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REPORT TO THE CONGRESS

United States Interests And Activities In Nepal B-177681

Department of State
Agency for International Development
Peace Corps
United States Information Agency

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MARCH 16, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-177681

To the President of the Senate and the
Speaker of the House of Representatives

This report, together with its separate classified appendix, provides an overview of U.S. interests and activities in Nepal.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Administrator, Agency for International Development; the Director, ACTION; and the Director, United States Information Agency.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
GNP	gross national product
PC	Peace Corps

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

UNITED STATES INTERESTS AND
ACTIVITIES IN NEPAL
Department of State,
Agency for International Development,
Peace Corps
United States Information Agency
B-177681

D I G E S T

WHY THE REVIEW WAS MADE

To help the Congress consider future allocations of U.S. aid to Nepal, including bilateral and multi-lateral forms of aid, the General Accounting Office (GAO) sought to identify U.S. foreign policy objectives in the country and provide an overview of the U.S. aid program and its effectiveness.

An overview of U.S. programs and activities was believed desirable because of Nepal's strategic geographical location between China and India.

FINDINGS AND CONCLUSIONS

U.S. interests and objectives

The basic U.S. foreign policy objective in Nepal reflects the broader Asian context wherein the United States seeks to assist in development and to contribute to peace and stability. The United States has no vested interests in Nepal. Trade between the two countries averages \$3 million annually and there is one private American investment of about \$250,000. (See pp. 7, 9, and 10.)

The Agency for International Development (AID) program is consistent with U.S. interests in Nepal. Its emphasis on manpower and institutional development also helps de-

velop the technical skills and the economic and administrative infrastructure necessary for Nepal to absorb capital assistance from other donors. A unique feature has been the use of U.S.-owned excess Indian and, to a small extent, Pakistani rupees for program financing. In fiscal year 1971, over 80 percent of AID's \$15.4 million program in Nepal was financed by these rupees. (See pp. 10 and 16.)

U.S. program strategy in the 1970s calls for an end to the present Indian and Pakistani rupee-financed AID program. U.S. technical assistance is to continue and AID plans to begin a development lending program in late fiscal year 1973. (See pp. 11 and 18.)

Current economic and political issues

India-Nepal relations have been and will remain the key to Nepal's development. Over 90 percent of its total trade is with India, and Nepal relies on India for trade and transit rights to seaports and overland routes. (See p. 23.)

Economic development and foreign assistance

With foreign aid financing most of its development effort, Nepal has made progress--though limited in relation to the needs of its people--from the low base starting point in 1951. At that time, Nepal had

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no civil service and virtually no schools, hospitals, roads, electric power, or industry. (See p. 12.)

The United States has contributed about \$166.5 million--including about \$81 million in Indian and Pakistani rupees--of the \$405.5 million total economic grants, loans, and credits extended by external donors to Nepal from fiscal years 1952 through 1971. (See pp. 12 through 14 and 16.)

Program coordination
and management results

Activities of the Department of State, AID, the Peace Corps (PC), and the U.S. Information Service in Nepal were well directed, supervised, and coordinated through the Country Team led by the American Ambassador. GAO believes that effectively managed U.S. programs have made a significant impact on Nepal's development, as well as contributing to its independence and stability as a buffer state. (See pp. 27 and 58.)

Assistance coordination and
international agency programs

GAO found no formal mechanism for coordinating external assistance to Nepal. Informal contact among the major non-Communist bilateral donors and the international agencies, particularly the AID Mission's efforts to exchange information, afforded some safeguards against duplication of efforts.

Major obstacles to a formal coordinating mechanism were: the probable noninvolvement of the People's Republic of China and the Union of Soviet Socialist Republics; the absence of Government of Nepal support; and Nepal's own weak coordinating mechanism. (See pp. 56 and 57.)

Multilateral financial institution programs in Nepal--the World Bank-affiliated International Development Association and the Asian Development Bank--were in such early stages that only limited observations were practicable. (See pp. 60 and 61.)

RECOMMENDATIONS OR SUGGESTIONS

With respect to the U.S. bilateral aid program, GAO suggested that:

- PC and AID expand present coordination efforts.
- AID consider the additional recruiting of former PC volunteers who qualify for staff positions.
- AID improve its system for evaluating technician performance. (See pp. 47, 53, and 54.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

AID agreed generally with the suggestions contained in the draft report. (See p. 72.) It also commented that:

"The report gives a comprehensive summary of the past twenty years of U.S. aid efforts, and with few exceptions, we find no differences between the GAO findings and our own view as to the purpose and implementation of the program."

The Department of State submitted comments which were classified and therefore were not included in this report. They are contained in the classified appendix to this report. The Department's comments were considered in preparing this final report and appropriate revisions were made.

MATTERS FOR CONSIDERATION
OF THE CONGRESS

The Congress may wish to consider the future funding of the Nepal assistance program, of which almost half has been financed with U.S.-owned Indian rupees. India has been unwilling thus far to

extend its longstanding agreement for such use of rupees beyond fiscal year 1973. Unless rupee support is continued, dollar financing would need to be increased if the assistance program is to continue at its present level. (See p. 22.)

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CHAPTER 1

U.S. INTERESTS AND POLICY

Nepal lies along the southern slopes of the Himalayas. It is 500 miles long and 100 miles wide, about the size of North Carolina, and has about 12 million people. Of central economic and political importance is the country's landlocked position between two gigantic countries--India and the Peoples's Republic of China. It has three separate physical regions, each running laterally the length of the country. The Terai in the south is a hot, flat, fertile plain shared with India. Most of the people live in the temperate hill country, which includes Kathmandu--the capital city and hub of political life. Few people and frigid arctic winters characterize the Himalayan northern region that borders China.

THE SETTING AND OBJECTIVES OF U.S. POLICY AND PROGRAMS

The United States has no vested interests in Nepal. Trade between the two countries averages about \$3 million a year, and there is one private American investment of about \$250,000. U.S. foreign policy and programs are set in the framework of Nepal's striving to maintain its independence amidst factors leading to economic, political, and cultural dependence on India or China.

Nepal has faced these problems since the mid-18th century, when it had to resist pressures from British-controlled India and the Chinese presence in Tibet. Nepal's leaders traditionally pursued an isolationist policy which prolonged the country's feudal social system and subsistence economy and cut it off from modernizing influences until 1950. Present-day Nepal still perceives its geopolitical situation in terms of a long tradition as a buffer state and has deeply ingrained attitudes toward the policies and tactics required to maintain its political and cultural integrity.

(Classified material discussing Nepal's relations with India and China was deleted. See classified app. VII, p. 2.)

Nepal has advanced its independent status by

- playing a larger, balanced role among nonaligned Afro-Asian nations in U.N. councils,
- actively seeking foreign assistance from many bilateral donors and international organizations,
- expanding diplomatic relations, and
- allowing more tourism and attempting to diversify trade.

U.S. objectives and programs

(Classified material discussing U.S. interests and policy objectives in Nepal was deleted. See classified app. VII, pp. 3 and 4.)

(Classified material commenting further on U.S. objectives and interests in Nepal was deleted. See classified app. VII.)

The AID program is consistent with U.S. interests in Nepal. At the same time, its emphasis on manpower and institutional development helps develop the technical skills and the economic and administrative infrastructure necessary for Nepal to absorb capital assistance from other donors. The AID program for fiscal year 1971 totaled \$15.4 million, over 80 percent financed by U.S.-owned Indian and, to a small extent, Pakistani rupees derived from Public Law 480 agricultural commodity sales to those countries.¹

¹Rupee financing and attendant problems are discussed in ch. 2.

PC program activities, including about 160 volunteers, added \$1.2 million to total U.S. assistance in fiscal year 1971.

Need for continuing AID program

(Classified material discussing the rupee financing and other aspects of the AID program was deleted. See classified app. VII, p. 5.)

CHAPTER 2

ECONOMIC DEVELOPMENT AND FOREIGN ASSISTANCE

Nepal has made progress in the development of its infrastructure from its low base starting point in 1951, when it had no civil service and virtually no schools, hospitals, roads, electric power, or industry. However, progress has been limited in relation to the needs of its growing population. The latest statistics indicate that its 1969 per capita gross national product (GNP) was about \$80, compared with \$110 for India and Pakistan and \$190 for Ceylon. Moreover, the average annual growth rate of Nepal's per capita GNP was 0.4 percent during 1960-69 while the population growth rate was about 1.8 percent. Nepal's per capita GNP growth rate also appears small in comparison to those estimated for several nearby countries: about 2.9 percent for Pakistan, 1.1 for India, 2.1 for Ceylon, and 0.8 for mainland China.

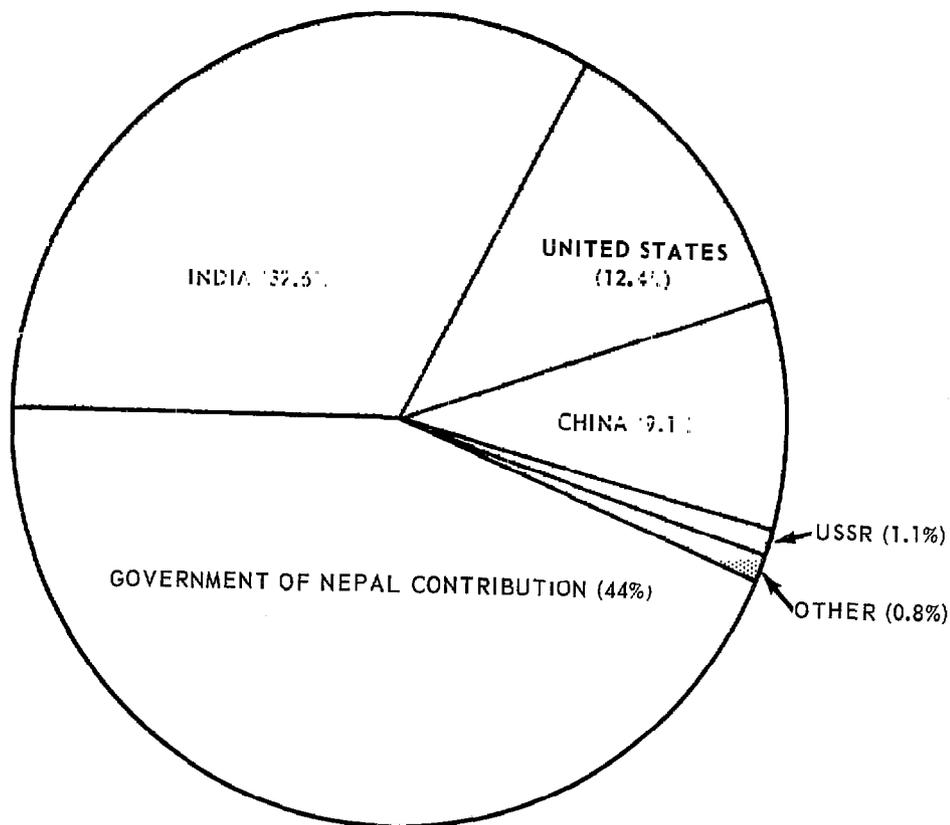
Although Nepal's per capita GNP growth rate was among the lowest of all countries having a population of 1 million or more, the Asian Development Bank reported in April 1971 that Nepal had made notable gains in some fields of economic development.

Though financing most of Nepal's development, foreign aid alone cannot transform a traditional custom-bound society that presents a considerable counterforce to development and it cannot establish the modern institutions needed for economic progress. The problems facing AID today include Nepal's resistance to change and its limited ability to handle development programs. (Development progress and problems are discussed in connection with AID project management in ch. 4.)

DEPENDENCE ON FOREIGN AID AND AID TRENDS

Nepal has been, and will probably remain, heavily dependent on foreign aid financing for economic development. As shown below, 56 percent of the development budget was financed by grant foreign assistance over the fiscal 5-year period 1966-70. The percentage is expected to increase to 58 percent over the 5-year period 1971-75.

**DEVELOPMENT BUDGET FINANCING OF
THE GOVERNMENT OF NEPAL DURING
THIRD FIVE YEAR PLAN PERIOD (1965/66-1969/70)**



 FOREIGN AID (56%)

From fiscal year 1952 through fiscal year 1971, Nepal received about \$405.5 million in grants, loans, and credits.¹ The U.S. contribution of about \$166.5 million, including about \$81 million in U.S.-owned Indian and Pakistani rupees,

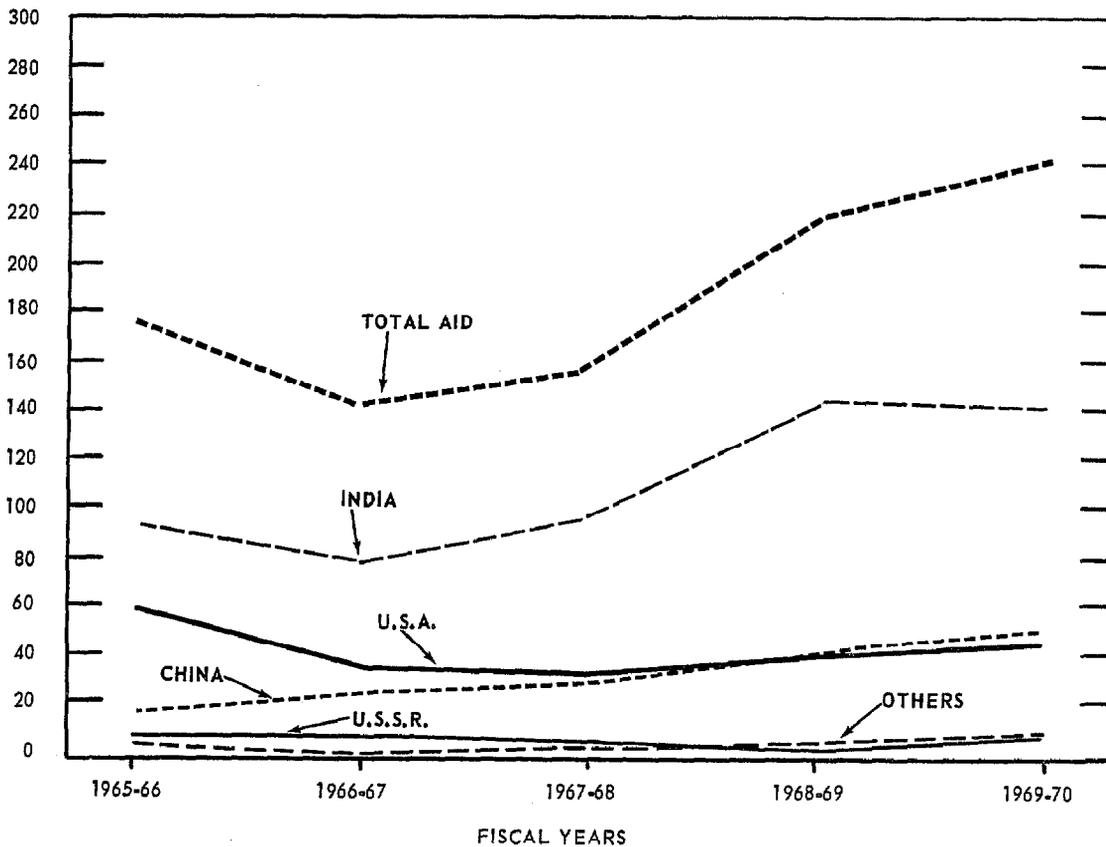
¹Basic data from a May 1971 estimate prepared by the U.S. Mission, which consists of the American Ambassador, Embassy officers, and the heads of AID, Peace Corps, and United States Information Service. We updated amounts of U.S. and international organization aid through June 1971. The Mission noted that, although major donor program totals were believed accurate, others were less accurate or were unavailable. App. I shows the foreign assistance estimate by donor.

is still the highest from any donor, and the U.S. was the largest single donor until fiscal year 1966. Nepal's geographical position, however, inevitably determined that Chinese and Indian aid would play critical roles in Nepal.

As shown in the following chart, India's aid has surpassed U.S. aid every year since fiscal year 1966. China's aid was greater for the first time in fiscal year 1970. Russia's aid has remained at a relatively low level.

TREND OF FOREIGN ASSISTANCE IN DIFFERENT YEARS 1965-66 THROUGH 1969-70

MILLIONS OF NEPALI RUPEES*



*NR 10.125 = U.S. \$1

The preceding charts must be regarded with caution although they do give an approximate indication of the volume, trend, and relative contributions of major donors' grant aid. The United Nations Development Program (UNDP) Resident

Representative has found that the various aid missions consistently report higher aid levels than Nepal records in its annual budget. Costs of fellowship programs, experts' and advisors' salaries, and supporting services are omitted from Nepal's estimates. For example, United Nations estimated total grant assistance for calendar year 1970 at \$42.9 million, about 76 percent higher than Nepal's fiscal year estimate.

DONOR MOTIVES AND PROGRAMS

(Classified material commenting on donors' motives was deleted. See classified app. VII, p. 6.)

United States

(Classified material discussing U.S. assistance rationale deleted. See classified app. VII, p. 6.)

AID and predecessor agency programs from 1952 through fiscal year 1971 accounted for \$153.2 of the \$166.5 million total U.S. assistance. AID's assistance has been primarily by grant, as has the assistance of other major donors except for the international lending agencies. Loans represent only \$7.6 million of the total AID assistance. Following are major areas of AID assistance since 1952.

Transportation	\$25.5 million
Agriculture	19.1 million
Family planning and public health	18.9 million
Industrial and power development	18.8 million
Education	17.4 million

The PC program has amounted to \$11.4 million from inception in 1962 through fiscal year 1971.

In fiscal years 1960 through 1971, the AID program consisted of two elements (1) dollar-financed technical assistance, U.S. commodities, and participant training, totaling about \$35.2 million, and (2) U.S.-owned Indian and Pakistani rupee financing equaling \$81 million.

Indian and Pakistani rupee financing

Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, as amended, 7 U.S.C. 1691) provided for the sale of U.S. agricultural commodities abroad for foreign currencies. Although there is no title I commodity sales program in Nepal, the country has benefited from the rupee proceeds of such programs in India and Pakistan. Also, the United States donated to Nepal--under title II of Public Law 480--about \$6.5 million worth of agricultural commodities for emergency food relief during 1954-71.

Since the mid-1960s, AID has financed the major part of its Nepal program with U.S.-owned, U.S.-use Indian and Pakistani rupees. These are allocated by the Office of Management and Budget to AID under section 104(g) of Public Law 480, which provides for the purchase of goods and services for friendly countries. Nepal's close economic ties with India, designated by the Treasury Department as an excess currency country, have made it advantageous for the United States to use Indian rupees with India's consent for Nepal's development. Also, Pakistan has agreed to permit the use of Pakistani rupees for training Nepalese at Pakistani institutions. The Congress has authorized without appropriation the use of these foreign currencies derived from agricultural commodity sales. Since 1960, AID has obligated an \$80.8 million equivalent in Indian rupees and a \$0.2 million equivalent in Pakistani rupees.

The rupees are channeled through Nepal's development budget for mutually agreed-upon projects in which U.S. and Nepalese funds are jointly administered. Although ostensibly provided on a project-by-project basis, Indian rupee aid is, in effect, used partly to finance Nepal's purchases of supplies and equipment in India for development programs and partly to finance its overall balance of payments with India.

The use of Indian rupees in Nepal is the result of bilateral negotiations between the United States and India. An AID General Counsel's opinion was that India's agreement is necessary for the United States' current financing method, which amounts to general budget support for Nepal.¹

(Classified material discussing India's reaction to the use of U.S.-owned rupees in Nepal was deleted. See classified app. VII, pp. 7 and 8.)

¹Section 104(g) of Public Law 480, as amended, allows the United States to use funds "for the purchase of goods or services for other friendly countries." AID General Counsel's memo of August 31, 1970, raised a question of whether the U.S. technique of support for Nepal was a particular style of financing purchases of goods and services by the United States for a friendly nation or whether, because of the transfer of funds and general support of Nepal's programs, it was something more. It appeared to the AID General Counsel that the legislative history leaned toward straight purchase of goods rather than to the budgetary support technique. In his opinion, however, the present system was within statutory limits as long as it had India's consent.

(Classified material commenting on a proposed alternative way of using U.S.-owned Indian rupees in India for support of the Nepal program was deleted. See classified app. VII, p. 8.)

Agency comments

In commenting on a draft of this report on October 24, 1972, AID informed us, concerning the continued use of Indian rupees for the AID program, that:

"This assessment by GAO was correct, as India has not been willing thus far to extend its longstanding agreement for such use of U.S.-owned Indian rupees beyond FY 1973. As a result, AID is using dollars to finance local currency costs of the bilateral assistance program which, consistent with AID's perception of its changing role in Nepal's development, is focused on selected areas in education, family planning, agriculture, public administration and transportation."

Early in December 1972, AID officials informally advised us that they did not expect U.S.-owned Indian rupees to be available for the Nepal program in the future [beyond fiscal year 1973].

(Classified material consisting of AID and Department of State comments on our proposed alternative use of U.S.-owned Indian rupees was deleted. See classified app. VII, p. 9.)

If the Government of India wishes to terminate the use of U.S.-owned Indian currency in the Nepal program, we believe that AID will have no alternative but to conduct an all-dollar-financed program after fiscal year 1973.

India and China

Indian and Chinese aid began in 1951 and 1956, respectively. Many projects reflect the donors' political, strategic, and economic interests and rationale for providing aid. For example, both countries built roads linking Kathmandu with their respective borders and having obvious strategic value. India is also working on two major "joint-use" water development projects along Nepal's southern border. Allocating the benefits from these projects has been a source of some dispute between the countries. Indian support for the Nepalese university can be considered either political or a response to a valid need for a higher level educational institution in Nepal. Projects in horticulture, livestock, and agriculture parallel similar projects in India.

India has assisted in many areas but has concentrated on capital assistance for major projects in road construction, airport and power development, education, and communications. In November 1971 the Director of the Indian Cooperation Mission in Nepal expressed hope that the program would continue at about the current level but would probably lean to more technical assistance than in the past.

China has provided cash and commodity aid for development projects--primarily road and powerplant construction. Other projects include a leather and shoe factory and a brick and tile factory. Chinese aid will probably continue at least at the current levels. New agreements with China include cotton cultivation surveys and additional road construction.

U.S.S.R.

Russian aid began in 1959 and has served its longer term goals of supporting Nepal's nonalignment policy, offering an alternative to economic reliance on the West, and strengthening the state sector of the economy. The U.S.S.R. has concentrated on projects and assistance to state industry that include road and power construction, a sugar mill, and a cigarette factory. In 1971, it promised Nepal additional aid over its annual level of about \$500,000. Proposed projects include additional highway construction, a pulp and plywood factory, and fruit processing plants.

Other bilateral donors

(Classified material commenting on some smaller bilateral programs was deleted. See classified app. VII, p. 10)

Some of the programs and areas of emphasis of other donors are:

<u>Donor</u>	<u>Area of emphasis</u>
United Kingdom	Education, agriculture, and road construction
West Germany	Agriculture, industry
France	Tourism, agriculture, medicine, and education
Japan	Agriculture, medicine, and small industry

Practically all bilateral donors also offer training programs for Nepalese to study abroad.

MULTILATERAL AID

The U.N. agencies and international financial institutions have been active in practically all economic sectors, and the rapid growth in their resources has allowed significant expansion of their programs from \$1.3 million in fiscal year 1965 to \$11.1 million in fiscal year 1970. International financial institution participation (Asian Development Bank) and the World Bank-affiliated International Development Association accounted for most of this growth, but the U.N. agencies increased their programs from \$1.3 million to \$3.4 million.

Further increases are foreseen. The UNDP Resident Representative told us in November 1971 that, by the end of 1972, U.N. programs should have an annual input of \$6 million to \$7 million. The World Bank established a resident office in Nepal in mid-1971. Its representative was optimistic during our discussion in December 1971 about future project financing. A favorable and unique situation among developing countries is Nepal's low debt-service burden, according to the Bank representative. The International Development Association currently has only two active projects--telecommunications and highway construction--totaling \$4.1 million but is considering four additional projects for a total of about \$15 million.

The Asian Development Bank has been most active, with financial commitments totaling \$13.3 million since inception in fiscal year 1970. Projects involve industry, air transport, and agriculture. The Bank is currently considering several major projects in irrigation and airport expansion.

(Classified material discussing the international agencies' development potential in Nepal was deleted.

See classified app. VII, p. 11)

MATTER FOR CONSIDERATION OF THE CONGRESS

United States and India negotiations on the use of Indian rupees in Nepal were in progress when we began our fieldwork. We were told that we would be apprised of the results when negotiations were concluded. Thus far, India has been unwilling to extend its longstanding agreement for such use of rupees beyond fiscal year 1973. This matter may be of interest to the Congress because such a significant portion--almost half--of the U.S. program in Nepal has been financed with U.S.-owned Indian rupees. If the use of these rupees is lost, dollar financing would need to be increased to continue the assistance program at the present level.

CHAPTER 3

CURRENT ECONOMIC AND POLITICAL ISSUES

India-Nepal relations have been and will, for the foreseeable future, remain the real key to Nepal's development. Besides the political factors involved, there is also Nepal's continued high percentage of trade with India and its dependence on India for transit rights to seaports and overland routes. Most foreign investment is of Indian origin. Moreover, large numbers of Indians have settled in and developed the agriculturally productive land of the Terai, which produces most of Nepal's exports.

Trade with India still accounts for 90 percent of Nepal's total trade even though this percentage has been decreasing. The proportion of recorded exports to India to total exports was 95 percent in fiscal year 1968, the most recent trade statistics available, compared with 98 percent in fiscal year 1964. The proportion of imports from India was 90 percent in fiscal year 1968, compared with 99 percent in fiscal year 1964. One factor contributing to this decrease has been Nepal's program of import substitution for such items as cigarettes and shoes.

There has also been a large increase in the value of trade between the two countries, \$52.6 million in fiscal year 1960 to \$81 million in fiscal year 1968. Trade with other countries increased tenfold but in absolute terms was not nearly so significant. Trade growth with other countries reflects Nepal's policy of diversifying trade, geographically and by commodities, coupled with various trade promotion measures, such as the export bonus scheme. Under this plan, exporters are allowed to retain from 30 to 90 percent of the foreign exchange earned. The foreign exchange can then be used to import commodities, including nonessential goods which generally bring premium prices on the domestic market. Indian officials have claimed that these commodities are smuggled into India.

Most of the goods imported from India are essentials, such as petroleum products, cement, and machinery. Conversely, goods from other countries generally include non-critical items and often nonessential goods. The photo on page 25 illustrates one way in which hostilities between India

and Pakistan in December 1971 affected Nepal. During our field review, we observed

- a salt shortage that was partly alleviated by imports from China,
- kerosene oil and gasoline rationing, and
- increased prices on some food items.

Nepal also depends on India for access to an overland route and seaport facilities. All imports and exports to countries overseas are subject to Indian scrutiny, which makes Nepal susceptible to India's advice on what should be imported or exported. In the India-Nepal trade and transit agreement of August 1971, India reserves the right to stop the transit of all goods, if it considers that Nepal is importing more than its requirements or exporting more than its available surplus. As a recent independent study¹ pointed out, Nepal is still:

"a virtual adjunct of the Indian economy, badly exposed to developments in India that are beyond Nepal's capacity to influence, much less determine."

There is little, in our opinion, that will change this situation in the foreseeable future.

POLITICAL DEVELOPMENT

Nepal has traditionally been a tightly centralized monarchy. King Mahendra, who came to power in 1955, permitted free elections in 1959 in an attempt to form a Western-style democracy. This was short lived, however. In December 1960 he dismissed the elected government, imprisoned or exiled the political leaders, and resumed direct control. Most political prisoners have since been released and the exiles pardoned. In place of Western-style democratic institutions, the King established a partyless system of panchayat or village council democracy, over which he exercised broad powers until his death in January 1972.

¹Leo Rose, Nepal--A Strategy for Survival: 1970.



**PEOPLE RECEIVING THEIR SALT RATION
KATHMANDU, NEPAL**

(Classified material discussing Nepal's political development and prospects was deleted.
See classified app. VII, p. 12.)

(Classified material discussing a recent U.S. Mission assessment of Nepal's political situation was deleted.
See classified app. VII, p. 13.)

CHAPTER 4

U.S. PROGRAM COORDINATION AND MANAGEMENT RESULTS

Activities of the Department of State, AID, PC and U.S. Information Service in Nepal are well directed, supervised, and coordinated through the Country Team led by the American Ambassador. Weekly meetings among Country Team members are superimposed on frequent informal contacts at various levels. AID staff meetings are regularly attended by an Embassy representative and, less frequently, by PC and U.S. Information Service representatives.

We were told that the Ambassador personally reviewed annual program and budget presentations submitted by AID, PC, and U.S. Information Service. The heads of the agencies told us that there was no basic conflict between their agencies' objectives and U.S. foreign policy goals. Accomplishment of program objectives lends support to the attainment of the U.S. foreign policy goals of contributing to development and helping to preserve peace in the area.

AID's accomplishment of its program objectives of assisting Nepal--to build infrastructure for agricultural production, upgrade and expand the education system, create a public family-planning program, eradicate malaria, and modernize public administration¹--and PC's effectiveness in achieving its basic objectives--cross-cultural contact and development assistance--help achieve U.S. foreign policy goals.

(Classified material commenting on factors affecting the achievement of U.S. foreign policy goals in Nepal was deleted. See classified app. VII, p. 14.)

¹AID objectives in Nepal from the fiscal year 1971 congressional presentation.

CURRENT AID EMPHASIS AND INPUT

In Nepal AID emphasizes technical assistance to agriculture, family planning, and education. These activities amounted to \$1.7 million, or 90 percent of AID project dollars obligated and a \$3.5 million equivalent, or 27 percent of Indian and Pakistani rupees obligated, during fiscal year 1971. AID also provides technical assistance in malaria control and public administration.

Capital projects receive AID support through Indian rupee allocations. In fiscal year 1971, a \$7.6 million equivalent--including a \$4.5 million grant for airports--was allocated. AID and Nepal priorities, as outlined in the Government of Nepal's fourth Five Year Plan (1971-75), are roughly parallel in sources of financing and in forward funding for AID's family planning and airport efforts.

AID provides 10 percent of Nepal's development budget; the remainder is obtained from other donors and Nepal itself. During fiscal year 1971, AID financed the following sector percentages of Nepal's development budget.

<u>Sector</u>	<u>Percent</u>
Agriculture	19.8
Health	31.4
Education	10.0
Power	12.9
Transportation	7.6

In view of the fact that Nepal both manages and partially funds AID projects, AID input--funds and technicians--can reasonably be expected to have no more than an accelerating effect on Nepal's progress in any economic sector. Nor can AID assure the success, or prevent the failure, of its projects. Nepal also provides qualified or trainable personnel and makes policy for achieving project goals. Some AID technicians we interviewed felt that results were largely dependent on the Nepalese counterparts who worked on the projects and on support received from the Government's officials. Several technicians considered the Nepalese contribution to be more decisive, in terms of project results, than U.S. budget support funds, which they generally agreed raised the probability of project success.

BUDGET SUPPORT FOR ECONOMIC DEVELOPMENT

Most of the AID technical assistance projects in Nepal receive budget support in the form of U.S.-owned Indian rupees which the Government of Nepal exchanges for Nepalese rupees to be used for project costs. Budget support ranged from 51 to 86 percent of the projects' operating budgets in 1971, and AID provided advisors' services, commodities, and participant training. Several technicians believed that it would be difficult to continue the projects if budget support was dropped (as a result of phasing out the use of U.S.-owned Indian rupees) and doubted that Nepal could provide the displaced resources. Technicians also said that the budget support provided through U.S.-owned Indian rupees made the advice of AID technicians more acceptable and that without it some advisory services might not be wanted.

The net effect of Indian rupee aid may not always be positive, however. A 1968 AID evaluation of U.S. programs in Nepal studied the overall impact that U.S.-owned Indian rupee aid expenditures had on Nepal's economy. The study concluded that an attempt to carry out an expanding development program by financing it with Indian rather than Nepalese rupees could generate substantial inflationary pressure, much the same as a rapidly expanding deficit budget.

DEVELOPMENT PROGRESS AND U.S. ASSISTANCE

Agriculture

Agriculture continues to be the most important sector of the Nepalese economy. Ninety percent of the people depend on agriculture, and agricultural exports account for 65 percent of total exports. Development progress is being made. Food-grain production increases averaged 2 percent annually over the 8-year period ended July 1970.

Despite increases in the use of new and improved agricultural input, such as fertilizer and improved seeds, production is still heavily dependent on favorable weather. For instance, according to an international organization study, it was expected that the 1970-71 wheat production would show a 24-percent decrease due to poor weather.

AID and international organization reports point out that some of the problems confronting progress are

- opposition to changes required by modern technology, such as use of fertilizers and new varieties of seeds,
- poor distribution of agricultural input and output because of Nepal's inadequate transportation and communications systems, and
- inadequate research and extension.

Agricultural production may also not be keeping pace with population growth. Estimates of population growth range from 1.8 to 3 percent annually--the higher estimate being well above the indicated agricultural growth rate. (See p. 38 for discussion on the family planning program.) There is also an imbalance between food production and population density. One-third of the population live in the Terai area and produce two-thirds of the food. The other two-thirds of the population live in the hill area and produce the remaining one-third of Nepal's food. Because of poor transportation within Nepal, the surplus food grain from the Terai is exported to India while the population in the hill area exist at a subsistence level. According to a March 1971 Asian Development Bank study, the Indian market may be increasingly threatened by India's coming self-sufficiency in food production.

The United States has assisted agriculture in many ways, including helping to build agricultural institutions, improving crops and livestock, and making groundwater investigation. In addition, AID's participant training program has trained over 300 Nepalese in agriculture and natural resources.

Food grain technology

AID is currently helping to improve Nepal's agricultural technology by (1) developing five research farms, (2) assisting the extension service, and (3) studying problems of on-farm storage and marketing. The project began in 1957 and should be completed by 1974. Costs through fiscal year 1971 were \$2.9 million and a \$6.2 million equivalent in Indian and Pakistani rupees.

AID's effort is concentrated in the already surplus-producing Terai. The Terai-versus-hills question has been debated within AID since at least 1968, but AID is still skeptical about any major effort in the hills. According to the Chief of AID's Food and Agriculture Division, two major reasons why AID stays out of the hills are the limited transportation facilities and present technological limitations concerning the types of seed, fertilizer, and irrigation needed for successful hill agriculture.

We learned in Washington that, although AID was not engaged in a specific project in the hills, a specialist from the International Maize and Wheat Improvement Center was conducting research in corn breeding. This research is expected to make a significant contribution to agriculture in the hills, where corn is the major crop.

Progress has been made in agricultural extension and research. Land has been leveled and necessary buildings constructed on three research farms, and four research farms have been adequately irrigated. Extension activities are concentrated in 25 of Nepal's 75 districts, and Nepal has provided funds for farmers to tour the research farms. Also, 25 experimental onfarm storage bins were constructed for research and testing. By October 1972 testing procedures were completed and poured concrete bins were being constructed for sale. A research farm activity is shown in the photo on page 32.



**AN AID ADVISOR WITH NEPALESE COUNTERPARTS INSPECTING HIGH LYSINE
CORN IN RAMPUR AGRICULTURAL RESEARCH FARM.**

We visited two research farms and found noticeable differences in their general appearance and operations. One farm seemed to have problems with personnel, equipment, and operations in general. The other seemed well organized and heavily involved in research, and its physical facilities were well maintained despite their old age. A critical determining factor in good farm management seems to be the staffing of the farm by the Government of Nepal.

Groundwater investigation

AID is assisting in evaluating groundwater resources and helping Nepal to establish a groundwater analysis capability. AID and Nepalese project technicians are making test drillings, mapping subsurface geological features, and preparing

an inventory of existing wells and natural springs. The studies are to be used to help plan for the future development of groundwater resources for agricultural production in the Terai. U.S. assistance through fiscal year 1971 totaled \$568,000 and an \$825,000 equivalent in Indian and Pakistani rupees.

The project was initially expected to be completed in fiscal year 1973. However, because of the more than 1-year delay in procuring and shipping U.S. equipment and the disappointing results of the initial drilling, AID requested that the termination date of the project be extended through fiscal year 1974.

Some progress had been made at the time of our visit in December 1971. The Government of Nepal had established its Groundwater Section, U.S.-purchased equipment had arrived, and the exploratory drilling program was progressing satisfactorily. Over 34 test holes had been drilled, and a water quality laboratory had been established.

Education

Nepal has made great progress in extending education to its people. Although there were practically no schools in 1951, by 1970 there were 6,600 primary, 840 secondary, and 25 multipurpose schools as well as 35 colleges and a university. Thirty-four percent of primary school age children were attending school in 1969 compared with less than 1 percent before 1955. The literacy rate reportedly increased from about 4 percent in 1955 to 11 percent.

These numerical increases could not be matched immediately by qualitative improvements in teacher training, methodology, or curriculum. Many teachers lack adequate training in modern teaching skills, and traditional rote-type learning methods continue to be used in much of the education system. Other constraints to better quality education are the generally low status and low salaries for teachers. Some progress is being made in correcting these deficiencies, but it will take years.

The irrelevance of traditional education to job requirements is beginning to result in unemployed intellectuals with attendant destabilizing political effects. Education is

geared to attaining the traditionally prestigious School Leaving Certificate that emphasizes liberal arts. Unemployment of liberal arts graduates will probably increase. Nepal needs agriculturalists, engineers, scientists, doctors, and teachers, as well as middle-level technicians, such as carpenters, plumbers, electricians, stenographers and bookkeepers.

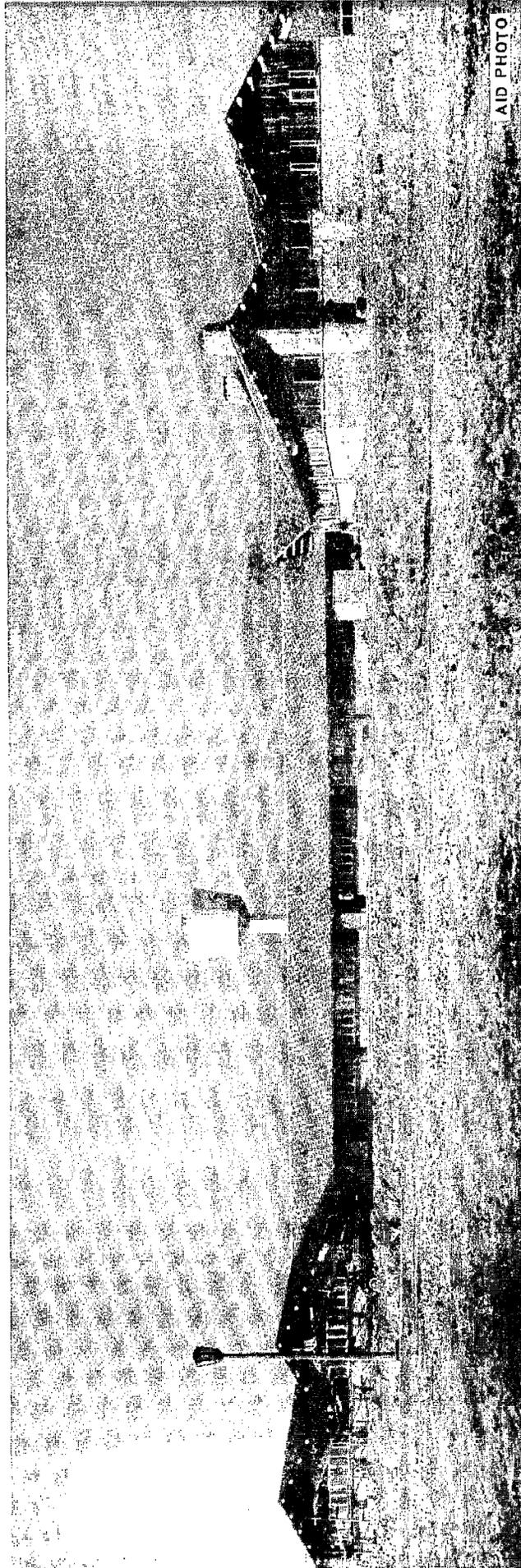
AID has emphasized educational institution building and has helped to establish the College of Education near Kathmandu, a laboratory school, primary school teacher-training centers, and a textbook-publishing plant. (See photo on p. 36.) We visited the publishing plant and observed a well-organized and operating facility. Poor transportation had hampered distribution of finished textbooks, and 300,000 to 400,000 textbooks were stored in warehouses. We learned later that in June 1972 a contract advisor went to Nepal to advise the Government's Ministry of Education on increasing textbook production and improving distribution.

In addition to helping establish the facilities described above, AID has trained about 250 Nepalese in education methods. Although AID's education program in late 1971 was not large, new projects were being developed in teacher training, education materials use, and in planning for vocational agriculture training and higher agriculture education.

A new education development plan, prepared under the then Crown Prince's direction, proposed a basic change of direction in Nepal's education policy and, if implemented, could result in significant improvement of the education system. The plan reflects growing nationalism and Nepal's reluctance to allow foreign advisors to work in curriculum development. Due to the uncertainty caused by the plan, no AID-Nepal education project agreements had been signed for fiscal year 1972. Two AID advisors were still working in teacher training under the prior teacher and technical education project.

From 1954 through fiscal year 1971, AID obligated \$4.4 million and a \$3.2 million equivalent in Indian and Pakistani rupees to the teacher and technical education project. During 1971, dollar and Indian and Pakistani rupee obligations were \$463,000 and \$384,000 equivalent, respectively.

Much of the technical assistance in recent years was provided under a contract with a U.S. university. AID originally planned to provide future technical services under another university contract, but this has been deferred. The Acting Chief of AID's Education Division expects that the future AID effort will be on a smaller scale and that Nepal will request specialists in specific fields for advisory services.



AID-FINANCED JANAK EDUCATION MATERIALS CENTER NEAR KATHMANDU, NEPAL

Health and family planning

Health services are available to only a small portion of the population--mainly those living in urban areas. Outbreaks of such diseases as malaria, smallpox, cholera, and tuberculosis still occur. Life expectancy estimates range from 25 to 40 years, lower than either India or Pakistan. At July 1969¹ there were only about 300 doctors (including those at military and missionary hospitals), 100 nurses, 55 hospitals, and 100 health centers--a small fraction of those needed for about 12 million people by any reasonable standard.

Besides assisting in malaria control and family planning, AID has assisted in hospital construction and has provided local currency support (U.S.-owned Indian rupees) for hospitals, health centers, clinics, and training institutions. The AID participant training program has also financed training in health and sanitation for 250 Nepalese.

Malaria

AID and the World Health Organization jointly began this project in 1954 and were actively joined by the Government of Nepal in 1958. Before 1971 the main objective was to eradicate malaria by 1973. AID changed its approach in 1971 to malaria control because it believed that (1) some areas would continue to have problems because of constant reinfection from India, (2) eradication costs were too high in some areas, and (3) Nepal could not afford to continue the eradication program with its own resources and should not rely on external assistance indefinitely.

Because of AID's strategy change, controversy has developed among AID, the Government of Nepal, and the World Health Organization. According to AID Mission officials, the World Health Organization advisor feels that the switch from eradication to control is inconsistent with his guidelines and he is opposing the change. The Government of Nepal seemed to agree with Aid Mission rationale. This issue had not been resolved in December 1972.

¹Latest available statistics.

Results of project efforts have been outstanding. According to AID, the best results were achieved in Nepal's agriculturally oriented Terai, where virtually 100 percent of the population previously had been infected. For Nepal as a whole, the incidence of malaria has been reduced from about 3 million cases--about one in every 4 persons--to 3,000 cases annually.¹

U.S. assistance through fiscal year 1971 amounted to \$6.6 million and a \$6.9 million equivalent in Indian and Pakistani rupees. Obligations during fiscal year 1971 were \$114,000 and a \$782,000 equivalent in Indian rupees. U.S.-owned Indian rupee budget assistance is scheduled to end in fiscal year 1973, with technical assistance phasing out at the end of fiscal year 1972.

Family planning

AID has steadily increased its family planning assistance that began in 1968, but the percentage of its contribution to Nepal's total family planning budget has not increased. For fiscal year 1973, AID's contribution is about 65 percent of the budget. The following tabulation indicates the growth of the largely AID-financed Nepalese family planning budget.

<u>Year</u>	<u>Budget amount (\$ equivalent)</u>
1968	\$ 10,000
1969	210,000
1970	390,000
1971	680,000
1972	800,000

AID is also providing, in addition to budget support, dollar-financed technical assistance, commodities, and participant training. Obligations through fiscal year 1971

¹Because of relapse or reinfection, an individual may be reported as a malaria case more than once during a 12-month period.

totalled \$1.5 million and a \$1.5 million equivalent in Indian and Pakistani rupees. Over \$700,000 and about the same amount in rupees was obligated in fiscal year 1971--more than one-third of AID's total dollar project obligations for the year.¹

AID's past objective was to develop an effective family planning organization in Nepal. The AID Mission Director said that AID was also pursuing the objective of active high-level Government of Nepal commitment to and support for an appropriate population policy in Nepal. Nepal has not made any major family planning pronouncements as yet, and the question of just how much support it will eventually give is still subject to much speculation. According to the Chief, Family Planning and Public Health Division, Nepal's policy support has been good thus far, but much needs to be done.

According to AID technicians, Nepal's family planning and maternal health organization made a good start in establishing and providing family planning services. Project progress indicators since 1969 include (1) a doubling of family planning service points, (2) a fivefold increase in family planning personnel, and (3) over four times the number of first-time acceptors of family planning services. In addition, there are 88 family planning clinics that distribute free birth control devices. Medical procedures, such as loop insertions and vasectomies, are performed in clinics having qualified medical personnel.

We visited one district family planning center. It was a small building that was difficult to find and had only a small identifying sign. Three paramedical personnel operated the center and dispensed family planning commodities free of charge. The center had no transportation facilities but was expected to cover a large district following up on previous acceptors and distributing commodities. This one center may not be representative of all such centers.

¹The high proportion of funds obligated in fiscal year 1971 is heavily influenced by a 3-year forward funding of a university contract.

A new AID-financed university contract team arrived in Nepal during 1971. Their work will emphasize the operations aspect of family planning and will have four technicians working in training, evaluation, and field operations.

The AID technicians see a continuing need for advisory services and budget support in family planning. The World Health Organization is also involved in family planning, and a U.N. population fund program may get underway in the near future.

Transportation and communications

Concentrated effort by both foreign donors and Nepal has resulted in progress in roads, air transport, and communications. Nepal has a main road network of 800 miles of fair and all-weather roads and a Government-owned airline with internal and international flights. The communications system includes an internal radio network and telephone and radio teletype service between Kathmandu and India.

There is still an urgent need for more roads of all kinds, particularly farm-to-market or feeder roads. Road construction problems include high construction costs because of the rugged terrain and flooding in the flatlands. High maintenance costs and low use of the Chinese-built road from Kathmandu to the border of Chinese-controlled Tibet causes an economic drain on Nepal. The basic problem in air transport is the lack of facilities to handle increased traffic.

The United States has assisted by constructing the runway and ancillary facilities at Kathmandu International Airport, cooperating in the large multi-donor-financed East-West Highway,¹ financing suspension bridge construction, and helping to install the telecommunications network. AID's current activity is centered on Indian rupee financing of the following three projects.

Airport development

In 1971, AID obligated \$4.5 million in Indian rupees to help the Government of Nepal finance local costs associated with a \$6.4 million Asian Development Bank combined soft loan and grant to improve five airports. None of the \$4.5 million had been used by early December 1971. Under the agreement, AID is not providing any advisory assistance for the project although AID Mission technicians are occasionally contacted for technical advice. This is a Bank

¹The United States is providing a total of \$8.9 million in grant-aid equipment for use in constructing the highway. Funds totaling \$6.3 million had been committed at June 30, 1972.

project, and Nepal has overall implementation and management responsibility. A mid-1971 AID evaluation of this project highlighted the following problems.

- One year behind schedule.
- No central project coordination.
- Of three Bank advisors, only one was advising in his specialty.
- Bank terms were not being met.

The AID evaluation suggested that AID's role be redesigned to include full-time advisory services. AID Mission officials told us in December 1971 that there were no plans in this regard. The AID Mission Director stated that, when problems arise on this project, AID's recourse is to the Bank because it is the Bank's project. He added that the problems highlighted in the evaluation were brought to the attention of Bank officials and that technical assistance and project performance have improved since then.

Western Hills Road

This project's goal is to construct 90 miles of road running north and south in the western part of Nepal. The project's overriding goal, however, is to help Nepal establish its own road construction capability. Over the past 3 years, AID's average contribution--mostly in Indian rupees--has equaled about 75 percent of the project costs. An AID technician spends most of his time on this project--about 50 percent of it onsite.

A mid-1971 AID evaluation found this project being well executed. It noted that the project was helping the Nepalese demonstrate their ability to design bridges and roads but emphasized that more experience in on-the-job training was needed. It criticized the Government of Nepal's contracting procedures that allowed inadequate contractor performance without compensating financial loss. An AID Mission official told us that Nepal's contracting problems were beyond AID's control.

Suspension bridges

AID has supported the suspension bridge program since 1958. The project is to facilitate transportation and communication in isolated areas by building 22 bridges. In December 1971, 16 bridges had been built and two were under construction.

Through fiscal year 1971, AID had provided \$565,000 equivalent in Indian rupees, in addition to \$257,000 in commodities, participant training, and technical assistance. Indian rupee budget support is the only project assistance now being provided, although an AID Mission engineer does devote a small part of his time to the project to provide technical advice.

A 1971 AID evaluation found that, although progress had been made, there were several problem areas, including:

- Bridges were 25 to 30 percent too costly and over-designed.
- Distances between sites made construction too costly. Building bridges in clusters would be more economical.
- Nepal's bridge-building capability was not being developed.

AID Mission officials generally agreed on these problems but felt that solutions were beyond AID's control and rested primarily on Nepal. Future proposals include clustering of construction sites to economize on high transportation costs. The AID Mission has persuaded the Government of Nepal to reorganize the division responsible for the project for better efficiency.

Public administration

Tradition-bound public servants find it difficult to accept the responsibilities and attendant decisions that need to be made for economic and social progress. Part of the problem is the Government of Nepal's cumbersome administrative system. Several AID technicians cited administrative problems as adversely affecting their project, including

- difficulty in the Government of Nepal's creating and filling job positions,
- reluctance of Nepalese officials to work outside of Kathmandu,
- reluctance of Nepalese officials to accept responsibility and make decisions, and
- cumbersome fund-release procedures.

AID has been trying to streamline and modernize public administration at both the local and national levels. Past project activity centered on the training of local leaders and the support of nontechnical self-help community projects. In addition, over 100 Nepalese received community development training in the United States and other countries.

AID's management improvement training project is providing the contracted services of one full-time advisor who is concentrating on (1) improving the personnel system, (2) developing a Nepalese management analysis capability, and (3) improving local administration. The project also includes training for Nepalese in management-related skills, such as organization and management, economics, and finance.

AID officials feel that progress has been good in relation to the relatively small project cost. Thus far, a Government-wide administration manual has been developed for Nepal; a study of its personnel system has been completed and is awaiting Nepal's decision on implementing its suggestions; and U.S. training has been provided for Nepalese personnel. The current project was originally scheduled for completion in June 1972; however, AID Mission officials asked AID/Washington for an extension. The request was subsequently incorporated into a new project approved in August 1972, which will extend through fiscal year 1974.

Assistance to the current project began in 1962 and has consisted mostly of advisory assistance and participant training. During 1962-71, obligations amounted to \$906,000 and a \$177,000 equivalent in Indian and Pakistani rupees. Dollar and Indian rupee obligations in 1971 were \$40,000 and \$17,000, respectively.

PROJECT MANAGEMENT AND EVALUATION

The AID Mission has an effective project management system that will be further strengthened by the improved evaluation process being introduced. We believe, however, that more formal arrangements should be established to get host country comments on U.S. technical assistance efforts.

Project management system

Standard AID project documentation is supplemented by locally devised management tools. One of the most useful local requirements is the quarterly review by AID technicians, the AID Division Chief, an AID Mission Director's representative, Nepalese counterpart personnel, and supervisory officials from appropriate Government departments or ministries. We observed a quarterly review that, in our opinion, was a very useful forum to discuss the project's progress, problems, and future plans.

As a test, we examined all project documentation for one AID project and found that the documents, although timely prepared, contained some vague statements, such as "poor fiscal administration" and a need for an "effective program." Comments on project progress, such as "some improvements had been made but further improvement is needed" or "a good start had been made" need clarification. The new evaluation process discussed below that emphasizes more quantified and precise indicators should help in this regard.

AID efforts to improve evaluation

AID has developed new guidelines to assist the project manager in the annual review and evaluation of his projects. Such evaluation should be useful to the AID Mission, with reporting to AID/Washington only a byproduct.

The key element in the new project evaluation guidelines is a logical framework defining a project's input, output, purpose, and goal in quantifiable terms to permit measurement of progress. The logical framework will also permit evaluation of a project's contribution to a higher or sector goal.

From our review of recently prepared logical frameworks for AID projects in Nepal, we believe this device will

improve some of AID's prior evaluation efforts. For example, previously the connection between the project and its higher goal, i.e., what AID was ultimately attempting to develop, was rarely defined. Also, clear-cut plans and defined management responsibilities were not set forth. We believe the logical framework presentation emphasizing quantifiable indicators will also help in making clear-cut plans and defining management responsibilities. However, problems still exist.

- It is difficult to quantify higher order purposes and goals. One objectively verifiable indicator in the logical framework presentation of success in family planning is support from higher echelon leaders. Other than weak measures, such as size of budget, it is difficult to quantify the support given by leaders.
- AID personnel state that this format is difficult to impose onto ongoing projects and that it would be more useful for new projects.
- Project success is still dependent on a number of important assumptions concerning Nepal's support and interest in the project. A change in any one of these assumptions can have significant effects on project evaluation.

There are diverse opinions on the usefulness of this system. AID Mission officials are enthusiastic although many technicians feel that this is just another documentation requirement. One AID technician went so far as to describe the system as a "monster."

We recognize that the logical framework presentation is a new development in evaluation techniques and that time is needed for it to be tested, understood, and more fully developed. However, we believe the objective and quantifiable emphasis will improve AID evaluation, and we urge further work on the system.

Visiting AID evaluation teams provide another evaluation. During the time of our review, an AID team evaluated agriculture, family planning, education, and public administration. This evaluation team consisted of AID/Washington officials and technical advisors from the AID Mission in India.

Technician evaluation with Nepal input

The size of the AID Mission in Nepal--36 direct-hire Americans at December 1971--and its frequent informal contacts with Nepalese officials provide a good basis upon which AID officials can appraise technicians during the annual performance evaluation. AID project technicians also seem to receive candid and critical comments on their efforts from their Nepalese counterparts. We noted that these comments were obtained only on an informal basis and no real systematic procedure to get Nepalese comments on AID technical assistance was used.

We suggested, therefore, that the AID Mission consider obtaining formal Government of Nepal comments on individual technician effectiveness and performance and also on the overall acceptance of U.S. technical assistance. We believed that the Department of State and AID would find such evaluations useful as indications of Nepal's receptivity to U.S. aid in general and also help AID take these matters into account in planning future assistance.

AID officials in Washington advised us that the Mission, in accordance with new AID guidelines, had been making an effort to provide for increased Government of Nepal participation in project design, implementation, and evaluation. For example, the Mission now involves Nepalese counterpart technicians and officials in annual project evaluation reviews, which provide opportunities for both AID and the Government to review the performance of contractors and their field teams.

Because AID looks to the technical contractor for specific performance under the contract, AID officials doubted that it would be sound management policy for either the Mission or host government to make formal annual evaluations of an individual contract technician's performance. It was pointed out, however, that the Government of Nepal generally makes a thorough assessment of contract technician performance before extending a technician's tour of assignment or before approving an additional tour.

CHAPTER 5

PEACE CORPS AND U.S. INFORMATION SERVICE

The PC program in Nepal currently emphasizes agriculture and education. Fifty-five percent of the 160 volunteers in-country at October 1971 were in agricultural extension work involving food production and fisheries. Another 30 percent were in education, including math, science, and some English teaching, and curriculum development. Other projects include forestry and rural water supply.

Nepal recently requested 20 volunteers (10 nurses and 10 health educators) to work in family planning. As a start, PC has assigned one family planning nurse on an experimental basis to work in the hills. If the results are satisfactory, PC may approve Nepal's request and recruit the needed volunteers.

AGRICULTURE

PC's major objective in agricultural extension is to assist village farmers in improving agricultural methods and increasing food grain production. Volunteers emphasized the use of fertilizers and new varieties of rice and wheat seeds. Since successful results usually caused chain reactions, their strategy was to induce a few farmers to plant demonstration plots. Volunteers felt that, unless the farmers actually saw the increased production from the use of fertilizers and new seeds, they would never be convinced to try them.

Four of the five agriculture volunteers told us that there was a noticeable increase in the use of new varieties of seeds and fertilizers. However, two volunteers felt that the increase was bound to come anyway but had been hastened by their work. One said that, when he arrived in his village, no one was using fertilizer. After two successful demonstrations, most of the farmers began using it.

Agriculture volunteers are encouraging farmers to supplement their incomes by raising chickens, pigs, ducks, vegetables, and fruit. However, volunteers lack technical ability in these areas because PC's agriculture training emphasizes cereal food production. PC is trying to alleviate this

through an arrangement with Nepal to provide inservice training for each volunteer in those areas which are of interest to his villagers.

According to the PC Director, Nepal's poor transportation system causes delays in getting seeds and fertilizers to the farmers at planting time.

Fisheries

The fisheries program's main objective is to help alleviate protein deficiency in the Nepalese diet by encouraging and assisting farmers to raise fish in existing ponds or to build new ones. The program is relatively new and accomplishments thus far are not readily measurable. One volunteer told us, however, that the distribution of fingerlings increased by 45 percent during his first session at the fish farm. He believed that the increase was due to his going out into the surrounding areas and telling the farmers that fish were available.

EDUCATION

PC has assisted in education since 1962 by providing teachers of English, vocational subjects, math, and science. In addition, volunteers and their Nepalese counterparts helped develop and introduce curriculum development programs in math and science.

The science program is designed to modernize science education at the secondary level, focusing on the Nepalese teacher and his role in developing students' mental skills. The math program is concerned with revising the content and method of mathematics teaching. Both programs have been introduced into several schools. Many of these programs' concepts are expected by AID and PC officials to be integrated into Nepal's new education system.

PC believes that the main limitation confronting Nepalese education is the lack of established standards for course content and teaching methods in the schools. Many school headmasters and educational administrators in the Government are not fully qualified for their positions.

Progress in using specialists and
selecting projects with multiplier effect

The PC continues to fill manpower needs. Some progress has been made to increase the use of specialists and to select assignments with increased multiplier effects.

PC is currently using specialists in forestry, ground water investigation, agricultural research, and education. At December 1971 there were 10 specialists among the 160 volunteers in-country. According to PC officials, a volunteer is considered a specialist if he has studied in a specialized field such as agriculture or geology, and uses his skill in his job. A generalist is one who has received a liberal arts degree and is given training to qualify for his job assignment.

About 85 percent of the volunteers in Nepal are generalists filling jobs as Junior Technical Assistants in agriculture and teachers. PC feels that these volunteers are having some multiplier effect in their work but that the effect is not nearly as great as teacher training.

PC recently placed three volunteer specialists in positions which we believe will have a good multiplier effect. Two volunteers possessing masters of business administration degrees from a leading U.S. university will teach and help develop business administration courses--one at Nepal's university and one at a Nepalese management training organization. Another volunteer specialist, a library science graduate, will help the organization develop its library and documentation center.

Our discussions with these volunteers showed that they were filling highly skilled positions, although their advisory roles were generally low keyed. Their activities include:

- Revising and teaching a public administration seminar to Government and private sector employees and giving lectures to Government personnel at the undersecretary level.
- Providing consulting services to the Government's management training organization.

- Teaching graduate courses at the university and helping devise a new curriculum in its master's in business administration program.
- Assisting in setting up a library and documentation center to include all publications on Nepal.
- Setting up a publication exchange system with all foreign institutions studying Nepal.

It also appears to us that the gap between AID and PC expertise is narrowing as PC increases the use of specialists.

Further increased use of volunteer specialists in Nepal is not too encouraging. PC will continue to use generalists in most areas unless there is a specific job for a specialist and Nepal has committed the necessary supporting funds. According to PC officials, there are still over 3,000 villages in the southern part of Nepal where generalists can be effectively used and Nepal--lacking the necessary funds and personnel to support the projects--is unable to absorb more specialists.

USE OF FORMER VOLUNTEERS IN AID PROGRAMS

Former volunteers are working for the AID Mission in Nepal in education, family planning, and engineering. These former volunteers include those who joined AID under rupee contracts after completing their PC assignment and those who returned as AID advisors after further education in the United States.

We held discussions with two former volunteers working in education under personal service rupee contracts and with one former volunteer, a doctor of philosophy, who is working with a university contract team in family planning. The former volunteers in education are working on the math and science curriculum development programs they previously worked on as volunteers. Their activities include:

- Assisting in further development of the math program at the college of education and in training teachers to develop and write curriculums.
- Providing advice to Nepalese officials, although on a low-keyed basis.
- Assisting in starting the science teaching program in more schools.

These former volunteers believed that their PC experience enabled them to better understand Nepal's development problems and that their language ability promotes a much closer working relationship with their Nepalese counterparts.

AID Mission officials told us that the language ability and cultural understanding of former volunteers were a valuable asset. However, one AID Mission official doubted the technical ability of most volunteers immediately after completing their PC assignments. He felt that it would be advantageous for all advisors to have language capability and prior experience in Nepal but that technical ability and practical experience were more important.

There are advantages in using qualified former volunteers in the AID technical assistance program. They have already shown an ability to live and work in Nepal, and their language capability should enhance the Nepalese people's response to

their efforts. AID should look for more opportunities to use former volunteers in Nepal¹ and other countries where AID can use this expertise to advantage.

PEACE CORPS AND AID COORDINATION

PC and AID coordination mainly takes place at the field level between AID advisors and volunteers, although agency heads participate in weekly country team meetings. In addition, AID participates in PC training programs by briefing each new group of volunteers on AID activities. Some of the eight volunteers we interviewed often asked the AID advisors working in their areas for help. The volunteers generally felt the advisors were highly cooperative in lending assistance.

Most technicians said that they could use technically qualified volunteers on their projects. For example, AID's education advisors felt they could use volunteers with elementary education teaching backgrounds. An AID capital project technician wanted a trained engineer to serve as a highway construction supervisor and to oversee general operations during the technician's absence from the project. The volunteers we interviewed also expressed a willingness to work on AID projects.

Current AID and PC coordination procedures do not include formally assigning volunteers to AID projects. For example, volunteers were assisting in constructing test bins for AID's onfarm grain storage project. AID planned to continue using volunteers in the construction and distribution phase of the project in 1972. However, the AID advisor told us there were no formal arrangements to insure their availability.

To expand PC and AID coordination efforts in Nepal, we suggest that:

- The AID Mission establish procedures to determine their technicians' needs for volunteers to AID projects.

¹In the past, AID has made use of former volunteers both through direct hire and through personal services contracts.

--AID and PC reach a definitive agreement on the use of volunteers.

--PC review AID programs and then, when practical and desirable, recruit volunteers based on AID-supported project needs.¹

The AID Mission Director and PC Director generally agreed with our suggestions to get more input from technicians and to better define the use of volunteers on AID projects. However, both expressed reservations on programing and recruiting volunteers specifically for AID projects because of the uncertainty of AID programs. We agree that this needs to be considered in any programing effort, but such should not be the basis for automatically rejecting planning that could increase the effectiveness of U.S. economic assistance in a country.

AID officials in Washington subsequently informed us that former PC volunteers had been recruited for one new project in education and will probably be recruited for positions in a second. As AID decreases its direct hire positions and relies more on contractors as intermediaries to provide technical assistance, the AID Mission in Nepal will provide more assistance to contractors in seeking suitable former PC volunteers to fill contract technician positions. Also, PC is currently providing some in-country language training for newly hired AID personnel.

AGENCY COMMENTS

In commenting on our report on September 11, 1972, PC said:

"We will continue to explore the possibility of more coordination between Peace Corps and A.I.D. so

¹The Peace Corps Act (22 U.S.C. 2501) gives the Director of the Peace Corps broad authority to detail, assign, or otherwise make available volunteers to any agency of the U.S. Government on such terms and conditions as he may determine.

that our combined efforts will orchestrate more fully the unique resources present in each for a more productive assistance program in Nepal."

U.S. INFORMATION SERVICE

The U.S. Information Service's general objective in Nepal is to promote friendship and a better understanding of all aspects of the United States among key Nepalese audiences. Specifically, the program's themes--or objectives--explain that the partnership envisaged in the Nixon Doctrine will help sustain Nepal's development and independence; foster an understanding of U.S. foreign policy, particularly regarding Asia; and present selected aspects of contemporary American political, economic, scientific, and cultural developments so that the Nepalese can better appreciate U.S. interest in Nepal and U.S. relations with other countries through a broader understanding of the present-day American environment. The program, largely concentrated in the Kathmandu Valley, is designed to support overall U.S. objectives in Nepal.

The Service's staff of three Americans and 29 local employees conducts a wide range of cultural and informational activities through its post in Kathmandu. The relatively small program--costing about \$215,000 in dollars and rupees for fiscal year 1972--includes lectures, seminars, film shows, and exhibits at the cultural center. English-language classes are offered for about 900 advanced students at the information center, which also maintains an 8,500-volume library. Exchanges of leaders, professors, and students are made possible by several educational and cultural exchange programs. Press and feature releases are furnished to 24 daily and 40 weekly Nepalese publications. In addition, the post publishes a Nepalese-language monthly magazine offering stories on U.S. foreign policy, local AID projects, and other U.S. and local features.

In June 1971 AID made a post inspection visit to Kathmandu. An official in Washington informed us that the visit resulted in a very favorable report containing several recommendations and no major criticisms. The followup in October 1971 found that appropriate action had been taken in response to the report's recommendations. We were also informed that the next post inspection visit to the Nepalese program had been scheduled for the summer of 1974.

CHAPTER 6

ASSISTANCE COORDINATION AND OBSERVATION

ON INTERNATIONAL AGENCY PROGRAMS

We found no formal mechanism for coordinating external assistance to Nepal, and we recognized that coordination would be difficult because of the many donors and motives. The Government of Nepal has in the past opposed proposals to coordinate aid programs. Coordination was not its policy, it had little or no capacity for coordination, and it wished to maintain flexibility in its aid requests. Nevertheless, efforts--some begun in the 1960s--to establish a formal aid coordination mechanism were underway at the time of our review. We noted both favorable and unfavorable factors that would significantly affect these efforts, their outcome, and the effectiveness of the eventual coordination machinery.

Favorable factors include the establishment of the World Bank resident office in Nepal and, according to the Aid Mission Director, more recognition on the part of Nepal's Secretariat-level officials of the need for better aid coordination. The World Bank representative told us that he was hopeful of establishing more formal coordination means and indicated a general willingness to lead a multidonor group. The AID Mission Director considered the World Bank appropriate as leader for a currently envisioned consultative group arrangement¹ because of its broad experience.

Unfavorable factors include the probable noninvolvement of China, the U.S.S.R., and some of the smaller donors.

¹Although the function of consultative groups varies, donors are generally invited to discuss without commitment the range of resources likely to be available. The recipient identifies its program and food aid needs and presents lists of projects requiring financing for consideration by group members. Traditionally, consultative groups have specialized in capital assistance, giving little or no attention to the coordination of technical assistance. However, the AID Mission Director told us that eventually the Nepal group would have to consider technical assistance because such large amounts were received from different sources.

Nepal's King and palace officials have shown no enthusiasm for greater coordination. However, the need for better and closer coordination only arose in this decade because of the large increases in aid from the international financial institutions and the United Nations.

A third element is the need for better aid coordination by the Government of Nepal itself. The AID Mission Director and the UNDP Resident Representative commented on longstanding weaknesses in Nepal's Ministry of Finance and the subordinate Foreign Aid Division that is responsible for aid coordination. Recent setbacks include the loss of a strong Ministry of Finance Secretary to a position in another country and termination of Ford Foundation advisory assistance to the Ministry. We believe that if formal overall aid coordination is to be effective, it must eventually become a function of Nepal's Government.

INFORMAL COORDINATION

(Classified material commenting on informal contacts between some representatives was deleted. See classified app. VII, p. 15.)

AID has had a number of contacts with other donor representatives as well as visiting Asian Development Bank, World Bank, and U.N. teams. The most recent International Monetary Fund study team did not, however, contact the AID Mission during their stay in Nepal although the AID Mission Director had requested contact.

In addition, the UNDP's former Assistant Resident Representative was a U.S.S.R. national--a situation that afforded good U.S.S.R. and UNDP contact, which the present Resident Representative hopes to be able to continue. He also had met the Chinese Ambassador soon after China's admission to the United Nations. He told us there was no mention of aid talks yet but that there were possibilities for such discussions.

AID ASSISTANCE TO OTHER DONORS

AID's long experience in Nepal and the significant U.S. foreign aid experience are providing valuable assistance to other, newer aid donors--especially the international financial institutions. We noted several instances of nonroutine AID Mission observations or suggestions concerning projects being considered for World Bank or Asian Development Bank financing. A recent example is AID's August 1971 letter to the U.S. representative of the Asian Development Bank, noting the difficulties confronting successful implementation of existing irrigation projects in Nepal. This was particularly pertinent as the Asian Development Bank was considering financing two and the World Bank yet another irrigation project.¹

AID technicians' knowledge of other programs

Thirteen of the 22 AID technicians interviewed had a general knowledge of other donor programs in their fields. Their interests in these programs and contacts with other donor representatives varied from minimal to extensive, but the majority, in our opinion, were not significantly interested in other donor programs.

U.S. PROGRAM MANAGEMENT AND RESULTS

Although operating without the benefit of a formal mechanism for coordinating all external assistance to Nepal, we believe that U.S. programs have been effectively managed and have made a significant impact on the country's development. We believe that the bilateral assistance provided by U.S. programs described has contributed to the independence and stability of this strategically located buffer state.

¹At mid-December 1971 the Asian Development Bank had approved loan financing for one project and technical assistance for the other. The World Bank had taken no further formal action, though study was continuing.

OBSERVATIONS ON INTERNATIONAL
AGENCY PROGRAMS

We recognize that representatives of U.N. member governments, including the United States, do not have the authority to audit multilateral assistance programs--represented in Nepal by UNDP, U.N. specialized agencies, World Bank, and Asian Development Bank.

During our review in Nepal, we met and--with their full consent and cooperation--held discussions with the UNDP Resident Representative and the World Bank representative. We found that these contacts were extremely useful and informative.

Report on U.N. program

(Classified material commenting on the need for the report was deleted. See classified app. VII, p. 16.)

The Mission official responsible for the administratively required report stated in December 1971 that he had begun collecting material in March but that the press of other work had prevented his giving sufficient time and attention to the U.N. evaluation. He said that the report was receiving a high priority and would be completed before the end of the year.

The Department of State had not followed up on the missing report. This suggested to us a lack of interest in keeping abreast of U.N. field operations in Nepal. It also seemed contrary to the Department's previously expressed emphasis on this annual report, as contained in comments to a March 1970 GAO report¹ on the UNDP, which stated, in part:

"By including this exercise in the reporting schedule, the Department [State] believes that

¹"Management Improvements Needed in U.S. Financial Participation in the United Nations Development Program."
(B-168767, Mar. 18, 1970).

posts can no longer have any doubt as to the importance placed on the exercise by the Department and AID. The Department believes that measures can now be taken to ensure compliance."

We believe that the report could provide meaningful information for the development and management of the U.S. bilateral program and that greater effort should be made to complete the report in a timely manner.

U.N. programs

(Classified material discussing improvements in the United Nations program in Nepal was deleted. See classified app. VII, p. 17.)

The UNDP Resident Representative's role is to be the focal point for all U.N. activities in a country. He is challenged, however, by (1) his not having direct control over all U.N. resources (a situation not unique to Nepal), and (2) visiting U.N. specialized agency representatives' practice of "selling" relatively low priority projects to Nepal.¹

¹State Department officials told us that this situation should eventually be alleviated--so far as UNDP funding is concerned--by country programing, which is not yet underway in Nepal.

Steps have been taken to strengthen the UNDP Resident Representative's role by including a former resident U.N. specialized agency representative in his staff; e.g., the Food and Agriculture Organization representative who also serves as the Senior Agricultural Advisor to the UNDP Resident Representative. UNDP agreed in 1971 to construct a U.N. agency headquarters in Nepal--one of the first of its kind. It will house all U.N. agencies except the World Health Organization. The UNDP Resident Representative also has an opportunity to comment on U.N. specialized agency projects proposed for financing under their own regular budgets.

Planned actions, such as (1) approved increases in staff, including an assistant resident representative and a program officer, (2) authority for approving projects of up to \$100,000, and (3) the introduction of country programming based on joint Nepal-U.N. planning, should also strengthen the UNDP Resident Representative's role.

Other noteworthy observations on which the AID Mission Director and the UNDP Resident Representative were in general agreement include:

- Technicians from less developed countries are just as effective as those from developed countries. A technician's interest and individual competence, not his nationality, determine his basic ability to effectively deliver technical assistance.
- Nationality of a technician is not a factor in Nepal's acceptance of technical help. However, for political reasons, certain nationals may be more readily or less readily accepted.
- Multinational teams experienced no significant problems attributable to their particular makeup.

Multilateral financial institutions

Development projects financed by the World Bank-affiliated International Development Association and the Asian Development Bank were just getting underway at the time of our visit to Nepal. The International Development Association and the Asian Development Bank approved their

first loans in November and December 1969, respectively. According to the AID Mission Director and a Mission official, equipment procurement is beginning in the Asian Development Bank's first combined loan and technical assistance grant totaling \$6.4 million for air transport development and the International Development Association's first venture, \$1.7 million for telecommunications, is on schedule but still in the very early stages.

By December 1971 the Asian Development bank had approved technical assistance and \$4.5 million loan financing for one major irrigation project and, having approved the technical assistance for another irrigation project, was preparing a loan proposal for it.

The AID Mission Director thought that the World Bank was giving due consideration to development problems in its project proposals and that the World Bank representative in Nepal had definitely been an asset. We found that visiting World Bank teams had made studies of Nepal's economy and development problems since 1960.

Although the Asian Development Bank had no resident representative in Nepal, visiting Bank teams had made useful economic studies since 1969.

CHAPTER 7

SCOPE OF REVIEW

We made this review as part of our continuing effort to assist the Congress in its oversight of U.S. foreign assistance programs. In Nepal we wanted to (1) identify U.S. foreign policy objectives and the factors bearing on their accomplishment, (2) provide an overview of U.S. programs and suggest ways to increase their effectiveness, and (3) gain some general knowledge of the administration and activities of multilateral and other aid programs.

We reviewed policy and program papers, reports, and other records available at the American Embassy, the AID Mission, and PC offices in Nepal and performed some limited work at their Washington headquarters. We also reviewed available international agency reports. Appendix VI shows the U.S. officials responsible for matters discussed in the report. The review extended from July through December 1971; fieldwork in Nepal was performed from October through December 1971.

We met with American Embassy, U.S. Information Service, AID, and other U.S. officials in Nepal, including 22 of the 34 AID technicians and 11 PC volunteers. Discussions with the AID technicians were directed toward finding out what work they were doing and what progress had been made. Appendix II lists some activities of AID technicians and the range of problems they face. We also met with the UNDP Resident Representative, the World Bank representative, and the Indian aid mission director.

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ESTIMATE OF FOREIGN ASSISTANCE TO NEPAL

(U.S. \$ millions or dollar equivalents
including grants, loans, credits)

<u>Donor</u>	<u>Fiscal years</u> <u>1952-71</u>
U.S.:	
AID and predecessor agencies	\$153.2
Peace Corps	11.4
Military assistance grant aid	<u>1.9</u>
Total	\$166.5
India	127.3
China	39.0
U.S.S.R.	19.6
United Kingdom	7.3
West Germany	2.2
Switzerland	2.8 ^a
Israel	(b)
Australia	1.3 ^c
New Zealand	.3
France	(d)
Pakistan	(e)
Canada	1.3
Japan	1.0
Yugoslavia	(f)
Poland	(g)
Scandinavia	(h)
International Bank for Reconstruction and Development and International Development Association	4.2
Asian Development Bank	12.4
U.N. and specialized agencies	20.3
Colombo Plan	-
Ford Foundation	-
Dooley Foundation and other private organizations	<u>-</u>
Total	<u>\$405.5</u>

APPENDIX I

^aCumulative figure taken from Swiss technical assistance booklet.

^bValue unknown; includes training in Israel, assistance to National Construction Company of Nepal, advisor with Royal Nepal Army, and resettlement aid.

^cTwo DC-3's are to be provided during calendar year 1971; estimated total value of \$40,000 has been added to cumulative total.

^dTotal value unknown; includes tourism advisor, scholarships, and four management personnel for Royal Nepal Airlines corporation.

^eValue unknown; pilot training in Pakistan.

^fYugoslavia has offered a \$1 million loan, not yet utilized.

^gValue unknown, a few scholarships.

^hTotal value of Norway, Sweden, and Denmark's aid is unknown; includes family planning and dairy and cheese assistance.

EXAMPLES OF AID TECHNICIANS'

ACTIVITIES AND PROBLEMS IN NEPAL

ACTIVITIES

Following are examples of AID technicians' activities, grouped by area of program emphasis.

Agriculture:

Food grain technology:

Assist in selecting Nepalese participants for training.

Serve as observer on Board of Agriculture Supply Corporation and the Agriculture Development Bank.

Develop staffing pattern for Nepal agriculture extension department.

Assist Nepalese research farm manager in planning program for better farm operations.

Design, build, and evaluate test model of onfarm storage bins.

Ground water investigation:

Provide advisory assistance to Nepal and train staff.

Establish a water quality laboratory.

Provide assistance to drilling contractor and field personnel.

Act as trouble shooter for well drilling teams and Nepalese engineers.

Education:

Organize teacher training workshops.

Present demonstration lessons.

Visit district offices to observe teacher training programs.

APPENDIX II

Add audio-visual aids and library facilities at teacher training centers.

Make field visits to teacher training centers.

Health and family planning:

Family planning:

Introduce concept of regional supervisors to eliminate decisionmaking communication gap.

Try to get Government of Nepal officials to accept and promote family planning.

Act as advisor to the Family Planning and Maternal and Child Health Board.

Try to simplify supply structure by developing a standard supply list.

Try to set up a recordkeeping system to provide data for evaluation.

Visit district centers to observe operational aspects of the program.

Write a programmed instruction book in family planning.

Malaria:

Serve as an advisor to Nepal Malaria Eradication Organization.

Visit district, zonal, and unit offices to observe their operations.

Provide medical expertise in program planning and development for expanded duties of malaria personnel.

Public administration:

Write report suggesting changes in Nepal's personnel management.

Design organization for Nepal's administrative management department.

Assist in developing management analysis capability within Nepal.

Shift approach of Nepal management analysis organization from a Ministry approach to a governmentwide functional problem approach.

Develop format for management reports.

Transportation:

Western Hills Road:

Work as general onsite supervisor of project.

Teach counterparts how to mix and pour cement, drive pilings, and erect steel bridges.

Demonstrate operation of heavy equipment.

PROBLEMS

The purpose of the following listing is to show only the range of problems identified by program documents or mentioned by AID technicians or officials when interviewed by GAO. The listing is not intended to indicate the extent, prevalence, or severity of any particular problem.

Agriculture:

Food grain technology:

Shortage of qualified staff and reluctance of staff to accept positions in outlying districts.

Creation of officer-level positions in Nepal is difficult and slow, as is filling existing positions.

Lack of qualified lower level staff (driver, mechanic, bookkeeper) delays progress.

Cumbersome and complex mechanism for releasing Nepalese funds to a project contributes to fact that one-fourth to one-third of budgeted funds remain unspent each year.

Nearly all agriculture input (fertilizer, seeds, pesticides, machinery) must be imported.

Contractor capacity for construction in the outlying areas weak; therefore construction of project facilities slow and of poor quality.

APPENDIX II

Restrictive Government rules require project officials to keep wornout equipment and tools on hand in warehouses until they can be officially written off the books, a process which may take months or years. For example, one Nepalese farm manager told us that if he took the initiative to dispose of junk equipment without official authorization, he would be personally liable and subject to disciplinary action.

Ground water investigation:

Inability to get qualified field personnel because of low salaries.

High turnover in Government geologists assigned to project because most would rather live in Kathmandu than in the field.

Weak planning and management skills.

Education:

Ministry of Education officials reluctant to visit the outlying districts because of the poor facilities.

Creating positions and getting qualified personnel to fill them are difficult.

Getting qualified maintenance personnel to keep the physical facilities in good shape.

Health and family planning:

Family planning:

Original Nepal staff assembled for family planning were junior and insecure.

Monsoon weather limits travel to the outlying districts to only good-weather months.

Getting Government officials to understand and accept family planning is difficult.

Initial acceptors of family planning methods need to continue.

Information to the public is limited.

The almost complete lack of reliable information upon which to base a program. National data on birth rates, fertility rates, death rates, and migration patterns not available.

The Nepal family planning project is at a relatively low administrative level that limits participation of higher Government officials.

Malaria:

Thus far the Health Ministry has made no concerted effort to establish health centers to take over the responsibility for antimalaria activities.

Some hill districts can be communicated with only by walking, which often takes days.

APPENDIX III

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

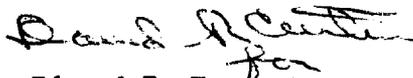
OCT 24 1972

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I am forwarding herewith a memorandum dated October 20, 1972 from Mr. Donald G. MacDonald, Assistant Administrator of the Bureau for Asia, which constitutes the comments of AID on the U.S. General Accounting Office's draft report titled, "United States Programs in Nepal."

Sincerely yours,


Edward F. Tennant
Auditor General

Enclosure: a/s

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

ASSISTANT
ADMINISTRATOR

OCT 20 1972

MEMORANDUM FOR Mr. Edward F. Tennant
Auditor General

SUBJECT: GAO Draft Report on "United States Programs
in Nepal"

We appreciate the opportunity to review and comment on the GAO draft report on Nepal. It is balanced and constructive, accurately reflecting the scope and style of US Mission operations in Nepal. The report gives a comprehensive summary of the past twenty years of U.S. aid efforts, and with few exceptions, we find no differences between the GAO findings and our own view as to the purpose and implementation of the program. We suggest, however, that the report's introduction include a reference to the dates of the study.

The United Nations has included Nepal in its list of twenty-five Relatively Less Developed Countries (RLDCs). Although Nepal has made moderate progress in development through use of its own resources and foreign assistance, it remains very poor and is exceptionally thin in trained, experienced administrators and in development infrastructure. The Government of Nepal is aware of these obstacles to more rapid progress in development but has some encouraging successes to its credit. As the GAO report states, Nepal has made great progress over the last twenty years. Primary school enrollment has grown ten-fold, malaria incidence has been reduced from three million to three thousand cases annually, and large numbers of key personnel have received training in agriculture, public administration, and education. Recent examples of increased Government of Nepal initiative in development are: improved planning, programming and administration of its own development projects; the preparation and adoption of a National Education Plan with a strong emphasis on vocational education; planning for an Integrated Health Service built on the structure of the National Malaria Eradication Organization; and effective use of technical assistance on the Western Hills Road Project, which has had an important impact on strengthening the Nepal Highway Department.

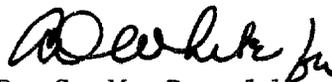
With respect to coordination of bilateral and multilateral assistance GAO pointed out that frequent informal contacts among the major non-communist donor representatives and with the representatives of the multilateral organizations afforded a good exchange of information on the development

APPENDIX III

programs underway and those planned. We believe that more formal coordination will be possible as the multilateral organizations, particularly the Asian Development Bank and the World Bank, increase their assistance to Nepal.

GAO commented that, at the time of its review late in 1971, it appeared that India would not agree to the continued use of Indian rupees to help finance the US aid program in Nepal. This assessment by GAO was correct, as India has not been willing thus far to extend its longstanding agreement for such use of U.S.-owned Indian rupees beyond FY 1973. As a result, AID is using dollars to finance local currency costs of the bilateral assistance program which, consistent with AID's perception of its changing role in Nepal's development, is focused on selected areas in education, family planning, agriculture, public administration and transportation.

We understand that the Department of State is replying separately to GAO and is identifying those sections of the report which should remain classified. Our detailed comments and suggestions keyed to particular sections of GAO's report are attached. [See GAO note.]


D. G. MacDonald
Bureau for Asia

Attachment a/s

cc: C. Ide, Mission Director
USAID/Nepal
AA/PPC, P. Birnbaum
AA/TAB, J. Bernstein

GAO note: These comments have not been include in the report. Changes have been made in the body of the report where appropriate.



OFFICE OF
THE DIRECTOR

ACTION

WASHINGTON, D.C. 20525

September 11, 1972

Mr. Oye V. Stovall
Director
International Division
U. S. General Accounting Office
Washington, D. C.

Dear Mr. Stovall:

We appreciate the chance to review the GAO report on U. S. programs in Nepal. The officials in ACTION most closely concerned with management responsibilities for Peace Corps programs in Nepal have examined it carefully since it arrived in our office.

The report was found to be an acceptable representation of present Peace Corps programs and the planning concepts being currently discussed for our future efforts in Nepal.

The positive tone expressed toward our operations was quite welcome, as we continually hope to meet our own high expectations as well as those of others.

We will continue to explore the possibility of more coordination between Peace Corps and U. S./A.I.D. so that our combined efforts will orchestrate more fully the unique resources present in each for a more productive assistance program in Nepal.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Joe Blatchford".

Joseph H. Blatchford
Director



OFFICE OF
THE DIRECTOR

UNITED STATES INFORMATION AGENCY

WASHINGTON 20547

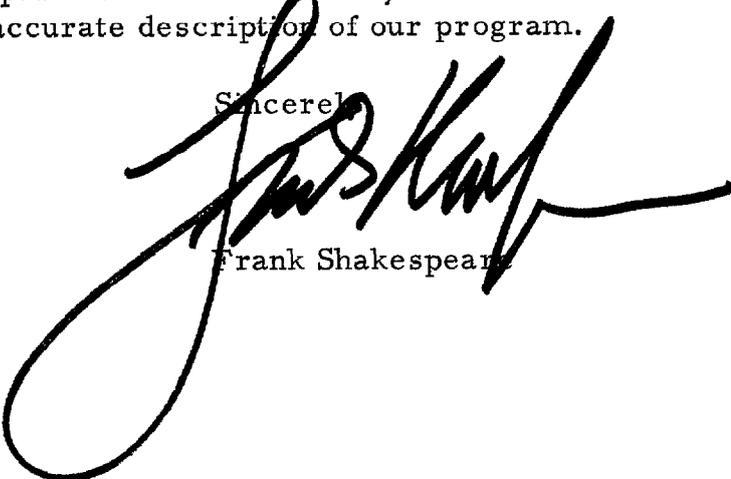
August 18, 1972

Dear Mr. Stovall:

Thank you for sending me a copy of the GAO report on Nepal.

The section of the report on the U.S. Information Service activities in Nepal has been reviewed by us and we feel it to be a fair and accurate description of our program.

Sincerely,


Frank Shakespeare

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington

PRINCIPAL U.S. OFFICIALS
HAVING MANAGEMENT RESPONSIBILITIES
FOR MATTERS DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF STATE

SECRETARY OF STATE:

Christian A. Herter	Apr. 1959	Jan. 1961
Dean Rusk	Jan. 1961	Jan. 1969
William P. Rogers	Jan. 1969	Present

U.S. AMBASSADOR TO NEPAL:

Carol C. Laise	Sept. 1966	Present
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AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

Fowler Hamilton	Sept. 1961	Dec. 1962
David E. Bell	Dec. 1962	July 1966
William S. Gaud	Aug. 1966	Jan. 1969
John A. Hannah	Mar. 1969	Present

DIRECTOR, AID MISSION TO NEPAL:

William C. Ide	Jan. 1969	Present
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PEACE CORPS

DIRECTOR:

Sargent Shriver	Mar. 1961	Mar. 1966
Jack H. Vaughn	Mar. 1966	Apr. 1969
Joseph H. Blatchford	May 1969	Jan. 1973
Walter C. Howe, Jr. (acting)	Jan. 1973	Present

DIRECTOR IN NEPAL:

Michael J. Furst	Feb. 1970	Present
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UNITED STATES INFORMATION AGENCY

DIRECTOR:

George V. Allen	Nov. 1957	Dec. 1960
Edward R. Murrow	Mar. 1961	Jan. 1964

APPENDIX VI

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Carl T. Rowan	Feb. 1964	Aug. 1965
Leonard H. Marks	Sept. 1965	Dec. 1968
Frank J. Shakespeare, Jr.	Feb. 1969	Present
DIRECTOR, UNITED STATES INFORMATION SERVICE, NEPAL:		
Richard Hopwood	Oct. 1969	May 1971
Thomas Dove	May 1971	Present

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.