. and Mrs. B.B. Pradhan
14. Mr. and Mrs. Krishna Raj Rajbhandary
- ✓ 15. Mr. and Mrs. S.R. Sharma
16. Mr. and Mrs. P.R. Pande
17. Mr. and Mrs. B.R. Bhandary
18. Chief of the Royal Household Bada Cazi and Mrs. Puspa Raj Rajbhandary
19. Principal Military Secretary Lt. Gen. Sher Bahadur Malla and Mrs. Malla
20. Principal Secretary RT. Hon. Sardar Hans Man Singh and Mrs. Singh



21. Principal Private Secretary Meer Subba Ishwari Man Shrestha and Mrs. Shrestha
22. Principal Personal Secretary Meer Subba Madhusudan Rajbhandary and Mrs. Rajbhandary
23. Principal Press Secretary and Mrs. Renu Lall Singh
24. Secretary and Mrs. Kalyan Bikram Adikari
25. Private Secretary to H.R.H. The Crown Prince and Mrs. Surendra Man Joshi
26. Chief of Protocol and Mrs. Bishwa Pradhan
27. Deputy Chief of Protocol and Mrs. A.B. Singh
28. Mr. William Clark, Director, Public Relations and Information, World Bank
29. Mr. and Mrs. Jean David Roulet
30. Mr. Anders E.E . Ljungh, Assistant to Mr. McNamara
- ✓ 31. Dr. Y.P.Pant and Mrs. Pant



Quiet Luncheon List by Rt. Hon'ble  
Prime Minister and Mrs. K. N. Bista  
in honour of World Bank President and  
Mrs. Robert McNamara  
on January 27, 1972 at Shital Niwas

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1. Honourable Minister and Mrs. Bishnu Prasad Lohani
2. Mr. and Mrs. Robert McNamara
3. General and Mrs. C.B. Rana
4. Prof. and Mrs. Y. N. Khanal
5. Dr. Y.P. Pant and Mrs. Pant







NAMES OF PEOPLE LIKELY TO MEET WITH MR. R. McNAMARA IN NEPAL

1. ROYAL FAMILY

King: Mahendra Bir Bikram Shah Deva  
Queen: Ratna Rajya Luxmi Devi Shah  
Crown Prince: Birendra Bir Bikram Shah Deva  
Crown Princess: Aishwarya Rajya Laxmi Devi Shah

2. CABINET LIST

Prime Minister: Mr. Kirti Nidhi Bista  
(Also, Minister of General Administration,  
Royal Palace, Finance, Defense, & Foreign Affairs)

Ministers:

Mr. Gyanendra Bahadur Karki  
(Education, Land Reform, Food &  
Agriculture, Forests)

Mr. Chaturbhuja Prasad Singh  
(Public Works & Transport, Communications)

Mr. Sambhu Prasad Gewali  
(Law & Justice, Home Panchayat)

Mr. Bishnu Prasad Lohani  
(Industry and Commerce, Water Resources  
& Power, and Health)

State Ministers:

Mr. Jog Mehar Shrestha  
(Health, Water Resources & Power)

Mr. Keshav Chandra Gautam  
(Public Works & Transport, Communications)

Mr. Lok Pratap Singh Bista  
(Forests, Food & Agriculture)



Secretaries:

Mr. Krishna Bam Malla (Chief Secretary)

Mr. Ram Chandra Malhotra  
(Planning Commission)

Mr. Krishna Bahadur Manandhar  
(Education)

Mr. Bharat Bahadur Pradhan  
(Public Works & Transport)

Dr. Pushkar Nath Pant  
(Industry & Commerce)

Mr. Surendra Raj Sharma  
(Food & Agriculture)

Mr. Chitra Bahadur K.C.  
(Communications)

Mr. Prayag Raj Pandey  
(Forest)

Mr. Harihar Jung Thapa  
(Acting Finance)

3.

NATIONAL PLANNING COMMISSION

Prime Minister, Bista - Chairman

Dr. Yadab Prasad Pant -- Member (Governor of Rastra Bank)

Dr. Harka Bahadur Gurung - Member

Dr. Badri Prasad Shrestha - Member

Dr. Samba Dev Pandey - Member



4. NEPAL RASTRA BANK

Dr. Yadab Prasad Pant - Governor

5. CENTRE FOR ECONOMIC DEVELOPMENT & ADMINISTRATION (CEDA)

Mr. Pashupati Shumshere J.B. Rana - Executive Director

6. NEPAL INDUSTRIAL DEVELOPMENT CORPORATION (NIDC)

Mr. Ganesh Bahadur Thapa - General Manager

7. NEPAL FEDERATION OF CHAMBER OF COMMERCE & INDUSTRY

Mr. Pashupati Giri - Chairman

Mr. Joodha Bahadur Shrestha - Former Chairman

8. U. S. AID

Mr. William Carter Ide - Director

9. U.N.D.P.

Mr. Yacoub J. Joury - Resident Representative

Mr. David Smith - Deputy Resident Representative



## BIOGRAPHICAL DATA

### 1. ROYAL FAMILY

His Majesty, King Mahendra Bir Bikran Sha Deva was born in 1920 and succeeded his father, King Tribhuban, in 1955. His coronation took place in May, 1956. He was educated by tutors chosen by the Rana family of hereditary prime ministers, who had been Nepal's actual rulers since the mid-19th century. The Rana rule was ended with a 1950 revolution led by his father and himself. Since he came to the throne, he traveled widely, visiting the United States in 1960 and 1967, as well as the Soviet Union and Mainland China. He attended the 1961 and 1964 meetings of non-aligned nations in Belgrade and Cairo. Under King Mahendra, Nepal became technically a constitutional monarchy. Its first elections were in 1959, but the King dismissed the elected parliament and abrogated the kingdom's first Constitution next year. He then instituted the Panchayat system, setting up a pyramid of power starting at the village level -- with the King at the top.

Her Majesty, Queen Ratna Rajya Lakshmi Devi Shah married King Mahendra in 1952 when he was still Crown Prince and ascended the throne with him in 1955. She is his second wife. His first wife, the Queen's older sister and the mother of the King's six children, died in 1950.

The 43 year old Queen was born in Kathmandu, the seventh of eleven children of General Hari Shumshere Jung Bahadur Rana. She was educated privately. Since ascending the throne she has traveled widely, accompanying the King on nearly all his foreign visits.

Fond of music, literature, and sports, the Queen is known as a fine marksman. She frequently accompanies the King on hunts, and will hunt with him on the Alaskan portion of his visit. Her Majesty also engages in many social welfare activities and is patroness of several Nepalese organizations devoted to children's welfare and women's rights.

The Queen speaks English.



His Royal Highness, Crown Prince Birendra Bir Bikram Shah Deva was born in 1945, as the King's eldest son and heir apparent. The coming-of-age of His Royal Highness was followed on September 16, 1964 by the formal inductment into office as the Crown Prince of Nepal and he became from that date Grand Master of all orders and insignias and Colonel-in-Chief of the Nepalese Royal Army. His Royal Highness also functions as Chairman of the Regency Council during the absence of His Majesty the King. The Crown Prince attended Harvard University as an undergraduate special student for the academic year 1967-1968.

Her Royal Highness, Crown Princess Aishwarya Rajya Laxmi Devi Shah married the Crown Prince in February, 1971. The 21-year old Crown Princess, being a member of the Rana family, hereditary dynasty of premiers, is the daughter of Lieutenant General Kendra Shumsher J.B. Rana, who retired from the Nepalese Army. The Crown Princess received the degree of Bachelor of Arts from Tribhuban University in Kathmandu. She speaks fluent English.



2. CABINET

The Honorable Mr. Kirti Nidhi Bista

Date of Birth: 1926

Position: Prime Minister, as well as Minister of General Administration, Royal Palace, Finance, Defense, and Foreign Affairs.

Education: M.A. in Political Science from Lucknow University, India.

Career: Cabinet member since 1961 in the following positions:

1961-62 Assistant Minister for Education  
1962-64 Minister for Education  
1964 Minister for Foreign Affairs  
1965-66 Vice Chairman, Council of Ministers and Minister for Foreign Affairs and Education

1966-67 Vice Chairman, Council of Ministers and Minister for Foreign Affairs and Economic Planning.

1967 Deputy Prime Minister and Minister for Foreign Affairs.

Prime Minister \* and Minister for Royal Palace Affairs, Finance, and General Administration.

1962, 1964, 1966 Leader of Nepalese delegations to U.N. General Assemblies 1964-68 and to UNESCO General Conferences and to the Bank's Annual Meeting 1969.

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\* In 1969 on termination of his membership of the Rastriya Panchayat, he resigned from the Premiership. In May, 1970, he was reappointed to the Prime Ministership.



2. CABINET (cont'd.)

The Honorable Mr. Gyanendra Bahadur Karki

Date of Birth: 1932

Position: Minister of Education, Land Reform,  
Food & Agriculture, and Forest.

Education: B.A. in History, studied in Darjeeling  
and Calcutta.

Career:

1966 Assistant Minister of Education

1963-67 Member of the National Panchayat

May 1967-  
April 1968 Minister of State in the Ministry of  
Irrigation and Power. Also a nominated  
member of the National Panchayat.

April 1968 -  
circa Sept.  
1968 Minister of State in the Ministry of  
Education and Health. A nominated  
member of the National Panchayat.

January 1969-  
April 1971 Ambassador to Burma with concurrent  
accreditation to Thailand, Malaysia  
and Indonesia and Minister to Laos.

April 1971 -  
present has three portfolios --  
Minister of Land Reform, Education,  
and Food and Agriculture.  
Also a nominated member of the  
National Panchayat.

November 1971 to Rome for 16th session of FAO.



2. CABINET (cont'd.)

The Honorable Mr. Sambhu Prasad Gewali

Position: Minister of Law and Justice, Home  
and Panchayat

Date of Birth: 1927

Education: M.A., LL.B.

Career:

1956	Assistant Secretary, Ministry of Law and Parliamentary Affairs
1958	Deputy Secretary, Transport Ministry
1959	Attorney General
1971	Minister of Law and Justice (as of April 1971)
1971	Minister of Home and Panchayat (as of August 1971)



2. CABINET (cont'd.)

The Honorable Mr. Bishnu Prasad Lohani

Position: Minister of Industry & Commerce  
Water Resources & Power, and  
Health.

Date of Birth: 1927

Education: B.A. with honors, Tri-Chandra College,  
Kathmandu, 1949; M.A. in Political  
Science, Benares Hindu University, 1953.

Career:

1954 Lecturer and later Professor of  
Political Science, Padma Kanya College  
and Durbar College, Kathmandu.

1966 Member, Panchayat Study Center

1967 Nominated member of the National  
Panchayat.

1971 Nominated member of the National  
Panchayat; appointed Minister of State  
for Finance and General Administration  
in April 1971; in August 1971 made  
Minister of Water Resources and Power,  
Industry and Commerce and Health.

Family: Family is related by marriage to  
Prime Minister Bista.



2. CABINET (cont'd.)

The Honorable Mr. Jog Moher Shrestha

Position: Minister of State for Health and  
Water Resources and Power

Career:

1962-66 Chairman of Bagmati Zonal Panchayat

1965 was also member of National Guidance  
Council.

1967-73 Member of the National Panchayat.

1968 Member, Nepal-Soviet Cultural Association.

May 1968 Visited the U.S.S.R.

April 1970 Appointed Assistant Minister of Home  
and Panchayat and Land Reform.

Sept. 1970 to Manila for First Asian Ministers  
Conference on Social Welfare.

April 1971 Appointed Minister of State for Home  
and Panchayat.

August 1971 Transferred to Min. of State for Health  
and Water Resources and Power.



2. CABINET (cont'd.)

The Honorable Mr. Keshav Chandra Gautam

Position: Minister of State for Public Works,  
Transport and Communications.

Career:

Nov. 1967 A nominated member  
of the National Panchayat.

Nov. 1965 Was a member of newly formed Civil  
Liberties Association under guidance  
of Rishikesh Shaha. In 1963, Gautam  
was fined and imprisoned for one  
year in the treason case against  
former Prime Minister K. I. Singh,  
who was also imprisoned for two years  
and finally acquitted after Rishikesh  
Shaha pleaded his case.

April 1970 Appointed Assistant Minister of  
Education and Health.

Oct. 1970 As Assistant Minister for Education,  
he went to Paris for the 16th session  
of UNESCO.

April 1971 Appointed Minister of State for  
Industry, Commerce and Forests.

August 1971 Appointed Minister of State for  
Public Works, Transport, and  
Communications.



2. CABINET (cont'd.)

The Honorable Mr. Lok Pratap Singh Bista

Position: Minister of State for Forests and  
Food and Agriculture

Career:  
1967 Nominated member of the National  
Panchayat.

May 1967-  
Sept. 1968 Assistant Minister for General  
Administration.

Sept. 1968 Appointed Minister of State for  
Forests - probably only served in this  
position during 1968.

August 29,  
1971 Appointed Minister of State for Forests  
and Food and Agriculture.



SECRETARIES

Mr. Krishna Bam Malla

Date of Birth: 1920

Position: Chief Secretary

Education: M.Sc. in Agriculture

Career:

1944	Joined GON Secretariat as an agricultural expert
1949-53	Head of the Department of Agriculture, Botany and Horticulture
1954	Administrator of the US-Aides Rapti Valley Project
1961	Secretary for the Ministeries or Food, Forest & Agriculture, Industry & Commerce.
1962	Signed Trade Agreement with Pakistan on behalf of HMG
1963 and 1964	Alternative Head of Delegation to ECAFE Conferences.
1969	Appointed ex-officio member of the National Planning Commission
1971	Named Chairman of the Board of Directors, Himal Cement Company.



SECRETARIES (cont'd.)

Mr. Ram Chandra Malhotra

Position: Secretary, National Planning Commission

Date of Birth: 1926

Education: M.A., Syracuse University

Career:

1956	Deputy Secretary, Ministry of Finance
1961	Member of Nepali delegation to UN (also 1962, 1963, 1964).
1965	Joint Secretary, Department of Public Administration
1966	Secretary, Ministry of Publicity and Broadcasting
1966	General Manager, National Trading Ltd.



SECRETARIES (cont'd.)

Mr. Krishna Bahadur Manandhar

Position: Secretary, Ministry of Education.

Education: Graduated from Trichandra College in 1942, studied at the London University during 1956-1957.

Career: Former school teacher; in November 1959 was Deputy Secretary in the Ministry of Education.

Dec. 1962 As Director in the Department of Education, took a three-week tour of the USSR.

Sept. 1964 Promoted to Joint Secretary and transferred to the Ministry of Home and Panchayat where he served until July 1967.

July 1967-  
January 1969 Director-General, Education Department

August 1967 Was unsuccessful in his bid for a seat to the National Panchayat.

January 1969 Appointed Joint Secretary in the Finance Ministry.

May 1969 Was listed as additional Secretary in the Finance Ministry, a post he held until August 1970.

May 1969 Named to head a 5-member Insurance Board formed by the Government.

August-Dec. 1970 Acting Secretary, Ministry of Education.

December 1970 Promoted to Secretary in the Ministry of Education.

He was a member of the negotiation team for IDA credit on the telecommunications project in June, 1969.



SECRETARIES (cont'd.)

Mr. Bharat Bahadur Pradhan

Position: Secretary, Ministry of Public Works and Transport; Chairman, Board of Directors, Royal Nepal Airlines Corporation.

Education: Engineer by profession; has Bachelor of Engineering Degree from Indian University.

Career

Jan. 1958-  
Aug. 1959

Director, Department of Industry,  
Ministry of Commerce and Industry.

Aug. 1959

Deputy Secretary, Ministry of Planning  
and Development.

March 1961

Under Secretary, National Planning Council.

July 1961-  
Sept. 1965

General Manager, Nepal Industrial Develop-  
ment Corporation.

Sept. 1965-  
Aug. 1966

General Manager, Janakpur Cigarette Factory

Aug. 1966

Joint Secretary, Ministry of Irrigation and  
Power.

Apr. 1968-  
Jan. 1969

Acting Secretary, Ministry of Public Works,  
Communications and Transport.

Since January 1969 has been Secretary,  
Ministry of Public Works and Transport;  
since August 1969 has been Chairman of  
the Board of Directors of Royal Nepal  
Airlines Corporation.

Feb. 1971

Chairman of the Board of Directors of  
the National Construction Company.

In June 1969, and September, 1970 he led  
negotiation teams for two IDA credits to  
Nepal for the telecommunications and highway  
projects, respectively.



SECRETARIES (cont'd.)

Mr. Pushkar Nath Pant

Date of Birth: 1935

Position: Secretary, Ministry of Industry & Commerce

Career:

1958	Returned from the USA having completed M.A. in Fiscal Administration
1959	Section Officer, Ministry of Finance
1960	Under Secretary, Ministry of Finance
1961	Member, Industrial Study Committee
1961	Joint Secretary (Acting), Ministry of Finance
1964	Joint Secretary, Ministry of Economic Planning
1966	Additional Secretary, Ministry of Economic Planning
1969	Secretary, Ministry of Industry and Commerce



SECRETARIES (cont'd.)

Mr. Surendra Raj Sharma

Date of Birth: 1932

Position: Secretary, Ministry of Food & Agriculture

Education: M.A. in Political Science from Lucknow University, 1954.

Career:

1956	Director of Publicity
1961	Under Secretary, Ministry of National Guidance.
1962	Director, Panchayat Department
1964	Joint Secretary, Ministry of Public Works, Transport and Communications.
1966	General Manager, NIDC
July 1967	Joint Secretary, Ministry of Economic Planning.
April 1968- Jan. 1969	Joint Secretary, Ministry of Finance.
Jan. 1969- Aug. 1969	Joint Secretary, Ministry of Information and Broadcasting.
Jan. 1969- Jan. 1971	Secretary, "Back to Village" National Campaign Central Office.



SECRETARIES (cont'd.)

Mr. Chitra Bahadur K.C. (Khatri-Chretri)

Date of Birth: 1924

Position: Secretary, Ministry of Communications

Education: B.A.

Career:

1956	Assistant Secretary, Ministry of Transport & Communications.
1959	Joint Secretary, Ministry of Public Works & Communications.
1962	Secretary, Ministry of Forest & Agriculture.
1964	Joint Secretary, Ministry of Health.
1967	Secretary, Ministry of Defense.
1969	Secretary, Ministry of Health.



SECRETARIES (cont'd.)

Dr. Prayag Raj Pandey

Position: Secretary, Ministry of Forests since  
January 1969.

Career:

1959-68 Senior Botanist, Department of Medicinal  
Plants, Ministry of Forests.

February 1968-  
January 1969 Acting Secretary, Ministry of Forests.



SECRETARIES (cont'd.)

Mr. Harihar Jung Thapa

Position: Acting Secretary, Ministry of Finance

Career:

1956	Assistant Secretary, Finance
1958	Acting Deputy Secretary, Finance
1959	Deputy Secretary, Finance
1961	Under Secretary, Finance
1964	Joint Secretary, Finance
1969	Additional Secretary, Finance
1971	Acting Secretary, Finance



3. NATIONAL PLANNING COMMISSION (cont'd.)

Dr. Harka Bahadur Gurung

Position: Member of the National Planning Commission

Career:

Former professor of Economic Geography. Has Ph.D from Edinburgh. Also attended London University.

Member of the National Planning Commission since May 1968. (The NPC was formed in May 1968 after the dissolution of the National Planning Council.)

August 1969

To Rehovot, Israel for ministerial level meeting on Science and Education in Developing Countries.

May 1970

To Israel for international seminar on development and technical assistance held under auspices of Harry S. Truman Center for the Advancement of Peace.

August 1970

Appointed one of 2 Vice Chairman of an 11-member Remote Areas Development Board formed by the government to promote development in Nepal.



3. NATIONAL PLANNING COMMISSION

Dr. Badri Prasad Shrestha

Position: Lecturer in Economics,  
Tribhuban University.  
Member, National Panchayat  
Member, National Planning Commission

Education: Ph.D from University of Bombay, India

Career:

1957-62 Gazetted Officer Class III,  
Government of Nepal.

1965-66 Fulbright Lecturer at University of  
Pennsylvania, Central Michigan University  
and Bradley University.

1967 Nominated to the National Panchayat.

1968 Appointed to National Planning Commission.



3. NATIONAL PLANNING COMMISSION (cont'd.)

Dr. Samba Dev Pandey

Position: Member, National Planning Commission,  
Chairman, Economics Department,  
Trichandra University.

Career:

1948 Adviser of delegation to the 4th Session,  
EEAFC, held in Lapstone, Australia.

1964 Leader of delegation to Peking to  
attend a scientific conference.

1968 Appointed to National Planning Commission.



4.

NEPAL RASTRA (CENTRAL) BANK

Dr. Yadab Prasad Pant

Position: Governor

Date of Birth: 1926

Education: Ph.D in Economics from India

Career: He was Professor of Economics at Tri-Chandra College, Nepal, for six - seven years in the early 1950's. Subsequently, he was a director at ECAFE, Bangkok, for two or three years. In 1959 and 1960, he was Economic Adviser to the Government of Nepal. In 1961, he was appointed Secretary of the Ministry of Finance, a position he held until 1968 when he became Governor of the Nepal Rastra Bank.



5. CENTRE FOR ECONOMIC DEVELOPMENT & ADMINISTRATION (CEDA)

Mr. Pashupati Shumshere J.B. Rana.

Position: Executive Director

Date of Birth: 1940

Education: B.A. from Oxford University

Career: Mr. Rana is a grandson of the last Rana Prime Minister. His father was Ambassador to New Delhi, who died when Mr. Rana was nine years old. He was then sent to an English public school. Subsequently, he attended Oxford University. After returning to Nepal, he went to work for the government for a number of years. Until June 1969, when he was appointed as the first Executive Director of CEDA, he had been Joint Secretary of the Ministry of Home and Panchayat. His wife is the daughter of Rajmata Scindia of the Gwalior family in India.



6.

NEPAL INDUSTRIAL DEVELOPMENT CORPORATION (NIDC)

Mr. Ganesh Bahadur Thapa

Position: General Manager, Nepal Industrial  
Development Corporation

Career:

Jan. 1968 As Chief Officer, Nepal Rastra Bank,  
went to Bangkok for 11th session of  
ECAFE Trade Conference.

April 1968 Deputed for two year term as Special  
Officer (Class 1) in the Ministry of  
Industry and Commerce.

August 1968 To Bangkok for ECAFE session on trade  
promotion.

Jan. 1970 To New Delhi as member of delegation to  
Indo-Nepal trade and transit talks.

Dec. 1970 To Kabul to ECAFE-sponsored conference  
on regional economic cooperation.

March 1971 To Bangkok for meeting of preparatory  
committee of the proposed Asian Clearing  
Union.

June 1971 Appointed General Manager, Nepal  
Industrial Development Corporation.



7. NEPAL FEDERATION OF CHAMBER OF COMMERCE & INDUSTRY (NFCCI)

Mr. Pashupati Giri

Position: Chairman

Career:

Businessman, industrialist. Since June, 1971, Mr. Giri has been Chairman of the NFCCI.

Director of a synthetic textile factory in Janakpur, also owners of rice mills around that area.

Until 1969, he was a member of the Board of Directors of the Nepal Industrial Development Corporation.



7. NEPAL FEDERATION OF CHAMBER OF COMMERCE & INDUSTRY (NFCCI) (cont'd.)

Mr. Joodha Bahadur Shrestha

Businessman, industrialist. Between January 1968 to June 3, 1971, Shrestha was Chairman of the NFCCI.

- June 1957 Member of Planning Commission
- June 1958 President, Nepal Chamber of Commerce.
- Aug. 1961 Nominated by King to Board of Directors of Saja, Limited.
- Nov. 1962-  
Jan. 1963 Member of industrial delegation on a three month tour of Netherlands, West Germany, UK, US, and Japan.
- May 1963 Resigned as Director, Biratnagar Jute Mills and as Director, Morang Sugar Mills.
- Jan. 1967 Listed as Chairman, Biratnagar Jute Mills.
- Aug. 1968 To Pakistan for discussions of trade routes between two countries.
- Dec. 1969 Became Member of Board of Directors of Royal Nepal Airlines Corporation.
- Feb. 1970 Named Sweden's Honorary Consul-General in Nepal.
- Aug. 1970 To Osaka, Japan, headed delegation of Nepalese businessmen to Expo '70.



8.

U. S. AID

Mr. William Carter Ide

Position: Director, US AID Mission, Nepal

Date and Place of Birth: 1919, California

Education: B.A. Pomona College  
M.A. Harvard University

1946-48 Teaching Fellow, Harvard University

1948-51 Asst. Professor of Government,  
Claremont Men's College

1951-52 Bureau of the Budget

1952-53 ECA Copenhagen

1953-55 FOA Paris

1955-57 Asst. Program Officer, Karachi, ICA

1957-61 AID Deputy Regional Director  
Near East/South Asia

1961-64 AID Director, Santo Domingo

1965-69 Deputy Director of AID, New Delhi;  
Counsellor for International Development,  
American Embassy, New Delhi

1969-present AID Director, Nepal



9.

U.N.D.P.

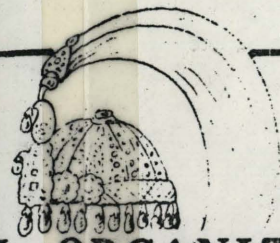
Mr. Jacoub J. Joury, a national of Jordan, was appointed Resident Representative of U.N.D.P. in Nepal in November, 1968.

After over twenty years in the service of his Government, including five years with the Permanent Mission of Jordan to the United Nations, Mr. Joury joined the former United Nations Technical Assistance Board in 1962 as Assistant Resident Representative in Somalia. Between 1964 and 1968, he served as U.N.D.P. Deputy Resident Representative in East Pakistan.

Mr. David Smith, a national of the United Kingdom, was appointed Deputy Resident Representative in Nepal in September, 1971.

After five years' services with IAEA, he joined U.N.D.P. in 1966. More recently, he was an Area Officer, Regional Bureau for Europe, Mediterranean and Middle East, U.N.D.P., New York.





# CENTRAL ORGANIZATION OF HIS MAJESTY'S GOVERNMENT OF NEPAL

**HIS MAJESTY  
THE KING**

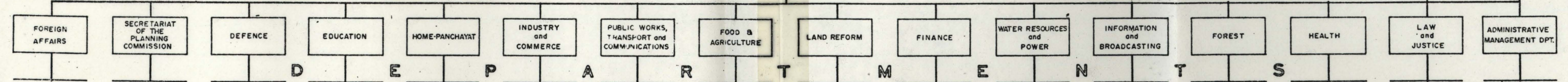
ROYAL PALACE SECRETARIAT

- PRINCIPAL SECRETARIAT
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- PRINCIPAL PRIVATE SECRETARIAT
- PRINCIPAL PRESS SECRETARIAT
- SPECIAL DEPT. FOR REPORTING OF GRIEVANCES

S T A T U T O R Y      B O D I E S



M I N I S T E R I E S



- |               |                                |                                |               |                          |                              |                                 |                                     |                |                                    |                                 |                |           |                   |
|---------------|--------------------------------|--------------------------------|---------------|--------------------------|------------------------------|---------------------------------|-------------------------------------|----------------|------------------------------------|---------------------------------|----------------|-----------|-------------------|
| ● HOSPITALITY | ● CENTRAL BUREAU OF STATISTICS | ● ROYAL ARMY HEADQUARTERS      | ● EDUCATION   | ● POLICE HQRS.           | ● INDUSTRY                   | ● ROADS                         | ● AGRICULTURAL EXTENSION            | ● LAND REFORM  | ● LAND REVENUE                     | ● ELECTRICITY                   | ● INFORMATION  | ● FORESTS | ● HEALTH SERVICES |
|               |                                | ● CONTROLLER OF DEFENCE ACCTS. | ● ARCHAEOLOGY | ● SPECIAL POLICE         | ● COMMERCE                   | ● HOUSING AND PHYSICAL PLANNING | ● AGRICULTURAL EDUCATION & RESEARCH | ● SURVEY       | ● CUSTOMS                          | ● IRRIGATION AND DRINKING WATER | ● BROADCASTING | ● BOTANY  |                   |
|               |                                |                                |               | ● BUREAU OF INTELLIGENCE | ● COTTAGE INDUSTRIES         | ● CIVIL AVIATION                | ● LIVESTOCK DVLPR & VET SERVICES    | ● COOPERATIVES | ● EXCISE                           | ● HYDROLOGY AND METEOROLOGY     | ● CULTURE      |           |                   |
|               |                                |                                |               | ● CENTRAL SERVICES       | ● GEOLOGICAL SURVEY OF NEPAL | ● POSTAL SERVICES               | ● FISHERIES                         | ● LAND ADM.    | ● TAXATION                         |                                 |                |           |                   |
|               |                                |                                |               |                          | ● BUREAU OF MINES.           | ● NEPAL ENGG. INSTITUTE         | ● REHABILITATION                    |                | ● MINT.                            |                                 |                |           |                   |
|               |                                |                                |               |                          | ● TOURISM                    | ● TELECOMMUNICATION             | ● HORTICULTURE                      |                | ● OFFICE OF THE ACCOUNTANT-GENERAL |                                 |                |           |                   |

Prepared by:  
Administrative Management Dept.  
Administrative Reforms Division  
Nov. 1969

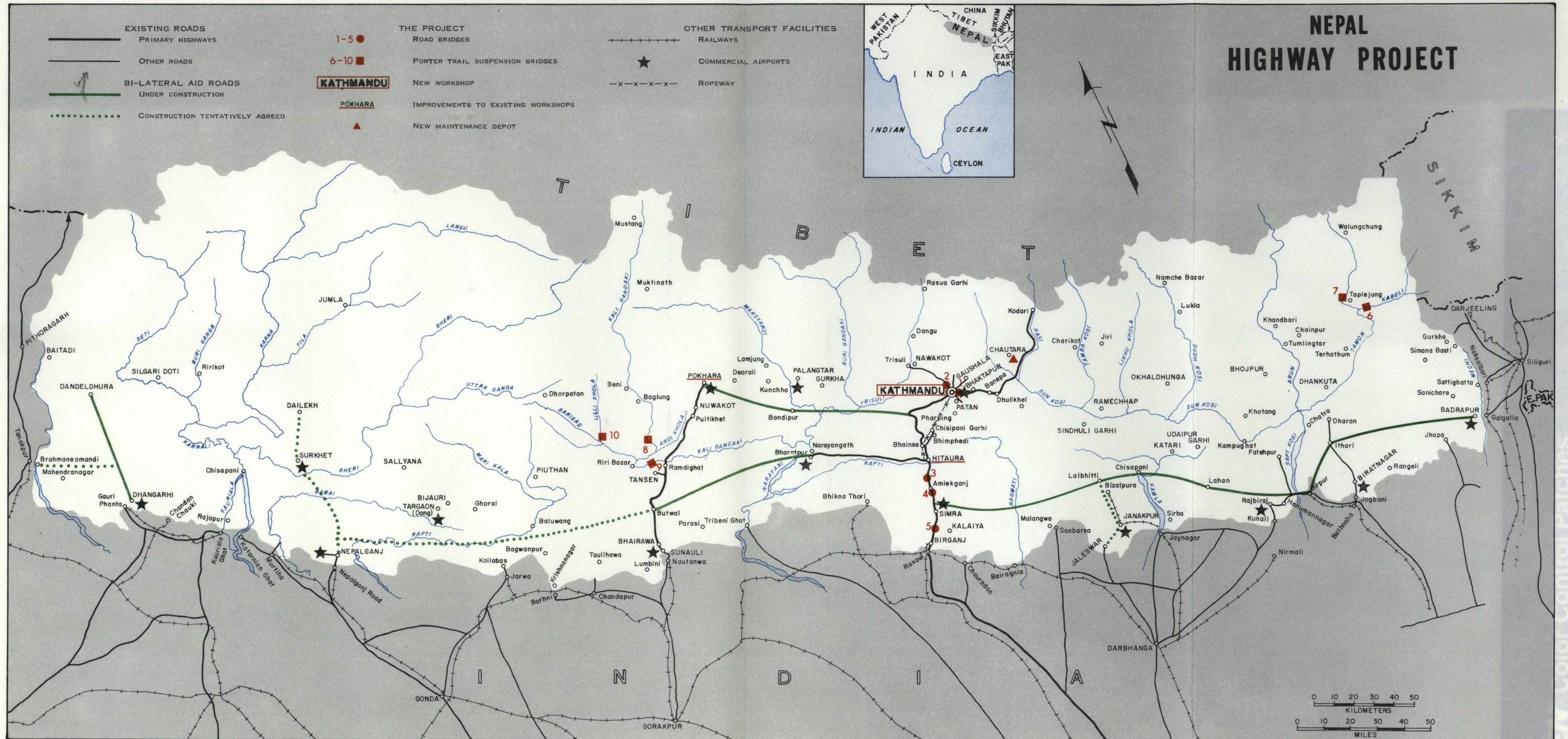
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C-436







# NEPAL HIGHWAY PROJECT



TIFFEN Color Control Patches









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NEPAL COUNTRY PROGRAM NOTE

Postscript

36. The Nepal Country Program Note was reviewed on September 2 at a meeting chaired by Mr. Knapp. The following conclusions were reached:-

- (1) The meeting noted that the major feature of the paper was the impression it conveyed that Nepal now seems to have reached a stage where one could expect noticeable progress. The recent signing of the Trade and Transit Treaty with India, by removing some of the uncertainties which had existed during the last year, might be a positive factor, although it was evident that the Treaty still left many questions open.
- (2) The meeting agreed that, although the lending program represented a substantial increase in the number of projects, this was not unreasonable. It was recognized that the program had, of course, certain elements of uncertainty since the Bank (like the Asian Development Bank) was only beginning to lend in Nepal, and that much would depend on our experience. It was hoped that the presence of a resident representative in Kathmandu would help in improving the pace of project preparation work.
- (3) For planning purposes, however, it was suggested that the pulp and paper project, which was generally recognized as having a low probability, should be listed in FY74 rather than in FY73.
- (4) The meeting reconfirmed the position that no Bank lending should be contemplated for Nepal. In this connection it was noted that if the full program were carried out as planned, this would still mean a relatively modest allocation of IDA funds in Nepal.
- (5) It was agreed that Nepal was a country where local currency financing could be considered in appropriate cases. This should, in particular, be the case for projects with a low foreign currency component.

South Asia Department  
September 8, 1971



CONFIDENTIAL

August 24, 1971

NEPAL - COUNTRY PROGRAM NOTE

	<u>Bank/IDA Lending (\$ millions)</u>		
	<u>1964-68</u>	<u>1969-73</u>	<u>1973-77</u>
1970 Population: 11.0 million (approx.)			
1967 per capita GNP: \$70	IBRD	-	-
Estimated population growth rate: 2%	IDA	<u>24.2</u>	<u>63.0</u>
	Total	24.2	63.0
Current Exchange Rate: US\$1 = 10.125 Rs.	Operations Program	28.7	73.5
		<u>Annual Average per capita (\$)</u>	
	IDA	.44	1.05

A. DEVELOPMENT OBJECTIVES AND CONSTRAINTS

1. On the surface Nepal is still very much the country that the picture postcards and coffee-table books depict. The Kathmandu valley itself with its neat wooden houses, green fields, its population in their pointed caps, a skyline of pagodas and palaces and a background provided by the peaks of the Himalayas - has a "once-upon-a-time" quality which makes economic development seem not merely distant but irrelevant. A closer look at the picture, however, would show some of the darker parts - one of the highest rates of infant mortality in the world and population pressure in the overcultivated hill areas which is forcing emigration to the plains of the Terai. Nepal is extremely poor, though being rural poverty this is less visible than urban slums. Its people have had contact with the outside world - despite its 150 years of isolation under the regime of the Rana prime ministers, which only ended with the restoration of power to the monarchy in 1951. Nepal has, in the past, been a cultural and commercial crossroads between Tibet and India and more recently the Gurkhas have gained fame through their service in the British and Indian armies. In addition the hill people have for many years been forced to find work in India to supplement their incomes. As a consequence, there is an awareness of and desire for the artifacts of a modern society.



2. Since the fifties Nepal has been development-minded. Fairly generous amounts of foreign assistance have been forthcoming and a wide range of activities has been taken up. Most of these have run into the inevitable snags of an administration which has only recently been exposed to the requirements of economic development; problems such as delays, inefficiency, corruption, apathy, lack of decision-making, absence of coordination, irregular funding and so on. This has bred frustration and disillusionment, not least among the considerable corps of foreign advisers who have been in the country at various times. It has been recognized that these problems are to be expected in a country with 11 percent literacy, which acquired its first inter-urban road in 1956, and which is by any standards at the very beginning of the development process. As a consequence, some donors - the Bank included - have taken the view that activities in Nepal should ideally be geared towards institution-building. Projects have been sought which would have an impact on the administration, improve techniques of organization, financial control, etc.

3. There is some evidence that Nepal is now emerging from this "institution building" stage in which the constraints of manpower and administrative organization are reached long before those of domestic or foreign finance. In a number of sectors there has been a gearing up to the requirements of a realistic development effort. In agriculture, for example, the Department Directors in the Ministry, who only two years ago seemed to devote as much time to infighting and preserving the autonomy of their department as to worrying about anything their staff actually did, now emphasize the need for coordination in the field and are setting an example by holding weekly meetings with the secretary to discuss inter-related problems. For anyone familiar with Nepal this is a breakthrough of the first order. A powerful and competent economic planning and coordination group was set up in this ministry which in addition to doing good work of its own has been largely responsible for this change in attitude. It has succeeded in getting individual departments aware of the economic requirements of the country and how their actions relate to it.

4. And this is not just in agriculture. In the education sector, the 1969 Bank mission referred to the complete absence of planning (the Director of the Department of Higher Education specifically opposed the setting up of a planning unit in the ministry). It also pointed out that there was no single source of statistical information and that responsibility for technical education was dispersed among the operating ministries, e.g. the agriculture ministry was in charge of the agricultural college, the health ministry was responsible for the training of nurses, etc. In the meantime, a statistical group has been set up in the ministry and the availability of data has been greatly improved. It also serves as the nucleus for planning activities. All technical education has been centralized in the ministry and a Plan has been produced which provides an adequate policy statement though it is not as yet supported by detailed projects. These examples could be multiplied - in the transport ministry an effective and useful planning unit has been established; a system of program budgeting has been set up which seems to be taking root; an administrative training centre has launched into a series of ambitious courses for government officials. In general there is an awareness of the need to make a real effort on the development front.



5. On the project preparation and implementation side too, there have been improvements. With regard to the presently planned Birganj/Gandaki irrigation project, the FAO/IBRD Co-operative Mission prepared a lengthy list of actions which would be required of the government, including changes in electricity tariffs, negotiations with India, setting up of authorities, a request to UNDP for extending an existing project, etc. A meeting was held with the mission and all relevant secretaries and government officials. It took an hour for the mission leader to explain the requirements. It took ten minutes for the government representatives to go down the list and explain what action had been taken, refer matters to individual secretaries and set the wheels in motion on new activities. UNDP received the request for an extension that same afternoon. A year ago this sequence of decisions and actions would have been all but inconceivable.

6. A number of factors have been responsible for this change. In part it is due to the return of some very able younger people from studies abroad. In addition a great deal of pre-investment work has been carried out on the economy of Nepal and some of it is now at the point of yielding possible projects. The breakdown of the trade negotiations with India has lent an urgency to the development of internal production. Other factors have doubtless also contributed and the result is a recognizably more mature administration. This is nowhere more apparent than in the attitude being taken to foreign donors. Where Nepal was previously content to let donors dictate their own programs, there is real questioning going on as to the utility of the aid received and a more serious effort at some kind of coordination of activities.

7. The optimism of the foregoing paragraphs needs of course to be qualified. There are still a number of areas, macro-planning and the industrial sector, for example, where little or no progress has been achieved. Nor is it clear to what extent the present improvements are tied to particular individuals who for one reason or another are unlikely to occupy their present posts much longer. Certainly the advances in administration have not yet been reflected in objective achievements in the economy itself. The conventional indicators are not particularly useful as a measure in the context of a country like Nepal which has been establishing the pre-conditions of a development effort. The most obvious changes are in the new infrastructure - major roads have been completed in the last year or two which greatly expand the effective market area; power and irrigation are other areas where the completion of large projects is imminent. The growth of agricultural production appears to have been reasonable though somewhat below that in India. The tiny industrial sector is more or less stagnant. Perhaps the major indicator is the considerable amount of new construction along the highways and in the Kathmandu and Pokhara valleys. Little of these changes can however be attributed to the role of the government.

8. Nevertheless, it would seem that a critical point has been reached where capacity has come much more closely into line with Nepal's immediate project potential. There is, however, no assurance that the country will move forward from this point, unless the critical constraints can be overcome. The



first of these is financial. It has been a truism of development in Nepal that "money is not the problem". Money is rapidly becoming a problem. Not only are internal resources tight as a result of the breakdown of the trade talks with India (see below), but the level of bilateral aid is stationary. No new projects are being discussed with India, while USAID is in the process of scaling down its activities in Nepal. The U.K. and U.S.S.R. are committed to sections of the East-West Highway and there is no evidence that they are willing to be involved in other activities until the existing projects are completed. The major sources of any possible increase in aid are China, until now limited by Nepal to projects in the hill areas for obvious political reasons, and the multilateral agencies. In this respect the Asian Development Bank is playing a notably active part in Nepal and has provided funds for civil aviation, the Agricultural Development Bank and jute processing. In addition they will shortly appraise the Kankai multipurpose project (first stage only irrigation) in the Eastern Terai. This still leaves a substantial balance of projects however for which Nepal is likely to look to the Bank for assistance.

9. The financial constraint is not the only one. There is another difficulty which may be referred to as the operation of the politico-administrative system. Political power in Nepal rests entirely in the hands of the King, his rather large family, and a small number of other important families which are allied to the Royal family by marriage or other ties. While not every minor or even major decision is referred to the King, and a great deal takes place simply through the normal administrative and cabinet channels, in theory every single decision could go to the King. In practice a fairly arbitrary selection does go to him depending on the access of special interests or his own personal interest in a problem. This is a particularly serious problem with regard to the promotion and tenure of the civil service. Thus, for example, the highly competent program budgeting group which had been built up in the Finance Ministry has been decimated by dismissals and transfers in order to shift the balance which that ministry had begun to tilt within the structure as a whole. The insecurity of senior government officials has led to a rash of applications for jobs with international agencies. While many or most of these people will come back and perhaps will have gained from their experiences, this poses serious problems in the short-run and generally for morale.

10. At the present time the merits of Nepal's system of basic democracy (the panchayati raj) are open to some question. This system has, among other things, enabled the extended Royal family, the Ranas and other prominent families to derive considerable financial benefits from the progress of the past ten years. The two largest hotels and the tourist agencies are owned by members of the Royal family and there is scarcely any major private sector activity in which these groups are not involved. In addition, there are a great many open and concealed subsidies (the Palace owes NR600,000 in electricity bills, etc.) Nevertheless the King and the Crown Prince are interested in development, they have eased the transition in many cases to a more modern system, and Nepal is still essentially a traditional society in which the King has a role much broader than a political head of state. To a major extent he represents all there is of Nepali nationality other than a common resentment of India.



11. However a point could be reached when the existing system of personal rule is not sufficient to satisfy the aspirations of a growing section of the population. That point may well already have been reached - through the years a number of student leaders and Nepali congress leaders have been jailed. While it is possible that the regime will be capable of gradually handing over its authority and turning itself into a constitutional monarchy, in the meantime our lending has to take into account the need to redistribute income and to rationalize the policy structure.

#### B. NEPAL AND INDIA

12. Nepal's relationship with India, both political and economic, has been the major determinant of policy during the past year. India's interest in Nepal is of course largely a consequence of its strategic situation on the border with China. India has barely concealed its displeasure at Nepal's flirtation with China during the past few years, including the receipt of considerable aid, particularly the construction of two major highways of great strategic and rather less economic importance. The Nepalese regard maintaining good relations with China as a condition of their political survival. To some extent they take their political relationship with India for granted. Remaining on good terms with the Chinese is also of course a useful device for squeezing additional aid out of India and maintaining a posture of independence and a focus for national feeling.

13. Economically, Nepal's dependence on India is total. Ninety percent of Nepal's trade is conducted with India and almost all its imports and exports to third countries go through the port of Calcutta. India has not permitted Nepal access to East Pakistan across the fifteen mile stretch of territory separating the Eastern border from Radhikapur. Nor is India a signatory to the UNCTAD Agreement on land-locked countries. This gives India a degree of control over Nepal's trade with third countries which it has exercised to stop shipments of commodities smuggled from India. The transit problem serves as a major irritant to Nepal. The delays and inefficiencies at Calcutta port are legion and the Nepalese find it especially rankling that they should have to pay high port charges as a consequence of these delays.

14. India is aware of the "neo-colonial" image inherent in its relationship with Nepal. The Nepalese economy has been largely a supplier of food and labor in exchange for the manufactured commodities of the "mother" country. In an effort to change this relationship, the Nepalese have introduced a number of measures which were ill-considered and have met with a justifiably adverse reaction in India. These have to be seen against a background of the 1960 Treaty of Trade and Transit which embodied the special economic relationship of Nepal and India. India permitted free entry to primary products and manufactured items from Nepal on terms more favorable even than those available to Indian producers, i.e. exemption from excise duties. It also agreed to remit to the Government of Nepal excise duties on commodities imported from India into Nepal. In addition to this treaty, Nepal maintains full convertibility with the Indian rupee, though not with currencies of third countries.



15. Even with the best will in the world, this is a situation fraught with difficulties. Nepal and India share a more or less open 500 mile border which, if regulated at all, is the responsibility of underpaid and easily bribable customs officers. Indian and Nepalese currencies circulate freely on either side of the border. This means that unless both countries follow identical policies with regard to trade with third countries, goods are likely to move across the border in search of more advantageous terms for export. This is indeed what has happened. Nepal has wanted and needed to give incentives to exporters to third countries at rates much higher than those given by India. But the consequence of doing this has been that Indian goods have been smuggled into Nepal (mainly jute and mica <sup>1/</sup>) to take advantage of these higher incentives. The problem has been further complicated by the form in which these incentives have been given. So as not to create a budgetary burden the government provides exporters with import entitlements. These entitlements can either be used to import finished products; watches, transistors, etc. (which are smuggled into India) or semi-finished items such as stainless steel sheets and synthetic textile cloth, which can then with minimal processing be legally exported to India as Nepalese manufactures.

16. To add insult to injury, most of those engaged in these activities are Indian Marwaris from Calcutta who generally employ Indian labor and whose profits eventually find their way back to India. These profits have been substantial. Estimates on the return on investments range from 100 percent per annum up. In some cases these industries have even received tax incentives as an "encouragement" and the only major return to the tax system has come through import duties. The reaction from legitimate Indian producers of these items was sufficiently strong for the Government of India to seek an agreement in 1968 for a limitation on Nepalese exports of these items to India. An agreement was reached, but not before seven new plants had been set up for processing these items. The Nepalese insisted that these should be included in the definition of existing capacity which was the basis of the agreement. India refused and established unilateral quotas for these items.

17. When the renegotiation of the treaty commenced in 1970 it was clear that there were large areas of disagreement, but it was thought likely that it would be extended more or less on the existing basis. When the treaty expired at the end of October it was indeed extended for two months. At the end of December, however, no further agreement was reached. It is not entirely clear to what extent political considerations such as the Indian desire to continue to have military observers, in some guise or other, stationed on Nepal's northern border, and Nepal's resistance to this suggestion, were factors in the breakdown of talks. In the first days of January 1971, India announced that trade with Nepal would be carried out on the same basis as trade with all third countries with the exception of a list of items including most of the major necessities, salt, kerosene, drugs, which could be exported to Nepal. India permitted all primary products to be imported from Nepal.

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<sup>1/</sup> Of Nepal's exports of \$8-10 million a year of jute and jute products to third countries, it is estimated that 30-50 percent is smuggled from India. Nepal has no mica so all exports are by definition smuggled goods.



18. There was a sharp response in Kathmandu; a popular anti-Indian reaction and the publication of a number of measures including new industrial programs and rather curiously a reduction in the electricity tariff in the hope that this would reduce dependence on kerosene. There was hoarding of commodities and some price increases. In the succeeding months it has become apparent that the most serious problem for Nepal is the difficulty of securing adequate supplies of certain raw materials, particularly tobacco for Nepal's cigarette industry, and steel for construction. India has not permitted the import of Nepalese manufactures and on the transit side is unilaterally limiting Nepal's export of jute to its own assessment of what is actually produced in Nepal. News has just been received that the treaty was signed on August 13. A full text of the treaty is not available, but the major changes are firstly on the transit side that Nepal will be able to send its exports to Calcutta by truck as well as by rail; and secondly on trade that Nepalese manufactures will be allowed into India provided raw materials and semi-finished goods imported from third countries constitute less than 50 percent of the ex-factory cost of the product. They will, however, be subject to import duties to the extent of the foreign component.

19. If one had to do a cost-benefit analysis on the effects of the impasse on Nepal, it is not entirely clear whether the very substantial costs such as the loss of 25 percent of Nepal's budgeted revenue for the year, would indeed outweigh the benefits. Intangibles such as a strengthening of the rather weak national consciousness, and the galvanizing of some of the sleeper areas of the administrative service such as the Industries' Ministry, must rank high on a list of the consequences of the dispute. But the costs are becoming increasingly severe and Nepal has little choice except to reach some accommodation. India can afford to wait but Nepal obviously cannot if there is any seriousness about economic growth.

20. The final element in the situation is aid. Nepal receives about \$10-15 million a year from India which is far and away its major source of aid. Disbursements on existing aid continue, but no new commitments have been entered into. Most of the Indian assistance is in the form of turnkey projects - roads are far and away the major component. During the course of the last two years India has applied a go-slow to a telecommunications agreement which is integral to the Bank telecommunications project. The final draft remained with the Indian government from November 1969 till December 1970 before it was cleared. Since then the atmosphere has not been conducive to the conclusion of an agreement until the trade dispute is settled. While there are other problems, it is evident that the GOI has been considering this in the wider context of its relations with Nepal. Officials in Nepal have been disappointed by the Bank's lack of success in getting an Indian response. We were recently told that it would be signed within days, but this refrain has become too familiar for us to attach much credence to it.



C. BANK/IDA PLAN

21. The changes in Nepal come at a particularly fortunate time for the Bank, since they coincide with the stationing of a resident representative in Kathmandu planned for this fall. The presence of the resident representative should save a considerable amount of lead time per project as well as preventing the kind of misunderstanding of Bank procedure which has caused not only delays but a certain amount of frustration in the past. The resident representative should also be in a position to assist the government through the informal coordination of aid in sectors such as agriculture, education and transport where large numbers of donors are active.

22. The lending program included with the C.P.P. last year comprised 14 projects in the period 1972-76, totalling \$46 million. Of this amount however 3 projects totalling \$16 million were listed as unidentified. The enclosed lending program this year for the same period lists 18 projects totalling \$64.5 million with all projects identified. Effectively this is a doubling of our planned activity in Nepal. In the content of the program as well, there is now scope for being less restrictive. Last year we emphasized that we needed to look for "the kinds of activities in Nepal to which the Bank would be able to offer something more than bilateral lenders, in which the external economies in terms of administrative impact would be maximized and which represent critical areas for the country's development". While these remain a part of the package, we can now think in terms of a much broader effort to raise production and deal with the fundamental problems.

23. The most important of these is the imbalance in agricultural income between the hills and the Terai. Net cropland is about .1 ha. per person in the hills as against .4 ha. per person in the Terai. The familiar and very beautiful contours are extending further and further up the hillsides, reaching land with barely positive marginal productivity. For most of the year the hill areas have a severely reduced population of men of active age - except for the harvest period they find work in the Nepalese or Indian Terai. Even with this there is an overflow and large numbers of families have moved down to previously uninhabited areas of the Terai and burnt down forests to eke out a subsistence living. These areas were uninhabited mainly because they were previously malarial and also because some were and still are protected forests.

24. The solution to this problem has to be pursued both in the hills and the Terai. Firstly as far as the Terai is concerned the settlement has to be controlled, and the forests properly managed to provide supplemental income for the settlers. Nepal has had excellent results in two existing settlement projects carried out with Israeli



technical assistance. The average income per householder in the settlement is NR7,000 as against the general average for Nepal of NR2,000. There are four stages to these schemes. First, there is land-use planning, second, forest management, third, the provision of credit and management for the settlement and fourth, infrastructure. Financial resources have not been available to enable the government to expand the scheme even at a rate which would organize the existing squatters. The proposed Bank projects in FY73 and FY76 would enable surplus population from the hills to be settled as well as protecting some of the last remaining major forests in the Terai for commercial exploitation.

25. As far as the hills are concerned the question is often raised as to whether it is worth doing anything in them at all. Agriculturally the return can hardly compare with that of opening new lands in the Terai. Administratively the problems raised are enormous. The experience of projects in the hills such as the Swiss project at Jiri (a valley with no road connections) has been decidedly mixed. Nevertheless, there are obvious limits to solving the problem completely through population transfers. The hills are the heartland of Nepal whereas the population of the Terai is essentially Indian in origin. Sharp differences in income such as are likely to emerge if no action is taken would be politically unacceptable, and whatever the motivation, should indeed be politically unacceptable. Unfortunately, no-one really knows at this stage what can be done to develop the hills. One area where the hills do seem to have real potential is livestock development. A UNDP-SATA (Swiss aid) survey of the livestock potential in the hill areas should identify projects for inclusion in the lending program, tentatively in 1975 but possibly earlier.

26. One clear lesson which emerges from the experience of activities so far undertaken in the hill areas is the need for roads, and for other investments to be based on the roads. A year ago work began under a UNDP financed study to identify and prepare feasibility reports on high priority roads linking to the East-West highway - the country's main artery of which over a third has been completed and which runs along the Terai plain. The study has identified a number of North-South penetration roads which in the long run will be important in opening up and developing the hill areas. The highest priority on economic grounds is assigned to small spurs which would serve the already relatively developed areas of the Central and Eastern Terai. From the point of view of Nepal's economic future it is important that we strike a balance between these possibilities. Whatever package of roads we finally select should also make provisions for the smaller roads, tracks and suspension bridges which would be necessary. If it seems warranted this could be expanded into a more ambitious project for regional development with ancillary investments in minor irrigation, water supply, power distribution, etc. Whatever activities we undertake in the highway sector would continue our support for the Ministry of Public Works and Transport, the recipient of our second loan in Nepal and strengthen its capacity in road maintenance.



27. Last year it was decided to move ahead with the Birganj/Gandaki irrigation project as the centerpiece of the Bank's lending program. Not only was it the irrigation project with the highest return, but it seemed to supply what was needed in the way of a prototype which could be applied elsewhere. This decision has been fully vindicated. Progress on project preparation has been satisfactory and appraisal is scheduled for October. The Chief Secretary, a former Secretary of Agriculture himself, expressed the view that this was the "first sensible thing" Nepal was doing in the agricultural sector. Many of the proposals put forward by the IBRD/FAO Cooperative Program mission are likely to be incorporated by the Asian Development Bank in their irrigation project in the Eastern Terai. We hope to follow up the present project which is mainly surface water with a pilot ground-water project, with two further stages which will gradually shift the emphasis to ground-water depending on the success of the pilot project. With the success of ground-water in the Indian Terai, this looks like a good bet for Nepal. We are also concerned that the other parts of the agricultural sector should not lag behind irrigation. ADB has a credit project and is likely to follow it with others in due course, while the bilateral donors, notably USAID have been very active in agricultural research and marketing. The main lacuna at present is the extension service and among the possible projects being considered under education is a project to provide for training of extension workers.

28. Our first loan in Nepal was made to the Nepal Telecommunications Board in FY70. We hope to follow this with a second loan to NTB in FY73 which would allow for some further strengthening of the institution. In the power sector, Nepal has a surplus generating capacity at the moment and is beset by the problem of lumpy investments. A project to link the Eastern Terai with the Kathmandu grid and provide additional distribution in the Terai is being studied. This would give greater flexibility to the system. In addition, we have tentatively included a generation project in the Western Terai which would be largely oriented to exporting power to India. Nepal has cheap power which could help to meet the power needs of Norther India to the benefit of both countries. Discussion has so far concentrated on the giant Karnali project - a major scheme in the Western region of Nepal with generating capacity of 1800 MW. The project would depend entirely for its feasibility on the sale of power to India and an agreement on this scale is obviously difficult in the present suspicious atmosphere. If relations between the countries improve a smaller project like the Babai which also has important advantages for developing the rich forest resources and potential settlement areas of the Western Terai (Nepal's "frontier"), might be a good way to make a start. The lending program also includes a water supply project - the case for this is almost axiomatic given the inadequacy of the organized public water supply. The problems of how much and when are currently being looked into by a WHO study.



29. The impasse in the trade talks with India appears to have provided the necessary stimulation for Nepal to move on the industrial front. There are a variety of small industries and one or two medium ones where action has been delayed for no very good reason. A UNIDO team has recently submitted a plan to the government which involves the expenditure of \$5 - 6 million a year and it is proposed to support this through lending to NIDC (Nepal Industrial Development Corporation). Since indications are that the plan may be implemented fairly quickly, the timing of our lending to NIDC has been moved forward to FY73. NIDC is the only source of industrial finance for the private sector in Nepal and increasingly also the major source for the public sector. Lending to NIDC would therefore be central to any further projects in the industrial sector. The two largest projects presently under review are for textiles and pulp and paper. The government is discussing assistance for these with China and the U.S.S.R. respectively. Both of these projects are cornerstones of any meaningful industrialization in Nepal, and if for some reason negotiations fall through, their priority would suggest that the Bank should provide assistance for them. It is very important that we find some means to assist Nepal to develop management and to rationalize the policy framework surrounding the industrial sector. The arbitrariness of the present incentives is an invitation to misuse. Our first venture into the industrial sector will probably be a plywood factory, which is in a fairly advanced state of preparation by the Cooperative program. This will provide an opportunity which can be reinforced by our tourism project and our subsequent lending to improve the managerial basis and provide a proper policy for the industrial sector in Nepal.

30. The program for FY73 shows a fairly heavy concentration of action in the industrial sector. This may seem somewhat surprising in an economy which has 90 percent of its population engaged in agriculture and in which industry, other than cottage industry, comprises perhaps one or two percent of GDP. The reasons for this emphasis lie in large part in what is happening in the agricultural sector. The green revolution has reduced the returns from Nepal's major trading activity - the export of something in the range of 100,000 - 300,000 tons of rice a year to India. The need for diversification into cash crops is increasingly being realised and programs for Nepal to increase its jute (ADB jute project) and sugar production (ADB credit project) have been started. There are further possibilities in oilseeds and cotton which have excellent prospects in Nepal. A whole range of agricultural processing industries will be needed to utilize these products and, in some cases, the processing side could be directly linked with research and development for cash crop production (e.g. cotton textiles). Nepal will have to develop its export potential (e.g. pulp and paper) and also invest in the less complex range of import substitutes (processed foods, oils, textiles, cement etc.), if the impact of the deteriorating terms of trade with India is to be minimized. The government is quite open-minded about the question of whether ownership should be public or private but the result of trying to encourage the private sector has been that nothing much has happened. All these projects should therefore be planned for the public sector with provision made for the private sector to participate if there is any response. Nepal has limited traditions even in commerce and handicrafts, let alone industry.



31. In the long run, tourism is far and away Nepal's most promising (perhaps its only) prospect for earning large amounts of convertible foreign exchange. In the last year or two, the constraint has been hotel accommodation, and large numbers have had to be turned away as a consequence. The ADB civil aviation project will permit larger planes to land in Kathmandu and is likely to result in an increase in tourist arrivals even greater than the current growth rate of 25 percent a year. New accommodation in the four and five star categories is not currently under construction and, unless something can be done immediately, Nepal stands to lose sizeable amounts of foreign exchange. For this reason the proposed tourism project has a high priority in the lending program.

32. In last year's C.P.P. we emphasized the importance of education, given Nepal's 11 percent literacy rate and shortage of skilled manpower. The obstacle at that time was in large measure the inadequacy of the education ministry and the lack of response to the idea of Bank involvement in that sector. In addition, an increase in teacher's salaries seemed to be a sine qua non and there was not enough evidence that the government's commitment to the sector went that far. As explained previously, there have been important changes in attitude and preparation in the ministry to the extent that the notional project included last year now looks fairly realistic. There are four possible areas of Bank involvement; teacher training, equipment for laboratories and workshops in secondary schools, the use of radio in schools and training for the agricultural sector either through a college or some more modest form of in-service training.

33. This might be considered an ambitious lending program, given our past experience in Nepal of one loan a year for the last two years. It is not, however, ambitious either in terms of the country's needs or what can be achieved. The program takes into account Nepal's need to move towards a more diversified and complex economic structure. The balance of the program has been radically altered from a year ago. Whereas last year only about \$4 million of the \$30 million of identified projects did not fall into the infrastructure category, this year more than \$20 million out of a program double this size is planned for industry, tourism, livestock etc. Most of the new items in the program are directed at solving the fundamental economic and social problems such as maintaining a balance between the hills and the Terai and diversifying the economic structure.

34. Last year, it was decided that Nepal should only receive IDA money. ADB provided \$2 million of its \$4 million jute development loan to Nepal at 7½ percent, with the balance on soft loans (3 percent). The \$6 million Air Transport development loan was given at 2 percent, and the \$2.4 million Agricultural credit project at 3 percent. Nepal's foreign exchange reserves in convertible currency are at around \$90 - \$100 million and continue to climb.



It has very small amounts of debt and could probably quite prudently afford to contract a modest amount of debt on conventional terms. In the long run however, Nepal has very limited prospects for earning convertible foreign exchange and the key to its external situation will be the somewhat volatile relationship with India. At this stage, provided sufficient IDA funds are available for financing the program, we would not recommend utilizing Bank money for Nepal. While in general we would not be required to finance much local currency, there are one or two projects, most obviously, the Birganj-Gandaki irrigation project and the forestry cum settlement projects, where this would be desirable. USAID has expressed its willingness to use PL480 Indian rupees for the local currency component of Bank projects, as was the case for the ADB air transport project.

35. During the course of the year, we mounted a small investment survey mission to identify projects for inclusion in the lending program. A full economic mission is scheduled for April '72. This, in combination with the greatly expanded project activity which is proposed, and the presence of the resident representative, should help to emphasize to the government the Bank's willingness to take a major role in assisting Nepal's development.



Population: 11.2 m.

Per Cap.GDP: about \$70

**NEPAL - ACTUAL AND PROPOSED LENDING**  
(\$ million)

		Fiscal years									Total 1964-68	Total 1969-73	Total 1973-77	
		Through 1969	1970	1971	1972	1973	1974	1975	1976	1977				
Irrigation (Birganj/Gandaki Stage I)	IDA				7.0									
Irrigation (Birganj/Gandaki Stage II)	IDA							5.0						
Irrigation (Birganj/Gandaki Stage III)	IDA									5.0				
Forestry/Settlement I	IDA					3.0 <sup>1/</sup>								
Forestry/Settlement II	IDA							3.0						
Livestock	IDA							2.0 <sup>2/</sup>						
Telecommunications I	IDA		1.7											
Telecommunications II	IDA					2.0								
Telecommunications III	IDA							3.0						
DFC I	IDA					3.0								
DFC II	IDA									3.0				
Education I	IDA						3.0							
Education II	IDA								3.0					
Plywood Factory	IDA					2.5								
Pulp and Paper	IDA					3.0 <sup>3/</sup>								
Power distribution	IDA							5.0						
Power generation (Babai)	IDA									4.0				
Tourism I	IDA				4.0 <sup>4/</sup>									
Tourism II	IDA							3.0 <sup>5/</sup>						
Tourism III	IDA									3.0 <sup>5/</sup>				
Highways I	IDA		2.5											
Highways II	IDA						7.0							
Highways III	IDA								5.0					
Water Supply I	IDA						3.0							
Water Supply II	IDA									3.0				
Operations Program	IDA					13.5	13.0	13.0	16.0	18.0		28.7	73.5	
	No.					5	3	3	5	5			21	
Lending Program	IDA	1.7	2.5	11.0	9.0	12.0	12.0	15.0	15.0			24.2	63.0	
	No.	1	1	2	3	3	3	4	4			7	17	
Asian Development Bank		6.3	6.8	8.0	8.0	10.0	10.0	12.0	12.0			29.1	52.0	
IDA - gross disbursements		-	0.1	1.0	2.6	3.5	5.6	7.2	10.7			3.7	29.6	
net disbursements		-	0.1	1.0	2.6	3.5	5.6	7.2	10.7			3.7	29.6	
net transfer		-	0.1	1.0	2.6	3.5	5.5	7.1	10.5			3.7	29.2	

<sup>1/</sup> Timing of project will depend on extent of further preparatory work required.

<sup>2/</sup> Could possibly be moved ahead

<sup>3/</sup> Amount notional: To be considered if current discussions with bilateral contributors not successful

<sup>4/</sup> Amount still subject to change

<sup>5/</sup> May take form of loan to DFC



N E P A L

INDICATORS OF DEVELOPMENT

	Unit	Annual Average			
		1951-60	1961-65	1966-70	1971-75
<b>I. ECONOMIC &amp; STRUCTURAL INDICATORS</b>					
1. Gross Domestic Product (in constant market prices)	% Change	2.4%	2.0%	2.2% <sup>1/</sup>	2.5%
2. Manufacturing Output	% Change	N.A	N.A	6.0% <sup>2/</sup>	8.0%
3. Agricultural Output	% Change	N.A	N.A	2.1% <sup>2/</sup>	2.2%
4. Imports of Goods <sup>3/</sup>	% Change	0% <sup>4/</sup>	19.5%	-17.3%	4.0%
5. Exports of Goods <sup>3/</sup>	% Change	16.4% <sup>4/</sup>	29.3%	-2.8%	3.0%
6. Domestic Price Level <sup>5/</sup>	% Change	N.A	6.4%	4.6%	5.0%
		<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
7. Debt Service	% Exports	0%	0.2%	0.3% <sup>6/</sup>	0.6%
8. Central Govt. Current Revenue	% GDP	1.6% <sup>7/</sup>	3.1%	5.1%	6.5% <sup>8/</sup>
9. Central Govt. Current Surplus	% GDP	0%	1.3%	2.7%	2.5% <sup>8/</sup>
10. Public Exp. on Social Services	% GDP	6.6% <sup>9/</sup>	10.8%	10.4% <sup>10/</sup>	11.0%
11. Military Expenditure	% GDP	4.3% <sup>9/</sup>	4.5%	5.5% <sup>10/</sup>	6.0%
12. Manufacturing Output	% GDP	N.A	1.4%	2.5% <sup>10/</sup>	3.4%
13. Energy Consumption	MW			1968/69 12.5	1974/75 32.5
14. Fertilizer Consumption	'000 tons	N.A	1965/66 3.2	1969/70 29.1	1975 40
<b>II SOCIAL INDICATORS</b>					
		<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
15. Population Growth Rate	%	1.5%	1.8%	1.8%	2.0%
16. Birth Rate	per 1,000		about 40 (1968/69)		
17. School Enrollment: Primary	% school-age popln	N.A	25.7%	35.0%	40.0%
18. Literacy Rate	%		about 10% (1968/69)		

Note: These figures need to be treated with extreme caution. Import and export data are partial and unreliable. Estimates of agricultural production are highly tentative and, as a consequence, the growth and level of GDP is subject to wide margins of error.

- 1/ Up to 1969
- 2/ FY1964/65 - FY 1968/69
- 3/ Figures for Net Factor Services not available
- 4/ FY1956/57 - 1959/60
- 5/ Consumer's Price Index for Kathmandu (1964=100) 1964-1969
- 6/ FY1965/66 - FY1967/68
- 7/ FY1951/52 - FY1959/69
- 8/ Based on assumptions that increase in current revenue during Fourth Five Year Plan (1970/71 - 1975/76) is 5% per annum and increase in current expenditure 10%
- 9/ FY1962/63
- 10/ FY1968/69 Budget Estimates



NOTE

Given the inadequacy of Nepal's data on national income and the balance of payments, Attachment 3 (Long-term Public Debt Projection) has not been included. In any case most aid has been received on grant terms and Nepal's debt is small and not expected to increase substantially in the period up to 1985.



## NEPAL: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

Project & No.	Amount:	Date:	Closing date	Forecast date	FY'71				FY'72				FY'73	FY'74
	- Original	- Approved			1	2	3	4	1	2	3	4		
	- Cancelled	- Signed												
	- Net	- Effective												
Telecommunications	1.7	11/4/69	Orig: 7/31/74	N.A.	-	-	-	-	-	-	-	-	-	-
Project	-	11/10/69		9/30/70(first)	.1	.1	.2	.2	.3	.4	.5	.7	1.5	1.7
IDA 166	-	2/26/70	Rev: -	-	-	-	-	-	-	-	-	-	-	-
			Act: -	-	.1	.1	.1	.1	-	-	-	-	-	-
Highway	2.5	11/10/70	Orig: 6/30/75	10/27/70	-	-	-	.1 <sup>a/</sup>	-	-	-	1.4 <sup>a/</sup>	2.2 <sup>a/</sup>	2.5 <sup>a/</sup>
Project	-	12/21/70	Rev: -	1/28/71	-	-	-	-	.2	.5	.8	1.3	2.4	2.5
IDA 223	-	2/3/71	Act: -	-	-	-	-	-	-	-	-	-	-	-

<sup>a/</sup> Quarterly projection not availableController's Department  
July 31, 1971









# KINGDOM OF NEPAL

## BACKGROUND NOTES

Population: 11.1 million (1971 est.)

Capital: Kathmandu

The Kingdom of Nepal is located in central Asia along the southern slopes of the Himalayan Mountains. A landlocked country about 500 miles long and 100 miles wide, it has three neighbors—India to the south, Tibet (controlled by the People's Republic of China) to the north, and Sikkim to the east. Nepal has an area of 54,362 square miles (slightly larger than Arkansas).

Within its borders, Nepal has three distinctly different topographical regions, each running laterally the width of the Kingdom. In the south a flat, fertile strip of territory called the Terai is part of the Ganges Plain. Central Nepal, known as the hill country, is criss-crossed by the lower ranges of the Himalayas and by swift-flowing mountain rivers. The Himalayas form the border with Tibet in the north. Eight of the world's 10 highest peaks are in this area, culminating at Mt. Everest (29,028 feet above sea level).

Nepal's climate ranges from subtropical summers and mild winters in the south to cool summers and severe winters in the northern mountains. At Kathmandu the average high temperature is 86° F. in May and the average low is 35° F. in December. The rainy season is from June through October.

The unique, double-peaked shape of Nepal's flag symbolizes the country's mountains. The red triangles are edged with blue and carry white emblems representing the moon and the sun.

### THE PEOPLE

Nepal has a population estimated at 11.1 million and an annual growth rate of approximately 1.8 percent. Although the population density for the country as a whole is about 200 persons per square mile, the distribution is extremely uneven with the majority of the people living in the central region. Kathmandu, the capital and focal point of the nation's political life, is in this region and has an estimated 195,000 inhabitants.

The Nepalese are descendants of three major migrations from India, Tibet, and central Asia. In addition to the Brahmans and Chhetris whose ancestors came from India, there are many tribes (called castes in Nepal) from central Asia and Tibet which make up the population. Gurungs and Magars live in the west; Tamangs and Newars in the center; Bhotias in the north; Rais, Limbus, and

Sherpas in the east; and Tharus in the south. Ethnically and culturally, the Nepalese in the Terai and central hills have close links with India.

Officially Nepal is a Hindu kingdom with about three-fourths of the population professing that faith. However, Hinduism has been influenced by and had an influence on a large Buddhist minority, and a unique variation of the two religions has been created. Some animistic practices of old indigenous religions are also evident. There also are some Moslems and a small number of Christians.

The official language of the country is Nepali, which has its origins in Sanskrit. It is the first language of about half the population and is spoken by another 30 percent. Many Nepalese in government and business speak English. The general literacy rate is approximately 6 percent.

### HISTORY

Nepal was founded in the latter half of the 18th century when Prithvi Narayan Shah, the ruler of the small principality of Gurkha, forged a unified country from a number of independent mountain states. The country was frequently called the Gurkha Kingdom, and when recruitment of Nepalese soldiers for the British Indian Army began in the early 1800's, the British called them "Gurkhas." The name remained and became world famous due to the bravery of Nepalese fighters in the First and Second World Wars. Today Nepal permits India and the United Kingdom to recruit Nepalese nationals for their armies.

After 1800 the heirs of Prithvi Narayan Shah proved unable to maintain firm political control over Nepal, and a period of internal turmoil ensued. Stability was restored in the 1840's when the Rana family gained power, entrenched itself through hereditary Prime Ministers, and reduced the monarch to a figurehead.

A tightly centralized autocracy, the Rana administration pursued a conscious policy of isolating Nepal from external influences. This policy helped Nepal maintain its national independence during the colonial era but at the same time precluded economic development.

Democratic currents set in motion by the independence movement in neighboring India had their impact on Nepal, and opposition to Rana rule grew in the 1930's and 1940's. In 1950-51, shortly after India became independent, a popular revolution toppled the Ranas, restored King Tribhuvan (of the Shah family) to power, and paved the way for a







non-Rana to become Prime Minister. The decade of the 1950's saw a period of quasi-constitutional rule during which the monarch, assisted by leaders of the fledgling political parties, governed the country. At times Prime Ministers from these parties were in office and represented a wide spectrum of views; during other periods the monarch ruled directly. King Tribhuvan was succeeded after his death in 1955 by his son, King Mahendra, who is the present ruler.

Throughout the 1950's efforts were made to frame a constitution for Nepal that would establish a representative form of government, presumably patterned on a modified British model. In early 1959 such a constitution was issued by King Mahendra, and shortly afterward the first democratic elections were held for a national assembly.

The Nepali Congress Party, a moderate Socialist group, gained a substantial victory, and its leader, B. P. Koirala, was called upon to form a government and serve as Prime Minister.

In December 1960 King Mahendra dismissed the Koirala government, suspended the constitution, and resumed direct rule. The King charged the Nepali Congress Party's government with corruption, misuse of power, and an inability to maintain law and order throughout the country. King Mahendra declared that Nepal was not yet ready for Western parliamentary institutions and needed a democratic political system closer to Nepalese traditions. To meet this need the King initiated, under a Constitution promulgated on December 16, 1962, a partyless system of panchayat. This system draws its theoretical inspiration from the traditional local government institution found in parts of Nepal—the village panchayat.

With the panchayat system firmly established by 1967, King Mahendra began working out an accommodation with the former political party members. Participation in the Government by former political leaders has been encouraged; most political prisoners, including B. P. Koirala, were released; and pardons were granted to many former Nepali Congress Party members living in exile in India.

By early 1971 the results of the accommodation attempt had had mixed results; some former Nepali Congress Party leaders favored participation in the panchayat system while others, most notably former Prime Minister Koirala, urged continued opposition to the system.

## GOVERNMENT

The Constitution specifies that the King (Chief of State) is the sole source of authority for all government institutions in Nepal. He exercises broad powers over the country's panchayat system of government.

The Council of Ministers (cabinet) is the executive arm of the Government and gives policy advice to the King. The Prime Minister (Head of Government) and cabinet ministers are appointed

by the King from the membership of the National Panchayat (parliament).

Nepal follows a unitary system of Government. The country is divided into 14 zones and 75 districts. Each zone is administered by a commissioner and assistant zonal commissioners, numbering from one to five according to the size of the zone, all appointed by the Central Government.

Under panchayat democracy a village or group of villages with a population of 2,000 or more is organized into a village assembly, which elects, by secret ballot, an 11-member executive committee — the village panchayat. Similarly, a town with a population of 10,000 or more has a town panchayat. (There are 3,600 villages and 14 town panchayats altogether.) Every Nepalese citizen 21 years of age or more is a member of a village or town assembly. In each of the 75 districts there is a district assembly, composed of representatives of village and town panchayats, and an 11-member district panchayat. The members of the district panchayat, in turn, form a zonal assembly. Finally, there is a 125-member National Panchayat composed of 90 representatives from the assemblies of the 14 zones; 15 representatives from the Government-established class organizations for peasants, youths, women, workers, and ex-servicemen; four university graduate representatives; and 16 nominees of the King. The chairman of the National Panchayat is appointed by the King on the recommendation of its members while the vice chairman is elected by the members. Meetings of the National Panchayat are conducted in camera, although this restriction may be lifted by the King. Terms of members from the zonal assemblies are staggered like those of United States Senators—one-third are elected every 2 years for 6-year terms. The other members serve for 2 or 4 years depending on the type of seat held.

The apex of the judicial system in Nepal is the Supreme Court. The 13 judges on this court are appointed by the King.

## POLITICAL CONDITIONS

Political parties in Nepal remain illegal. In 1967 the Constitution was amended to include the term "partyless" in the description of the panchayat democracy. The first National Panchayat elections were held that same year—the first real test of popular acceptance of the system. Elections are by universal adult suffrage.

In the past few years the Government has initiated a number of significant social reforms, including a program of land reform and a modernization of the legal code removing legal sanction for caste discrimination. However, Nepal still faces challenging political and social tasks in order to develop stable governmental institutions that can meet the needs of a modern society. The Government also faces the problem of reforming



social institutions and customs so that the society itself can keep abreast of internal political and economic changes underway.

## ECONOMY

When Nepal's modern era began in 1951, the Kingdom had virtually no schools, no hospitals, no roads, no telecommunications, no electric power, no industry, and no civil service. Its entire economic structure was based on subsistence agriculture.

Owing to efforts by the Government and substantial amounts of external assistance, principally from India, the People's Republic of China (P.R.C.), and the United States, a start has been made toward laying the foundations for economic growth. Nepal has completed three economic development plans in which emphasis was placed on the development of transportation and communications facilities, agriculture, and industry; improvement in governmental organization and management; and inauguration of a land reform program. However, Nepal remains one of the least developed countries in Asia. Its gross national product (GNP) in 1969 was estimated at U.S. \$1 billion (an income of about \$70 per capita).

Some noteworthy progress was made during these economic development periods, especially in the field of social services. Several of the programs are continuing. A countrywide education program is underway, a university was established, malaria was brought under control in a large and previously uninhabitable area, Kathmandu is now linked to India and Tibet by road and to other towns in Nepal by radio, several hydroelectric projects were completed, some small industries are being developed to process agricultural products and manufacture items for local consumption, a system of internal finance and public administration was established, and a start was made toward a rational exploitation of Nepal's three major economic resources—forests, hydroelectric potential, and tourism.

Agriculture remains Nepal's principal economic activity, providing more than two-thirds of the country's income. About 90 percent of the people are engaged in agrarian pursuits. Only about 30 percent of the total area is cultivable, most of it in the central region, and another 33 percent is forested. Rice and wheat are the main food crops. In recent years jute has been cultivated as a commercial crop. The southern region (Terai) is the center of agricultural production.

The industrial sector is small and located in southeastern Nepal. Plants include rice and oil mills, cigarette factories, sugar mills, match factories, and saw mills, producing primarily for local consumption. Jute is manufactured mainly for export purposes. Plans are underway for paper, cement, and textile mills.

Although Nepal has not been completely surveyed, mineral deposits are known to exist,

including coal (some of which is now being mined), copper, iron, mica, zinc, and cobalt. Development of copper and iron deposits has begun.

The swift rivers flowing south from the Himalayas to the plains afford a considerable potential for development of hydroelectric power. However, the present generating capacity is small.

Nepal's foreign trade, almost entirely with India, has grown in recent years as the pace of development has accelerated. Its exports, primarily agricultural products and timber, amounted to about \$52 million in 1968 (the most recent year for which figures are available). Imports during that year were estimated at \$63 million and were mainly consumer and manufactured goods, with textiles the largest single item. Its exports to the United States totaled \$2 million in 1968 and it imported about \$700,000 worth of goods from the United States.

Most of Nepal's transportation system runs north-south. In order to unite the country, and despite its limited resources, the Government has embarked, with the assistance of several foreign countries, on the construction of an east-west highway. The country has about 63 miles of railroad tracks, half of which are government-owned. Less than one-fourth of its 1,000 miles of all-weather roads are paved. The airport at Kathmandu is being extended to accommodate heavier turboprop aircraft.

Nepal is seeking to lay the basis for a modern economy—a task made difficult because of the country's rugged terrain and its recent emergence from a traditional feudal society. Maintenance of a sufficient rate of economic progress to keep pace with the rising aspirations of the population is now, and is likely to continue to be, a primary task for Nepal.

## FOREIGN RELATIONS

As a small landlocked country wedged between two larger and far stronger powers, Nepal's primary foreign policy problems concern the People's Republic of China (P. R. C.) and India. It has sought to develop and maintain a policy of close and officially friendly relations with both. During the Sino-Indian border crisis in 1962 Nepal adopted an official posture of neutrality toward the border dispute and limited its public statements to expressions of hope that the two countries could settle their differences peacefully.

Nepal formally established relations with the P. R. C. in 1956, when the two countries signed a treaty of friendship. At that time, Nepal relinquished certain extraterritorial rights it had gained in Tibet as a result of mid-19th century wars. The status of the undemarcated 650-mile-long Sino-Nepalese border was settled by a 1960 treaty. The Chinese have contributed large amounts of economic aid to Nepal. Two major roads (one from Kathmandu to Kodari on the Tibetan border and the other from Kathmandu to



Pokhara, an important trading center in the central hills), a shoe factory, and a hydroelectric scheme have been built under Chinese auspices.

Because of strong cultural, linguistic, religious, and economic ties, Nepal's associations with India are closer than those with China. Geographically, Nepal occupies a key position in the Himalayan defense perimeter of the Indo-Pakistan subcontinent. India has recognized Nepal's strategic importance and has made clear that it will not countenance any encroachments on Nepalese territorial integrity.

Despite these close links, the Indo-Nepalese relationship has not been entirely smooth. After King Mahendra resumed direct rule in 1960, friction developed over Indian criticism of his action and over raids against Nepal by exiles whom the Nepalese charged were using India as a safe haven. Since the Chinese attack on India in late 1962 India and Nepal have worked toward overcoming previous difficulties. In late 1970 Indo-Nepalese relations again deteriorated as a result of the difficulties involved in reaching agreement on a new trade and transit treaty.

India has provided Nepal with substantial economic assistance, which currently totals more than \$14 million annually. Indian projects cover a wide spectrum of activities, including roadbuilding, health, hydroelectric dams, and industrial projects.

Nepal and the United Kingdom have maintained various forms of representation for more than 150 years, and their relations today are friendly. Nepalese nationals continue to serve in Gurkha units of the British Army, and the United Kingdom maintains a Gurkha recruiting station in eastern Nepal. King Mahendra paid a state visit to the United Kingdom in 1960, and Queen Elizabeth visited Nepal in 1961.

The Soviet Union has had an Embassy in Nepal since 1959 and has provided Nepal with some economic assistance, largely in the industrial sector. The Soviets are building a 75-mile-long segment of the east-west highway in southern Nepal. King Mahendra paid a state visit to the U.S.S.R. in 1958, and President Voroshilov visited Nepal in 1960.

On international issues, Nepal has followed a nonaligned and neutralist policy. It generally votes with the Afro-Asian group at the United Nations. Nepal participates in a number of U. N. specialized agencies and was a member of the Security Council for the 1969-71 term.

## U. S. -NEPAL RELATIONS

Since their formal establishment in 1947, U.S.-Nepal relations have been friendly. A U. S. Embassy was opened in 1959, and King Mahendra paid state visits to the United States in 1960 and 1967. The U. S. policy of assisting less-developed countries has corresponded with Nepal's own desires to build its national economy and develop its political and social institutions.

The United States has provided approximately \$110 million worth of economic assistance to Nepal since the aid program commenced in 1951. About half of the aid has been in U. S. dollars and half in Indian rupees which have come from food sales to India under Public Law 480 (the Food for Peace program).

The U. S. Agency for International Development (AID) now provides about \$8 million in aid annually which helps to provide for basic economic and social needs through programs in agriculture, education, health (family planning and malaria eradication), and rural development. Training of professional and skilled manpower in many fields, primarily by financing attendance of Nepalese students at schools in other Asian countries, is an important part of the U. S. aid program. In addition, the Peace Corps has several programs in Nepal which assist development in agriculture, education, and rural programs generally.

The United States has given limited military assistance to the Royal Nepalese Army. The United Kingdom and India have also provided military aid to Nepal.

U. S. policy toward Nepal has these objectives:

1. Support for the maintenance of Nepalese independence and territorial integrity and the development of democratic political institutions.
2. Support for Nepal's effort to develop its human and social resources through selected programs of economic aid and technical assistance.
3. Support for the broadening of political relations between Nepal and other countries and encouragement of regional economic cooperation.

U. S. tourists are welcome in Nepal, but visas should be obtained before arriving in the country. They are valid only for Kathmandu, Pokhara, and Chitaur; permits for travel to other parts of the country must be obtained from the Home Ministry after arrival at Kathmandu.

## PRINCIPAL GOVERNMENT OFFICIALS

King—Mahendra Bir Bikram Shah Deva

### Council of Ministers

Prime Minister; Minister of Palace Affairs; General Administration; Finance; Defense—Kirti Nidhi BISTA

Minister of Land Reform; Food and Agriculture; Education—Gyanendra Bahadur KARKI

Minister of Foreign Affairs; Health—Gehendra Bahadur RAJBHANDARI

Minister of Water Resources and Power; Industry and Commerce—Nava Raj SUBEDI

Minister of Home-Panchayat; Information and Broadcasting—Rudra Prasad GIRI

Minister of Public Works; Communication and Transport—Chaturbhuj Prasad SINGH

Minister of Law and Justice—Shambu Prasad GEWALI



## Other Officials

Chairman, National Panchayat—Ram Hari SHARMA

Chief Justice—Ratna Bahadur BISTA

Commander in Chief—Gen. Singha Bahadur BASNYAT

Ambassador to the U.S.—Kul Shekhar SHARMA

Ambassador to the U.N.—Maj. Gen. Padma Bahadur KHATRI

The Kingdom of Nepal maintains an Embassy in the United States at 2131 Leroy Place, N. W., Washington, D. C. 20008. There is also a Consulate General at New York.

## PRINCIPAL U.S. OFFICIALS

Ambassador—Carol C. Laise (Mrs. Ellsworth Bunker)

Deputy Chief of Mission—Carleton S. Coon, Jr.

Director, AID Mission—W. Carter Ide

Public Affairs Officer (USIS)—G. Richard Hopwood

Peace Corps Director—Michael Furst

Defense Attaché—Col. William Stites, USA

Political Officer—Richard R. Hart

Economic - Commercial Officer—Roderick M. Wright

Consular Officer—Edward W. Gnehm, Jr.

The U.S. Embassy in Nepal is located on King's Way (Kanti Path), Kathmandu.

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## CHAPTER I

### THE STATE OF THE ECONOMY

#### The Hills and the Terai

1. From Kathmandu, the capital, northeast to Jiri, where there is a Swiss-aided project, is about 35 minutes in a STOL plane. By road, if there were one, it might be three hours. On foot, it is six days' march. As distances go in Nepal, this is not very far.
2. The hills and mountains of Nepal constitute three quarters of the country and nearly two thirds of the people live there. Communication is still rudimentary. There were no roads at all until 1956 and penetration is only just beginning (Map 4). There are only two commercial airfields in the hills besides Kathmandu; scattered STOL strips serve an administrative purpose, but their economic value is limited.
3. With few exceptions, everything that has to be carried in or out must go by pack animal or headload. If one talks of infrastructure in the hills, it means trails and small suspension bridges. Despite the fact that only high-value goods can stand the cost, there is a fair amount of traffic, especially in ghee, but also in other products such as foodgrains, medicinal herbs and seed-potatoes; salt and cotton textiles are essential imports.
4. Men are an equally important export. Work in India or in the British army overseas has been a traditional occupation for the hill people and still is. The 1961 census recorded 300,000 people as absent for six months or more. While this would be only of the order of 5 percent of the hill population, it represents a much higher proportion of younger men. In an extreme case, the Syangja district in the western hills, there were only seven men to ten women in the 20-39 age bracket.
5. It is not difficult to understand why. If old censuses are to be believed, the population, hitherto stable, has doubled in the last forty years. Almost the only way of providing near-subsistence income to more people has been to cultivate more land. Consequently it is not only the valleys which are cultivated but much of the hillsides too. The latter are terraced every few feet in strips often a few yards wide. It may be assumed that extension of cultivation up or down the hills has meant the taking up of continuously less productive land at a high cost in human labor. Pressure on the land has been compounded by erosion.
6. Until there are cheaper means of transporting goods, there is little possibility of more than marginal improvement. Considering the limitations, yields are already quite high, as far as one knows. Improved seed can help, but the cost of transporting fertilizer is prohibitive. Potential exports, like forest products or fruit, are not yet a practical consideration.
7. Water is there in abundance. The three great rivers of Nepal, the Karnali, the Gandaki-Narayani and the Kosi have tremendous reserves of hydro power and irrigation water. But the scale is large and the market for power



is principally in India; and India has, so far, shown little interest in development upstream. As far as the hills are concerned, smaller schemes are the only possibility.

8. The Kathmandu valley is an example, perhaps a peculiarly favorably situated one, of what can happen. It is a small valley of no more than 220 square miles with half a million people in it. Since 1956, there has been a road to India; a long and tortuous one, but still a road. In spite of the density of population, the valley has recently become nearly self-sufficient in wheat and potatoes in addition to producing quantities of vegetables for the relatively affluent local market. The familiar inputs of fertilizer, water and improved seed have been responsible, aided perhaps by the imponderable elements of education and contact with modernization, including a good research station.

9. Immediately south of the Mahabharat Lekh, the main range below the high Himalayas, is the area known as the Inner Terai. This is a series of east-west valleys between the main range and the lower Sivalik range (Maps 1 and 2). This is a rather lightly populated area with much hardwood forest or jungle and, until eradication started, malaria. The jungle, which is being cleared, is the main reserve of cultivable land. The forest, which extends in places southward into the main Terai is a valuable resource whose dimensions are only beginning to be realized. It has so far been exploited haphazardly and in large measure illegally.

10. The main Terai, which is part of the Gangetic plain geographically, has high densities of population except in the Far West where rainfall is low. Close to one third of the people live in one sixth of the total area of Nepal. But this is in terms of area alone. In terms of cropland, the proportions are quite different, since the Terai includes over 60 percent of the total. Over 40 percent of the total is in the Eastern Terai <sup>1/</sup> alone, where around a quarter of the population lives. Up to now, the Terai has been economically as well as geographically part of the Ganges basin. There are a number of small towns with processing industries, which also act as collection and distribution points for the limited traffic from the hills. The Terai is a surplus grain producing area, plus some other products like oilseeds, jute, sugarcane, and hardwood. The surplus goes directly to India and the proceeds are spent on Indian goods. Trade takes place across a virtually open border and its size is a matter of guesswork.

#### The Meaning of Development

11. Certainly in Nepal, as elsewhere, development connotes growth of income. Income per head is at present very low. Converting official figures into dollars per head is not a very satisfactory approach to saying how low; in default of some easily understandable measure of poverty, a comparison with India is probably as much as one can do.

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<sup>1/</sup> In common usage, Eastern means east of Kathmandu. The remaining two thirds of the country is divided into "Western" and "Far Western" (Map 2).



12. Agricultural income per head in Nepal is about the same as India's, perhaps a little higher. The surplus rice of the Terai and livestock products of the hills about make up for the varied production of cash crops, pulses and oilseeds in India. So if Indian income per head is put at 100 and agricultural income at 45 to 50 out of the 100, Nepal starts with a base of 45 to 50. But there is not very much to add. In the 1961/2 census 88 percent of households were recorded as agricultural and one can hardly expect much change since. Industry is still very small outside the usual run of rice mills. Services are an unknown quantity but certainly on nothing like the Indian scale. Income from forestry is certainly much larger per head, but how much is uncertain. To say that Nepalese income per head is of the order of three quarters of the Indian, is to make a wild guess, but it is hardly possible to do better in our present state of ignorance. 1/

13. National product has grown during the sixties but probably not faster than population by any but a small margin, if at all. On the other hand, Nepal has reaped some advantage from the improvement of its terms of trade, as have Indian farmers for the same reason. This may be part of the reason for the successful effort in recent years to raise public revenue and for the increase in private savings. Though additional opportunities exist, they are limited. At present government revenue just about covers current expenditure. For some time to come, most of the financial resources for development must come from abroad.

14. Platitudeous as it may be, one cannot escape from the observation that, in such circumstances, the husbanding of its resources and their efficient use is of peculiar importance to Nepal - much more so than in richer countries. But here two difficult, though not insuperable, problems have to be faced. One is that, in the last twenty years, Nepal has had to make a great effort to create a single economy - indeed a country - out of many small mini-economies whose connections, such as they are, are often as much with neighboring countries as with each other; nor is this effort by any means over. The second is that funds for development come almost exclusively from foreign aid and this leaves little room for manoeuver. The pattern of development is simply the sum of the projects and the services provided by the donors, whose different attitudes, special interests and administrative processes present Nepal with an additional complication in the allocation of the resources available to them.

15. In practice, most of the larger projects so far undertaken center around the Kathmandu valley, the Eastern Terai and, most recently, the Western Terai. The east-west highway (Mahendra-Rajmarg), which is planned for the whole length of the Terai, is already under construction eastward from the Birganj-Kathmandu road to the Indian border. Westward there is already one extension through the Rapti valley (part of the Inner Terai) and a start is being made on a further extension as far as Butwal.

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1/ See Annex I for further discussion.



16. The Chatra canal, a major irrigation project by Nepalese standards is under construction in connection with a much larger Indian project, on the Kosi in the Eastern Terai and should be finished in one or two years. There is a similar project in the Western Terai on the Narayani (or Gandak), but it is going very slowly. Besides these there are other irrigation projects for surface and groundwater under consideration in the Eastern Terai.

17. The only important infrastructure in the hills outside of Kathmandu consists of three roads. Two of them will end up in Pokhara, in the Western hills. Pokhara is an offshoot of the small but budding tourist industry and has a commercial airfield. One road, which connects Pokhara to Butwal in the Terai and Sunauli on the Indian border, is almost finished; the other, recently started, will connect it to Kathmandu. The third road, already finished, goes from Kathmandu to the Tibetan border. The last two projects are financed and constructed with Chinese aid.

18. Thus, there has not been much investment activity in the Eastern hills and virtually nothing in any of the Far West. Pressure to redress this is virtually inevitable. Development in Nepal is not only a matter of raising incomes but of unifying the country. The problem is to marry these two objectives in the most expeditious and least costly way, not to put an arbitrary priority on one of them nor to consider them in isolation from each other.

19. Since 1951 when the regime of the Rana family came to an end, Nepal has made great efforts to repair its century-long isolation. A nationwide structure of political and economic institutions has been created which is already a force for making the needs and aspirations of each part of the country heard. In 1962 a system of panchayats was established. These panchayats, which are elected in the villages and the 75 new districts, have been created not only as a form of political system but in order to generate initiative for development on the local level. On top of these is the Rastra Panchayat, or national panchayat. Administratively, the districts are divided into 14 zones, each with its zonal commissioner (Map 3). Many new government departments, a number of public corporations, a nationwide system of cooperatives and a university have also been created.

20. All this, coupled with the administrative inexperience especially in the earlier years, has evidently created problems of internal coordination and administrative effectiveness. Criticism of the weaknesses of this structure as an instrument of development is frank and not uncommon in Nepal, but it is a little unfair, even if it is true. Recently, the government has taken steps to remedy the situation. Panchayat training schools have been opened and courses given to panchayat leaders; but it is too much to expect that insight into the complexities of development and adaptation to new institutions would take place quickly. A panchayat, which builds a road that is washed out by the monsoon, is not to be blamed if it has no technical guidance. Superimposing newer institutions on the existing new structure in the hope that they will do better is not necessarily the answer - and there is a tendency to do this.



21. Real unification can only come through the creation of cheaper and quicker transportation for goods and men. In Nepal this substantially means the conservation of the few existing roads and the building of new roads, tracks and porter trails; these can also serve the purpose of growth of income. The critical questions and the difficult ones will be first where to build them and to what standards; and, secondly, what steps to take to get the maximum advantage out of them, once they are built.

22. Given the meager level of Nepal's resources, a nice balance has to be kept between the creation of infrastructure and expenditure to reap the benefits from it. At present, the balance is weighted on the side of creation of infrastructure, in some cases to standards of capacity which are not strictly necessary. Measures to make full use of it, such as the construction of feeder roads or the preparation for use of water from the canals to come, have not been taken.

23. It is here that the nature of foreign aid impinges on the problem. It is in the nature of foreign donors to prefer infrastructure as a channel of aid and, perhaps with the laudable motive of "doing the job properly", to overdo it. Nepal has a difficult task ahead, first in making its own decisions as to where resources should be allocated and secondly, in persuading the donors to go along with the priorities.

#### The Agricultural Economy

24. Agriculture and forestry provide employment to about 93 percent of the total labor force at the average rate of 2.3 agricultural workers per hectare on the 1.84 million hectares of net cropland. At Indian 1960/1 wholesale prices the gross value of output from crops and livestock was approximately IRs 1,200 per year per agricultural holding during the past three years. The per capita income was IRs 143, about the same as in India or a little higher. Over 8.6 million hectares is in forest land, alpine pastures and wasteland of which perhaps 400,000 hectares in the Terai would be productive cropland if cleared and converted. Forest land products include fuel, fodder and grazing for livestock, building materials, sawlogs, pulpwood and medicinal herbs. The gross value of forest products harvested is very uncertain but the volume probably is in the range of 30 to 40 million cubic feet each of sawlogs, mostly sal, and of fuelwood. At these harvest rates the value would exceed that for any other crop except rice; the potential harvest, no doubt, exceeds that of rice.

25. Since 1960, a number of institutions have been expanded or established to help stimulate a more rapid growth in agriculture, including forestry and fisheries. The Ministry of Agriculture and Food established departments for education and research, horticulture, livestock, fisheries and agricultural extension to perform research and service functions on farming problems and to extend this information to farmers. Eight research stations for cereals and cash crops and 17 stations for fruit and vegetable research have been established since 1963. More responsive wheat and potato varieties have been identified and the seed multiplied and distributed to farmers. The Extension Department has posted a District Agricultural Development Officer (DADO) in 43 districts and from 1 to 40 Junior Technical Assistants (JTA) in each district.



26. An Agricultural Supply Corporation was organized in 1966 as a public sector business firm to import or procure locally the agricultural production requisites needed by farmers. By 1969, over 12,000 tons of fertilizers, 1,500 tons of the improved cereal seeds and NRs 600,000 worth of agricultural implements had been distributed through a system of 44 cooperatives and 219 private dealers licensed as retail distributors.

27. Government funds were loaned to farmers through the Central Cooperative Bank and the system of local cooperative societies, starting in 1963. More than half the growth in the Cooperative Bank's services occurred in Kathmandu Valley. Over 80 percent of the loans were used for consumption purposes, and the majority were not paid when due. This led to the functions of this organization being transferred to a new institution, the Agricultural Development Bank in January 1968. Functions of the ADB were expanded to include providing loans and banking services to individuals, cooperative societies and agribusiness firms for agricultural development purposes. Branch banks were set up in 14 locations. From 1963 to March 1969, the Central Cooperative Bank and its successor the ADB had extended NRs 16 million in loans. Lending procedures require each farmer to get the approval of the JTA, the local panchayat and the local cooperative for the amount and use to be made of the loan, but in February 1969 overdue loans amounted to 24 percent of the loans outstanding and 17 percent of loans due.

28. Two additional new public sector corporations serving agriculture should be mentioned. The Food Management Corporation functions only when directed by government to purchase and distribute scarce consumer goods at subsidized prices. The Resettlement Corporation provides land and development planning services to refugees and surplus hill families who settle in the Terai and convert forested land to farmland.

29. Technical and financial services for minor irrigation are administered by the Ministry of Agriculture and Food. Projects with a capital cost of over NRs 300,000 are the responsibility of the Ministry of Power and Water. Since 1960 the cropland area with irrigation resources has doubled and now stands at about 9 percent of the gross cropped area. A major project is under construction on the Sapt Kosi. Economic feasibility studies are in progress for projects on the Sun Kosi, Kamla, Bagmati, Trisuli, Gandak, Karnali and Sarda rivers. Groundwater resources are being tested at Birganj and Janakpur and will be surveyed in the Western Terai.

30. All forest land areas in excess of 3.4 hectares are, by law, a part of the national forest and subject to management control by the government. These resources are administered by the Ministry of Forests with its staff organized by area and by function. The Ministry contracts for the sale of marketable timber and forest grazing rights, but revenues from these products accruing to the national treasury have, if anything, declined in the last five years and would appear to be far lower than they should be. Much of the harvesting is the consequence of encroachment on the forest or theft.

31. The Land Reform Ministry (formerly a part of the Ministry of Agriculture and Food) is responsible for land revenue and compulsory savings collections, the identification and recording of land ownership rights, land



ceiling laws, protecting the rights of tenants, regulating interest rates charged by money lenders and for registering and developing cooperatives. These functions of government have developed as Nepal has changed from a feudalistic to a private ownership economy since 1950, and mostly since 1962. By 1969, ownership had been identified and registered for over half of the estimated area of cultivated land. A ceiling, varying from 2.8 hectares in Kathmandu Valley to 16 hectares in the Terai had been established as the maximum area of cultivable land any individual can own. Under the Tenancy Act, the maximum rent due the landowner is calculated at 50 percent of the normal yield for the major crop produced, usually paddy. The maximum legal rate of interest has been set at ten percent per annum.

32. Under the law establishing the Compulsory Saving Corporation each landowner is required to deposit 86 kilograms of foodgrains or its cash equivalent of NRs 58 per hectare of cropland operated. <sup>1/</sup> Collections for 1967/8 in 34 districts were valued at NRs 95.4 million in kind and NRs 9.5 million in cash. An additional amount estimated at NRs 93 million had not been collected by the local panchayat Ward Committees because of lack of adequate staff or storage space, inept management and in some cases malpractice. The Ward Panchayat Committees reloaned NRs 80 million in kind and NRs 10 million in cash, mostly for consumption purposes, of which only 76 percent had been repaid. Operations of the Corporation were suspended in April 1969 pending an investigation of alleged malpractices.

33. Most of the growth in output in recent years may be ascribed to the activities of these agencies. A comparison of production in the period 1965/6 to 1967/8 with that in the period 1961/2 to 1963/4 shows no change for rice, maize and pulse; a 0.9 linear growth rate for foodgrains and a 1.8 percent growth rate for all crops. Growth in potato (18.2 percent), wheat (10.5 percent) and millet (4.2 percent) was responsible for most of the overall gain. A "best guess" is that 10-15 percent of the overall gain came from a shift of forest land to cropland, 40-45 percent from added irrigation, 20-25 percent from added fertilizer and the balance from other inputs including new varieties of wheat and potato seed.

34. Most of the growth of wheat and potato occurred in the Kathmandu Valley and Central Inner Terai, while most of the growth in jute, tobacco and sugarcane output was in the Eastern Terai. Most of the infrastructure added since 1960 is in these regions. The new roads, intensive land reform, agricultural credit, distribution of agricultural supplies, agricultural research and agricultural extension efforts each were concentrated here through special programs such as the Coordinated Agricultural Development Program and the Special Land Reforms District Program.

35. Nepal's leadership is fully aware that the "growing pains" of shifting from feudal stagnation to the beginning stages of growth and development have been severe. They have demonstrated their ability to identify errors and

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<sup>1/</sup> Absentee landlords pay NRs 38 and tenants pay NRs 20 per hectare. This is roughly 5 percent of crop value.



to adjust resource allocations and procedures toward a more effective and efficient approach. Despite this, many serious problems persist such as the low level of coordination between departments and ministries with responsibilities for agricultural development; the weakness of technical and managerial abilities of staff members in key positions; the malpractices in critical areas where major changes in the rights to money and land are involved; and the immaturity of the rank and file of staff. These difficulties are recognized and acknowledged by the government.

36. One must remember that twenty years ago most of the people with the ability to read, write and handle the arithmetic of administrative procedures were located in Kathmandu, isolated from the rest of the country and the outside world. By now, the new, young and relatively inexperienced staff has built an institutional framework that could facilitate the achievement of more rapid agricultural development. Weaker elements have been or are being changed or eliminated. The need is for guidance and time to solve the more pressing administrative problems and to achieve a more efficient use of available resources and additional capital to add resources where deemed feasible.

#### The Pattern of Trade

37. Unlike the Himalayas in the North, the southern border of Nepal is not a natural one. The Nepalese Terai is a continuation of the Indian Terai and the historic lines of communication run from the Indian Terai towns to the Nepalese Terai towns. In most parts the quickest route from one town in the Nepalese Terai to another is through India. For practical purposes Nepal's access to all its markets except China, is through India. The vast proportion of trade (about 90 percent) is with India. Indian rupees, which were formerly a legal medium of exchange in Nepal, are still freely convertible into and out of Nepalese rupees, and are used concurrently with Nepalese rupees in the Terai.

38. While there are certain trade regulations, these are frequently circumvented by smuggling along a border which is both difficult to police and even by these standards, inadequately policed. Trade arrangements between the countries are governed by the 'Treaty of Trade and Transit', drawn up in 1960, subsequently amended and due to be re-negotiated in 1970. Nepal is permitted to levy duties on imports and exports to India. It may also impose quotas or bans on the import of goods which are produced locally. India in turn does not impose general customs duties on import from Nepal in principle, but does levy a duty equivalent to Indian excise on particular products. For Nepalese imports from India a refund of excise duties is given, provided the goods have been purchased from a recognized Indian manufacturer or wholesaler.

39. There is an almost complete absence of data on trade between India and Nepal. The most recent published figures are for the year 1963/4. In 1963/4 the trade statistics show Nepalese imports from India of NRs 600 million of which about NRs 350 million was manufactures and the balance primary products. Textiles are not separately enumerated, but amounted to perhaps NRs 200-250 million. In the same year, total recorded exports to India were only NRs 300 million. Presumably the balance was paid for mainly through remittances and unrecorded exports.



40. It is generally estimated that Nepal exports between 200,000 and 400,000 tons of foodgrains (mainly rice) to India, with the higher figure applying to the most recent years. A rough valuation of this would be about NRs 450 million. In addition there are a number of other products exported, of which timber, mustard seed and ghee would be the most important. Total receipts from these products would be very roughly NRs 250 million. Re-exports of imports from third countries which are then transported either legally or illegally to India, might amount to as much as NRs 150 million. <sup>1/</sup> The total estimate for Nepal's exports to India might be around NRs 850 million.

41. Allowing for net remittances <sup>2/</sup>, miscellaneous exports and some accumulation of Indian rupees, the order of magnitude of imports might be NRs 1 billion. This would imply an increase of NRs 400 million during the period since 1963/4, assuming that the figures for that year are correct. Of this NRs 250 million could be the amount by which the value of foodgrain exports have risen. Prices of the goods India exports have remained relatively stable, whereas the prices of Nepalese exports, i.e. foodgrains have risen very rapidly in the intervening period. The Indian index of wholesale prices for foodgrains has nearly doubled between 1963/4 and 1967/8, while that for manufactures has risen by only 25 percent. Nepal has thus derived a very considerable advantage from movements in the terms of trade. The same quantity of foodgrains now buys 60 percent more manufactured goods. The balance of the increase in imports, NRs 150 million, is probably the consequence of other sources of exchange earnings such as re-exporting.

42. Although holdings of Indian currency of the Rastra Bank are likely to be only a small part of the total holdings of Indian rupees in Nepal, amounting as they do at present to about NRs 100 million, they form the key to Nepal's exchange situation and for policy purposes are perhaps one of the most important indicators in the economy. In June 1966, prior to the Indian devaluation and thus implicitly the Nepalese revaluation, Nepal had Indian rupee reserves of NRs 240 million. The devaluation loss was NRs 87 million; and the price advantage of Indian commodities led to a steady drain of Indian rupees despite the high tariff rates which were imposed. By November 1967, the Rastra Bank's holdings of Indian rupees had fallen to NRs 41 million and free convertibility was very clearly threatened - the fall of free convertibility on the Nepalese side would have precipitated a flight into Indian

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<sup>1/</sup> It may seem strange to suggest this value when total Nepalese imports from third countries are only valued at about NRs 100 million, but these goods carry a very high premium in India.

<sup>2/</sup> At the time of the census (1961) there were about 300,000 Nepalese living in India. If 150 - 200,000 were single men, in the Indian army, or working as 'chowkidars' (watchmen) in the cities - a figure for remittances of about NRs 150-200 million might serve to indicate the possible dimension of these remittances. While there are a large number of Indians working in Nepal many have their families with them and most are in very unskilled and low-paid jobs, e.g. agricultural labor and construction. Remittances might be perhaps NRs 50-100 million.



commodities and very rapidly a de facto devaluation. In December 1967, the Nepalese Government devalued and there has been a subsequent gain of Indian rupees with reserves coming back to about NRs 120 million in January 1969.

43. Except for border trade with Tibet, data concerning Nepal's trade with third countries is more readily available than that concerning trade with India. Nepal's recorded exports to third countries have grown at a prodigious rate since 1964/5 - rising from \$1.5 million in that year to almost \$10 million in 1967/8. This is still only about 10 percent of total exports but the proportion is steadily increasing. Of these exports (to third countries unless otherwise stated), nearly 90 percent consists of jute and jute products; the proportion between the two is about equal though there are year-to-year variations. The remaining items making up the total are very small but have fairly good growth prospects e.g. bristle, mica, curios, carpets, etc.

44. The reason why exports in general and jute exports in particular have grown so substantially is the import entitlement scheme introduced in 1962/3 for exporters to countries other than India. The present rates for manufacturers are 40 percent for raw jute, 55 percent for hessian and 65 percent for other jute products. For almost all other exports the percentage is 60. Manufacturers get a higher entitlement than traders from their exports, but their exports need not have anything to do with what they manufacture. Thus a stainless steel utensil manufacturer can buy raw jute on the market, export it and receive an import entitlement for 40 percent of the export value, while a general trader would only receive 20 percent of the export value if he does the exporting.

45. The import entitlement itself is divided into two parts. Say an exporter sells jute goods worth NRs 100; he then receives an import entitlement of NRs 65. Of this amount 60 percent (NRs 39) can be spent on whatever he likes. The remaining 40 percent (NRs 26) however, must be spent on so-called 'development goods'. There is a schedule of development goods, so liberal as to defeat the object of the exercise, which is presumably to channel imports into high priority fields. The import entitlement scheme works, because the imports obtained thereby can then be re-exported to India, either illegally if they are small high-value goods such as cameras, watches etc., or legally after some nominal processing is done in Nepal e.g. stainless steel utensils and synthetic fibers. The premium on import entitlements, which are not officially negotiable, can be as high as 100 percent. Some of the jute on which the import entitlements are earned is smuggled across in the first place from India. Nepal, of course, derives a net gain in hard currency and for that matter in Indian currency as well from these transactions.

46. There has now been an amendment to the Treaty between Nepal and India to deal with this situation. It has been agreed that Nepal should limit its exports of stainless steel and synthetic textiles to the level of 1967/8. This will not eliminate the possibility of smuggling goods obtained through the entitlement, into India. The Treaty is due to be re-negotiated in 1970, and hopefully some way can be found in which Nepal can earn her legitimate convertible currency requirements in some manner which contributes to the mutual benefit of both India and Nepal.



## INFORMATION MEDIA IN NEPAL

### Press

No newspaper in Nepal has as yet qualified for a position among the world's top ten. But the main ones are:

	<u>Newspaper</u>	<u>Circulation</u>	<u>Editor</u>
<u>English</u>	The Rising Nepal	8,000	B. S. Rana
	Commoner	7,000	Gopal Das
	The Motherland	1,200	M. R. Shrestha
<u>Nepali</u>	Gorkha Patra	25,000	G. P. Bhattarai
	Samaya	18,000	M. L. Shrestha
<u>Hindi</u>	Nepali	9,500	U. K. Das

There are a number of other small newspapers and periodicals. Among the latter is a monthly called Royal Nepal Economist, published in English and Nepali. It has a circulation of 500, and on last count was edited by B. R. Sharma.

### Radio

Radio Nepal broadcasts on short and medium wave in Nepali, Hindi, Newari and English. On a wild guess, I would estimate the number of receivers at perhaps 60,000 or so. But your guess would be equally acceptable -- and unreliable.

### Television

Alas, Nepal has none.







## OFFICE MEMORANDUM

TO: Mr. Jean-David Roulet

DATE: November 10, 1971  
(typed November 15, 1971)

FROM: Basil Kavalsky

SUBJECT: Nepal Economic Report for inclusion in President's Report of Tourism Project

1. The conventional indicators of economic progress are of little utility in a country like Nepal. In the first place there are few reliable statistics on output and fewer still which are available on a sufficiently current basis to permit assessment of short-term progress. Secondly, even if they were available they would not give an indication of qualitative changes, which in a country like Nepal, which is at the very first stages of the development process, must surely take precedence in any review of progress. The first road connecting Kathmandu, the capital, to the outside world was only completed in 1956, and some 90 percent of the population is still engaged in agriculture. These are the facts against which the progress made since the date of the last Bank Economic Report on Nepal (June, 1969) must still be viewed.
2. Nepal is a land-locked country forming a rectangle between India and China. The northern border is formed by the Himalayas, the central area consists of hills and valleys and the southern area, the Terai, is a natural continuation of the Indo-Gangetic plain, with a virtually open border between Nepal and India. These geographic and topographical factors have been the primary determinants both of the past economic structure and the new pattern which is developing. Some 90 percent of Nepal's trade is with India. India is also the major foreign donor, contributing some 50 percent of total aid. Even the balance of Nepal's trade which is not directly with India must go through Calcutta port. Given the open border on the one hand and Nepal's strategic importance as a buffer state between India and China on the other, it is apparent that there are a great many potential sources of tension inherent in the relationship between Nepal and India.
3. In view of this, perhaps the most satisfying and important achievement for Nepal in the past year has been the successful renegotiation of the Treaty of Trade and Transit with India. This Treaty, originally concluded in 1960 for ten years, was a device for giving special facilities to Nepalese manufacturers in the Indian market and also ensuring Nepal's transit rights. In the middle years of the decade, however, Nepal, seeking to diversify its exports to countries other than India, introduced an import entitlement scheme which permitted exporters to use a certain percentage of their receipts both for free imports from third countries and for a specified list of development goods. At the time this seemed a reasonable step for Nepal to take given the budgetary burden which direct export subsidies would have constituted.
4. Unfortunately, the import entitlement scheme did not serve only to stimulate Nepalese exports to third countries. It also provided a means of



exploiting certain general provisions in the Treaty of Trade and Transit to secure high profits through importing goods which were subject to import bans in India - such as stainless steel and synthetic textiles - and after minimal processing exporting these to India as Nepalese manufactures. The open border also made it difficult to prevent the smuggling of imported consumer goods into India and even of Indian export products, such as Jute, into Nepal for re-export as Nepalese exports. Since the import entitlements were only a percentage (varying as to commodity) of total export receipts, Nepal has been able to build up its exchange reserves during the past three years to around \$100 million in hard currencies, or over a year's imports from all sources including India, and something like 10 years' imports from countries other than India.

5. From Nepal's point of view, however, the trade has also had a number of drawbacks. It was largely organized by Indian merchants and the large profits were therefore not re-invested. The transit situation already difficult through the inadequacies of Calcutta port became still more difficult as customs officials applied rigorous checks, understandably, to both legitimate and other items. Perhaps most significantly, nothing was done in the late sixties about the urgent task of diversifying and promoting industries with high value-added in Nepal. The consequence has been that even the simplest consumer goods continue to be imported from India rather than being made locally. In addition, Nepal has not developed production in a number of areas where it apparently has a comparative advantage such as wood products, animal and vegetable oils and fats, and hydro-power.

6. In 1968 the Government of India began taking unilateral action to limit the export of stainless steel and synthetic textiles. The Nepalese government closed a loophole in their regulations which had permitted the duty-free import of 'gift parcels' containing goods which were subsequently smuggled into India. Protracted negotiation to find a solution acceptable to both parties continued through 1970, but after one extension the Treaty was permitted to lapse at the end of the year. The consequence of this was the application to Nepal of the same trade restrictions as applied to India's trade with third countries with the exception of a limited list of necessary items. India unilaterally limited Nepalese jute exports to an estimate of local production and relations between the two countries entered a difficult phase.

7. The conclusion of a new Treaty of Trade and Transit in June of this year is an important step in creating a sound basis for economic relations between the two countries which will permit Nepal's legitimate industries to develop along sound lines. The basis of the Treaty is a value-added formula which gives preference to items manufactured in Nepal which have high local value-added. The provisions of the Treaty are broad, however, and, while the spirit is fairly clear, India has at least potentially the right to limit the export to India of a very wide range of Nepalese manufactures which might compete with Indian industry including some in which Nepalese production would have comparative advantages. Fortunately there is every indication



that the spirit of the Treaty recognizes that Nepal's infant industrial sector will need access to the Indian market if it is ever to develop significantly. On the transit front too, India has made a number of concessions which should make this less of a bottleneck than it has proved at times in the past.

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8. All this would be/somewhat academic interest were it not that there is reason to think that Nepal is better placed than ever before to make a real effort at increasing both agricultural and industrial output and significantly increasing the very low level of per capita income of its population. In a strikingly short period the length of motorable roads in Nepal has been increased and continues to be increased. Journeys that took weeks by porter now take hours by truck. The East/West trunk network linking all parts of the Terai and obviating the former necessity of going via India from one part of Nepal to another, is almost half (the Eastern part) complete, thanks to Indian, Russian, U.S. and U.K. assistance. The Indian road to Kathmandu now goes through to the Tibetan border. This was completed by the Chinese who are also completing a road along the hills, westward to Pokhara. The thrust is now towards North/South roads which will link the hilly areas to the Terai plain. Two are being completed and others are being studied.

9. Aside from the impact these new roads will have on the administration of the country, they also represent the basic infrastructure for the development efforts. The new roads represent a focus around which agricultural production can be increased through easier supply of inputs and a market for output. Industrial production can now be geared to a much larger market than what was formerly just the Kathmandu valley. Economic exchange of complementary products between the hills and the Terai will also be possible, in particular the transfer of grain from the Terai to meet the food deficit in the hills. Nor are the roads the only available infrastructure. Power generating capacity has been expanded with Indian and Chinese assistance, considerably in excess of present demand. The telecommunications system has been expanded with Indian and World Bank assistance. A number of major irrigation canals, adjuncts of Indian projects along the southern border have been built.

10. This rapid expansion in infrastructure, provides the motivation for a shift in emphasis towards productive sectors in the new Plan. This is, of course, always more easily written than achieved. The proposals to raise agricultural production, set up new industries and exploit Nepal's rich potential in forestry and as a tourist venue, remain to be satisfactorily implemented. In this connection it is noteworthy that the three projects the Bank is presently at the most advanced stage of considering all come into this category of making use of the infrastructure already developed. In the past, efforts have been much too scattered. Horticultural research, for example, has been carried out in areas remote from any road and therefore any prospect of marketing local production. There is a realization of the need to concentrate efforts in areas where the transport system has been developed and as a corollary to develop the transport system in areas with the greatest economic potential.



11. Nepal is going, for a very long time, to be essentially dependent on agricultural production for the major expansion in its GDP. At present Nepal is a surplus foodgrain producer exporting around 300,000 tons of foodgrains a year to India. Production is estimated to have increased by about 2 percent per annum in the past few years or roughly the same rate as population growth. The exportable surplus has remained much the same. In the short run there is little doubt that very high returns should be available from increased foodgrain production. Yields are low and the irrigation capacity that has been created lies almost totally unutilized. The major task will be to make proper use of this capacity, through management, supply of inputs and extension services. In the last two years there has at least developed an awareness of the critical nature of these problems, though with insufficient supporting finance and facilities, and too little delegated authority. The links between research and extension remain weak. In the longer run, Nepal will need to diversify its agriculture to provide the cash crops for its industrial sector and to mitigate the expected decline in terms of trade for foodgrain exports to India. The first tentative steps in this direction are being taken at present.

12. The industrial sector in Nepal is tiny - some 2 percent of GDP. There are a number of Chinese and Russian aided factories in the public sector, few of these adequately managed. The lack of trained management personnel and skilled labour is a serious constraint on the progress of the sector, but there are a number of other difficulties as well. In the past the size of the market and competition from Indian producers have been sizeable problems, but these will be alleviated by the new roads and the successful conclusion of the Treaty. There are plans for a fairly rapid expansion of the industrial sector in the short run. There are obvious possibilities, in import substitution, particularly, e.g. food processing, textiles, etc. A great deal will depend on the appropriateness of government policy which has been as much of a hindrance as a help to industrial growth in the past.

13. In the long run, forestry and tourism offer Nepal's most promising hopes for earning convertible foreign exchange. Little use has been made of processing the country's forest resources, but the stage is now set with the initiation of land-use planning and proposed plywood and pulp and paper factories. Nepal's forests are being depleted due to the pressure on land in the hill areas. Migrants from the hills are moving down into the Terai, and particularly into regions from which malaria has only recently been eradicated or control begun. These squatters burn down forest areas indiscriminately and cultivate the land. This movement cannot be stopped in the short run, but it can be controlled. The government is taking steps to identify the most promising stands of timber and restrict settlement to other areas. Resettlement schemes are being organized for this group but cannot at present keep pace with the influx. In the longer run, economic opportunities other than subsistence farming will have to be developed in the hill areas to meet their needs.

14. The potential which exists for increased production and the availability of infrastructure will not in themselves be sufficient unless there is evidence of the organizational and administrative capacity which can make this a reality. In the past, public investment in Nepal has not been constrained by lack of resources, either external or internal. The limits of trained manpower and



organizational efficiency have been reached well before those of various donors. This is no longer true. It appears that in the next few years Nepal will face severe internal resource constraints. In addition there is some anticipation that the volume of foreign assistance (about \$25 million per annum), may level off rather than expand, relative to the Plan forecasts. The proportion of tax revenue to GDP in Nepal is very low indeed. This is understandable given the very high proportion of subsistence agriculture in total income and the sheer inaccessibility of much of the country for tax purposes. The government is heavily dependent on trade for its revenues and the recent trade difficulties led to a revenue shortfall in the region of 25 percent as compared to the budget estimates. While this is only temporary, some basic restructuring of the tax system will probably be necessary if the kind of resources which will be needed to match foreign aid and compensate for its failure to increase, are to be generated.

15. Perhaps the most striking and promising development in the Nepalese economy, indeed in the society as a whole, has been the increase in administrative capacity at all levels during the past few years. This has taken some time to show itself, and it would be idle to pretend that there is not still a long way to go, but overall the achievements go far beyond what one would have predicted only a short while ago. At that stage the administration seemed to depend on a limited number of very able Secretaries who received little support. The planning process was weak, and implementation weaker still. There was no co-ordination, and departments often seemed far more interested in stopping others from doing anything than doing anything themselves. This is changing. Planning cells have been set up in most of the operating ministries which have provided a broader focus to the work of the departments. A large number of younger people with local or foreign training have come into the ministries and departments with new ideas and a receptivity to change. A surprisingly effective administrative training centre has been set up in a very short time. The need for co-ordination has been realized and if it still remains largely informal there is evidence that a sense of priorities is beginning to pervade the government. The projects are being concentrated around the roads, and major emphasis is on utilizing the capacity which has been created.

16. One of the most important areas of change is the education sector. Nepal has only about 10 percent of its population literate. It is difficult to see development in the long run without a major improvement in education. On the other hand, it is already beginning to show signs of all the problems of an education system which is geared to producing university degrees for white-collar workers - usually in government. A firm stand is being taken with the introduction of a new education plan which aims at a considerable expansion of education but along vocational lines with major emphasis on agriculture. In addition, the plan will also aim at remedying the serious deficiencies in middle-level management. The three elements in this, firstly the education system, secondly the manpower needs of the country, and thirdly the whole structure of expectations and incentives, particularly in the public service, remain, however, to be tied together. It is hoped that this will be done and the plan effectively implemented.



17. All this should serve to illustrate that Nepal's economy has reached a critical stage at which the capacity to do things, both physical and administrative, has begun to measure up to the economic potential. That developments will now take place is far from being a foregone conclusion. A number of difficult steps will need to be taken and the quality and confidence which the administration has built up in the past few years will need to be maintained and improved. Nevertheless, given this, there is room for guarded optimism about the economic outlook.







SUMMARY STATEMENT OF  
IDA CREDITS TO NEPAL

(As of December 31, 1971)

(US\$ MILLION)				
<u>CREDIT NO.</u>	<u>CREDIT AGREEMENT</u>	<u>PURPOSE</u>	<u>AMOUNT</u>	<u>DISBURSED</u>
166-NEP	Nov. 10, 1969	Telecommuni- cations	1.7	0.26
223-NEP	Dec. 21, 1970	Highway	<u>2.5</u>	<u>0.02</u>
		TOTAL	<u>4.2</u>	<u>0.28</u>



K. Hideshima

NEPAL - Summary of History of the Relationship with the Bank Group (1960-69)

1. Nepal applied to join the Fund and Bank in 1960. Formalities took time to complete and Nepal's membership finally came into effect on September 6, 1961. When Mr. Black met the Nepalese Delegation to the Annual Meeting in 1961, he pointed out that Nepal was not creditworthy for Bank loans and suggested that Nepal join IDA. Nepal did so in March 1963. The first economic mission visited the country in November 1963.
2. In its report (AS-101a dated February 28, 1964) the economic mission concluded that because of the lack of suitable projects in Nepal and because of local administration's inexperience, the Bank contribution should be by way of technical assistance, mainly in transport and irrigation which appeared to be most promising areas for possible IDA assistance. The mission recommended that a Transport Survey be mounted.
3. The Staff Economic Committee, which considered the draft Economic Report in January 1964, suggested that air transport be given an important place in the transport survey recommended by the economic mission. Tourism development was specifically noted as not suitable for Bank/IDA lending or technical assistance.
4. Following the economic mission's visit, in January 1964 Nepal requested the Bank's help in financing the proposed transport survey. This request was approved by the Executive Directors in July 1964, and a mission visited Nepal in September/December 1964. The basic task of this mission was to produce a Five-Year Transport Sector Plan for inclusion in the Government's Five-Year Development Plan (1965/66 - 1969/70). The report was completed in June 1965.
5. During the 1965 Annual Meeting, Mr. Y.P. Pant, Alternate Governor, said that since the Government was receiving fairly substantial external assistance for road development, the Government wished now to get assistance in the field of civil aviation. The Bank delegation agreed to consider this request.
6. In November 1965, however, shortly before the departure of a pre-appraisal mission, Mr. Woods turned down the idea because he did not want the Bank to engage in lending for aircraft and airfields in a buffer state between two powers unfriendly towards each other.
7. This led to some strain in our relations with Nepal. At the Annual Meeting of 1966, the Nepalese Delegation expressed disappointment over the Bank's refusal to assist the civil aviation project. At the 1967 Annual Meeting in Rio, the Governor of Nepal reproached the Bank for neglecting small countries like Nepal and mentioned again the aviation project. It was only in 1969 that Nepal looked again to the Bank for assistance in the transportation sector. This led to the preparation of a highway credit which was approved by the Executive Directors earlier this month.



8. Besides the abortive civil aviation project, several possible projects had been discussed during the Annual Meetings of 1965 and 1966. Several Bank staff visited the country to assess prospects for these projects. These included: (1) an engineering college scheme in Kathmandu; (2) the Karnali hydro project; (3) the Sun Kosi irrigation project; and (4) a rural credit scheme in connection with the newly established Agricultural Development Bank. Following is a summary of events regarding these potential projects:

- (i) Due to divergent opinions within the government on the priority of the technical college scheme, no significant progress was made in bringing about a suitable IDA project. Subsequently, the Government submitted, in May 1969, a request to the UNDP for assistance in training of supervisors and skilled personnel for public works, and the suggestion to upgrade the Nepal Engineering Institute in Kathmandu to a technical college level has been incorporated in this proposed project, which was approved by the UNDP Governing Council in June 1970.
- (ii) The UNDP financed pre-investment studies of the Sun Kosi and Karnali projects were both carried out by Nippon Koei. The cost of the Karnali hydro project was estimated at between \$200 to \$300 million, an amount which IDA obviously could not finance alone. In addition, the power would have to be sold to India and no agreement was reached with India either on the rates at which India would buy the power or about who should control the facilities.
- (iii) Regarding the Sun Kosi irrigation project, the Nippon Koei has recommended the development of a master plan including several large-scale river diversion schemes, for which Nepal will have neither the means nor the qualified personnel in the foreseeable future. A UNDP/FAO evaluation mission in October 1969 suggested a re-orientation of the project with emphasis being shifted to small-scale projects. The Bank welcomed this idea. Current investigations are expected to lead to an IDA credit in the Birganj/Candaki area hopefully in FY 72.
- (iv) During the 1966 Annual Meeting, discussions centered around a rural credit scheme which would put to use funds obtained by the Government under its Compulsory Savings Program. The Government was interested in developing a lending program and enquired about the possibilities for IDA financing, in the event internal savings proved insufficient. The Bank delegation stressed the need for technical assistance, for which we would not necessarily be the most appropriate source. A subsequent Bank exploratory mission in December 1967 confirmed that financial aid would not be required for two or three years. In 1968 the Government approached the Asian Development Bank, which has provided technical assistance and is presently considering further assistance.



9. In April/May 1966, the Government also asked the Bank for assistance for telecommunications. The Government was contemplating carrying out a plan prepared by ITU experts under ECAFE auspices, for the construction of a microwave system stretching from east to west to cover the entire country. A Bank mission, in October 1966, felt that while this plan appeared too ambitious, there was reasonable justification for installation of such a system in the east (Kathmandu-Birganj-Biratnagar). Mr. Woods agreed to proceed with the consideration of this project. The Bank suggested in November 1966 that upon completion of detailed planning and engineering to be carried out by a qualified consultant, we would be ready to discuss with the Government the steps to be taken in formulating a project. Despite reminders in February and in July 1967, there were no reactions to this suggestion from the Government until the end of 1967. A project was subsequently prepared by an ITU adviser in 1968/69, which was appraised in January/February 1969. Negotiations took place in June 1969. However, it took four more months for the Government to finalize necessary requirements for the Board presentation. During the 1969 Annual Meeting, Dr. Bhekh Thapa explained that the reasons for the delays in proceeding Government action were chiefly due to Nepal's inexperience in dealing with the Bank and to the lack of familiarity with the Bank's type of agreements, since the project was the first Bank Group operation in Nepal. The Executive Directors approved the telecommunications Credit on November 4, 1969.

10. In addition to consideration of projects, Nepal's Minister of Finance Mr. Surya Bahadur Thapa, asked the Bank in 1964 to set up a consortium to coordinate external aid from Western sources and to help obtain favorable loan terms. This idea did not materialize because the Bank considered that Nepal would not qualify for a consortium or a consultative group sponsored by the Bank; firstly, the Bank Group had so far not lent to the country; secondly, a consortium or consultative group could only serve a purpose if some maturity had been achieved in economic planning and project preparation.

cc: Messrs. Cargill, Votaw, Melmoth, B.King, Roulet, Kavalsky, Hideshima.



Files

September 30, 1971

Pieter J.M. Bulters

NEPAL - Delegation Meeting with Mr. Cargill, September 28, 1971

1. Mr. Harihar J. Thapa (Acting Permanent Secretary, Ministry of Finance) accompanied by Mr. I.R. Pandey (Deputy Chief Controller) and Mr. Himal (First Secretary, Embassy of Nepal in Washington) met with Mr. Cargill in the morning of September 28, 1971. Messrs. Votaw, Melmoth, Blobel, Roulet and Bulters were also present.
2. The Delegation asked about the current status and prospects of the forthcoming Tourism and Birganj Irrigation Projects. Mr. Roulet replied that the appraisal report for the Tourism Project is being prepared. The draft report is expected by mid-October and it is hoped that negotiations will take place before the end of the year. The appraisal mission for the Birganj Irrigation Project will arrive in Kathmandu on November 8. Subsequent timing will depend to a great extent on the findings of the mission; the project is currently scheduled for Board consideration before the end of FY72. One of the major issues concerning the project will be adequacy of the arrangements with India. Mr. Cargill emphasized that this matter, which is essentially a question to be solved by the Governments of India and Nepal, is more likely to be a cause for delays than other project considerations. Mr. Roulet said that in addition to the two projects mentioned, a Plywood Project is under consideration. The project preparation report prepared by the IBRD/FAO cooperation program was received a few weeks ago and an Appraisal Mission is scheduled for next November. Government confirmation that this is suitable is still awaited.
3. Looking further ahead Mr. Roulet mentioned Forestry, a second Telecommunications Project and a second Highway Project as future possibilities for Bank Lending. The Highway Project could include maintenance and the construction of feeder roads, for which feasibility studies are being carried out. Mr. Thapa said that to his knowledge, the studies are progressing according to schedule. Mr. Thapa mentioned the new Education Plan prepared recently, Mr. Roulet recalled the visit last June by representatives of the Bank's Education Projects Department and the subsequent exchange of correspondence with the Government regarding project preparation.
4. Mr. Roulet asked about the Government's intentions regarding financing for NIDC, for which both the Bank and the Asian Development Bank are potential lenders. The Delegation confirmed that the ADB has been approached, mentioned that NIDC has experienced a shortage of funds in the past and that in view of NIDC's proposed investment program, there may be room for involvement of both institutions. Mr. Cargill explained that relations between ADB and the Bank are based on a concept of coordination rather than of competition and confirmed that the Bank has no objections to ADB's involvement in NIDC. He suggested that the easiest way to avoid a possible conflict between both



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institutions would be to ask Mr. Kirk to ascertain NIDC's and the Government's views.

5. Mr. Thapa confirmed Nepal's decision to increase its subscription in the Bank's capital. It was suggested that Mr. Kirk should follow up on the procedural steps needed to make the increase effective.

6. Mr. Thapa confirmed that relations with India have been seen favourable since the signing of the new Trade and Transit Treaty. He was not aware of the present status of the Telecommunications agreement. He explained that responsibility for Telecommunications has been included in the new Ministry of Communications and that the Nepal Telecommunications Board is expected to be converted into a corporation.

7. The Bank delegation stressed the increasing role being played by EDI in Nepal and in particular the proposed assistance to the forthcoming CEDA development course.

cc: Messrs. Cargill, Votaw, Melmoth, Elobel/Baneth, Haynes, Simmons, Cash, Vas Vasudevan, Takaramura, Parsons, Mahoney, P. French

Cleared with and cc: Mr. Roulet

PJMB:avm







NEPAL: FOREIGN AID RECEIVED, <sup>1/</sup> 1962/63-1971/72

(In millions of Nepalese rupees)

US\$1.00 = Nepalese Rupee 10.125

Countries	Second Three-Year Plan Period 1962/63-1964/65	Third Plan Period					Fourth Plan Period	
	Total	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71 <sup>2/</sup>	1971/72 <sup>3/</sup>
United States	194.5	57.9	34.9	32.2	45.2	46.9	65.3	67.2
India	104.3	93.0	77.6	95.9	152.6	168.9	149.5	150.0
Mainland China	46.2	16.2	24.6	26.2	33.8	48.5	65.3	69.1
United Kingdom	--	--	--	0.3	--	11.5	17.1	23.0
U.S.S.R.	87.5	5.0	4.0	3.1	2.5	3.3	3.5	6.0
Others	36.5	6.5 <sup>4/</sup>	0.1	0.7	0.6	4.6	38.9	132.2 <sup>5/</sup>
TOTAL	469.0	178.5	142.1	158.4	234.7	283.7	339.6	447.5

Sources: Budget Speeches; and data supplied by the Nepalese authorities.

- <sup>1/</sup> Data are on a disbursement basis. The bulk of aid received has been in the form of grants.  
<sup>2/</sup> Revised estimate as of End June, 1971.  
<sup>3/</sup> Budget estimate.  
<sup>4/</sup> Includes foreign loans of Nrs 3.3 million not classified by country.  
<sup>5/</sup> Likely to prove overestimation.







NEPAL: MAJOR PROJECTS FINANCED BY BILATERAL ASSISTANCE

US\$1.00 = Nepalese Rupee 10.125

COUNTRY	PROJECT	DESCRIPTION	TOTAL PROJECT COST (IN MILLIONS OF N. RUPEES)	STARTING YEAR	REMARKS
U.S.A.	East-West (Mahendra) Highway	Construction of 83 km road from Hetauda to Narayangarh	70.0*	1959	Completed in 1961
	Thangarhi-Dandelchura Road	Construction of 145 km road	120.0*	1969	Completion expected in 1973
India	East-West (Mahendra) Highway	Construction of 256 km road from Janakpur to Jhapa	200.0*	1966	Completion expected in 1972
	Sanauri-Pokhara (Siddhartha) Highway	Construction of 210 km road	150.0*	1964	Completed in 1970
	Kathmandu-Birganj-Raxaul (Tribhuban) Highway	Construction of 115 km road	89.6	1952	Completed
	Trisuli Hydro-electricity	Installation of 18,000 KW power plant	170.0*	1960	Completed in 1971
	Chatra Canals Irrigation	Irrigation of 80,000 ha. of land in Sunsari and Morang	102.0	1969	Under construction
	Gandak Irrigation and Power	Installation of 15,000 KW power plant and irrigation of 40,000 acres in the Western Canal. Irrigation of 115,000 acres in the Eastern Canal.	187.0*	1964	Western Canal - completed Eastern Canal - under construction
	Telecommunications	Provision of radio telephone link between Kathmandu and Calcutta.	127.6	1967	Completion expected in May, 1972.
	Kodari (Arniko) Highway	Construction of 104 km road	85.8	1963	Completed in 1966
China	Kathmandu-Pokhara (Prithivi) Highway	Construction of 176 km road	130.0	1968	Completion expected in 1972
	Sunkosi Hydroelectric	Installation of 10,000 KW power plant	100.0	1967	Completion expected in 1972.
U. K.	East-West (Mahendra) Highway	Construction of 122 km road from Narayangarh to Butwal	130.0	1969	Completion expected in 1974/75. Rs 58 million in growth, Rs 58 million in loan.
U.S.S.R.	East-West (Mahendra) Highway	Construction of 117 km road from Simra to Janakpur.	100.0*	1967	Completion expected in 1973

SOURCES: Fourth Five-Year Plan and data supplied by the Nepalese authorities.

\* Estimates.