

Nepal's Economic Development

A Study in Planning Experience

Y P Pant

Nepal's Three-Year Plan began in July 1962, one year after the completion of the First Five-Year Plan. The Three-Year Plan is a larger development effort "properly co-ordinated and more relevant to the present needs of the country".

The First Five-Year Plan has blazed a new trail in Nepal's history. The economic structure has been touched and modified at quite a number of points, though the tangible results may not have fully reflected this. However, certain important questions do come up before us.

Did the thirist Plan really provide a short-cut to prosperity?

How far has its completion stepped up the tempo of economic development?

How far were the Plan targets achieved?

It is proposed in this article to answer, as far as possible, some of the above queries on the basis of the available statistics and make some suggestions for the future.

[The views expressed are those of the author and have nothing to do with his official position as Secretary in the Ministry of Finance, His Majesty's Government of Nepal,]

ANY enquiry into the achievements of the First Plan would first necessitate a consideration of the country's economy before 1956, or before the launching of the Plan. It was only after 1951 that any concerted attention was given to the Country's economic development. In the absence of any mobilisation of economic resources and any policy for economic development, the country's economy had remained more or less stagnant for over a century. After February 1951, some steps were taken to foster the climate for national development; still, nothing could be done to step up the rate of economic development. All such efforts were general and did not properly take into account the basic difficulties of the country's economy. Even a few of the development projects undertaken before 1956 could not yield any significant results. There was some apparent increase in area under cultivation. The few large industries started during the Second World War, after showing some signs of prosperity, had started to languish. The monetary and foreign exchange position also was worsening and the exchange rate of the Nepalese rupee for the Indian rupee was becoming unfavourable and the price level was going up. The trade balance was becoming more and more unfavourable in the absence of an increase in exportable surplus.

The First Five Year Plan was launched against the above background in September 1956. Any assessment of the Plan can be more appropriate by looking at its achievements, both financially and physically. Table 1 gives the pattern and magnitudes of investment in the public sector in the Plan. Sufficient information relating to the private sector is not available. Since the figures of total expenditure have been taken from the development budget, they include recurring annual expenditure and not merely expenditure for development. For the first three years of the Plan the annual rate of expenditure was 10 to 20 million rupees, while in the last two years it was 70 to 80 million rupees. The total expenditure of 204.07 million rupees is far below the original Plan estimate. The total of development budgets was 579 million

rupees, while the actual expenditure was 204 million rupees. Thus only 35 per cent of the budgeted amount, on the whole, could be spent. There must have existed, it is explained, "various limitations in the socio-economic structure which severely constricted the absorptive capacity of the economy".

Achievements Not Impressive

Table 2 gives the progress of the Five-Year Plan in different sectors in physical terms. The achievement of the Plan, compared to the targets, do not seem very impressive. Though achievements in some spheres like village development, ports, education and health have been impressive, the overall results are far from satisfactory. The village development activities and the educational facilities may, of course, represent important gains from the long-term point of view.

Table 1 : Annual Development Expenditures In Major Sectors
First Plan Period

	(Millions of Rupees)					Total
	1956-57	1957-58	1958-59	1959-60	1960-61	
Education	1.98	2.16	2.50	6.91	5.54	19.09
Health	2.30	0.28	1.45	6.44	3.16	13.63
Power	0.04	0.25	0.05	3.21	9.35	13.35
Industry	1.52	1.53	2.45	3.73	5.67	14.09
Transportation & Communication	3.91	2.79	11.65	40.16	21.59	80.10
Agriculture	2.74	2.45	3.28	7.66	5.78	21.91
Village Development	1.47	1.67	5.90	6.02	7.39	22.63
Government Services	0.75	1.27	4.97	4.63	6.84	18.46
Total	14.71	12.04	32.07	78.94	65.32	204.07

Note : The year is from July to June.

But in these sectors the achievement measured just in terms of the number of schools, etc, cannot be regarded as a sufficient index of success.

Obviously, the progress of the economy has not been sufficient to make possible a real and substantial rise in the standards of living. There were a number of reasons for this slow progress. During the five years of planning there was no co-ordinated approach to the problems of development. Even the membership and functions of the central planning organisation were frequently changed after the adoption of the plan. Substantial aid was received from friendly countries in financing the plan, but nothing, or very little, was done to mobilise internal resources. The administrative structure was too antiquated for implementing the plan. Lastly, the organisation of planning was highly centralised. In a country with wide topographical variations, virtually lacking in transport and having inadequate knowledge of different regions even at the official level, this type of centralisation was obviously undesirable.

Administrative Shortcomings

In short, the reasons for the shortfall in Plan achievement were: lack of efficiency and promptness in the administrative machinery concerned with planning, shortage of skills and technical and trained personnel, over-emphasis on foreign aid, lack of proper publicity to generate public enthusiasm, and lack of basic information about the different sectors of the economy.

The policy statement on planning issued by His Majesty's Government in September 1961 summarising the achievements of the First Plan described them as inconsiderable since the development efforts were much too small as compared to our national needs; as inconsistent since much of the development activity undertaken was not relevant to present national priorities; and as financially insecure because development became more and more dependent upon foreign aid.

Absence of reliable statistics makes it almost impossible even to guess the total production of the country. However, judging from the fact that the value of the exports of surplus food from the tarai regions to India went up from 45 million

rupees in 1957-58 to 96 million rupees in 1959-60 or by more than two times, production seems to have gone up quite considerably. (See my article, "Nepal-India Trade Relations", *The Economic Weekly*, February 24, 1962). It is said that only in 1957-58, as a result of the drought, did agricultural production decline in the country. To what extent agricultural production went up — whether the increase was sufficient to offset the rate of population growth — it is difficult to guess.

For industrial production, certain generalisations can be made on the basis of certain preliminary figures, for some large industrial units. Table 3 shows that with certain drops occasionally with regard to some commodities, the rate of production has been almost consistent and there has been a slight increase in production in recent times. Even in the context of the uneconomic operation of a number of large industries, it is encouraging that in-

dustrial production has been able to maintain some amount of consistency. In 1960-61 Nepal exported 10,000 maunds of jute, mainly to West Germany, Britain and Italy and, in fact, for the first time, jute production brought in significant earnings of foreign exchange.

Prices and Exchange Rate

In recent years there has been a general belief that prices of goods have been rising in the country both as a result of deficit financing as well as the general scarcity of consumer goods. There is some truth in this since Government budgets till 1957-58 were more or less inflationary. However, the emphasis on avoiding deficit financing since 1958-59 has discouraged this trend. Though the indices of prices of even selected commodities throughout the country are not available, collected data on some selected commodities in Kathmandu show that there has been no appreciable rise in prices.

Table 2 : Progress of the First live-Year Plan

Sector (1)	Unit (2)	Target (3)	Achieve- (4) as per-	ment (4) cent of (3)
Village development centres	Number	48	55	114.58
Food grains centres	"	18	10	55.55
Livestock development centres	"	7	4	57.14
Dairy centres	"	0	5	—
Cottage industry centres	"	5	21	—
Industrial estates	"	0	2	—
Irrigation	Acres	2,75,000	65,200	23.73
Electricity	kWs	20,000	750	3.75
Roads	Miles	900	500	55.55
Ports	Number	100	298	298
Airports	"	0	7	—
Telephone	Lines	700	150	21.04
Primary schools	Number	630	2,000	317.46
Middle & high schools	"	136	165	163.00
Colleges	"	0	65	—
University	"	1	1	100.00
Additional beds in hospitals	"	423	105	24.82
Health centres	"	54	94	174.00
Ayurvedic Ausadhalaya	"	43	34	79.00
Co-operative societies	"	0	378	—

Table 3 : Production of Selected Factories

Commodities	Unit	1956-57	1957-58	1958-59	1959-60	1960-61
Morang Sugar Mills	Maunds	—	30.9	58.2	65.7	68.0
Raghupati Jute Mills	Tons	1.5	2.5	2.9	2.6	3.6
Biratnagar Jute Mills	Tons	12.2	10.5	11.8	12.04	1.08*
Juddha Match Factory, Biratnagar	Gross	62.5	—	136.8	147.2	168.6
Birganj Match Factory	Gross	—	—	—	78.3	98.7

* January-April 1961.

It would appear from Table 4 that prices of selected commodities remained roughly constant. Of course, in some cases they have risen a little, and in case of potato there has been an almost 300 per cent increase between 1956 and 1961. Some prices, affected by the price increase in the originating country (for example, those of cloth and yarn in India), have gone up. Similarly, the fall in price of petrol, kerosene oil, newsprint, etc in the Indian market has also been reflected in Kathmandu. On balance there has been, of late, a slight upward trend in prices of imported goods. But on the whole, the price trend is not discouraging even in view of the moderate investment of just 204 million rupees during the First Plan.

In view of the dual currency system (since Indian rupees circulate freely in tarai regions) the trends in the exchange rate between Nepalese and Indian rupees are also connected with the trends in price. There has existed an inverse relationship between fresh creation of money and the movement of the exchange rate. The Government exchange rate was raised in August 1958 from 128 Nepalese rupees for 100 Indian rupees to 150 Nepalese rupees for 100 Indian rupees. In this connection, it should be noted that the official rate was just limited to only certain commodities and for all practical purposes the guiding rate was the non-official rate of the open market. This rate used to fluctuate quite widely even over hours. Consequently, people were losing confidence in their own national currency, and circulation of the Nepalese rupees was narrowing down. Under such circumstances (when the rate was about 164 : 100) in April 1960 His Majesty's Government offered the unlimited convertibility of the Nepalese rupee at the rate of 160 Nepalese rupees to 100 Indian rupees and declared that the Government revenues and other dues (except certain contract items) were to be paid compulsorily henceforward in Nepalese currency.

Since then a stable exchange rate (with the liquidation of the indigenous money changers or 'sarafies') between the Nepalese and Indian rupees has been increasingly maintained. There has been a significant widening of the area in which the Nepalese rupee is used as a medium

of exchange. This is also evident from the fact that during the first 15 months of the convertibility of Nepalese rupees (ending in July 1961) the volume of the Nepalese rupees in circulation increased from 57 million rupees to 117 million rupees. Part of the increase represents the net replacements of Indian rupees by Nepalese rupees.

Development vs Population Growth

Comparing the rate of investment with the rate of growth of population, investment appears to have been just sufficient to feed the population growth, with both rates at a little more than 1.6 per cent per annum. There has not occurred, therefore, any economic stagnation. But this does not mean that we have any reason for satisfaction. Our population had been increasing at the rate of 1.6 per cent per annum in 1959. The provisional figures of the 1961 census put the growth rate at about 1.66 per annum. But according to one projection, by 1966 Nepal's population would have increased at the rate of almost 2 per cent; the total population will then be more than 10 million. Hence the time has come to speed up our rate of economic development.

In any country internal resources for development come mainly from the excess of Governmental revenue over expenditure. In the existing conditions in Nepal budgetary resources are meagre. From Table 6 it will be seen that there has been a small rise in the revenues of the Government in recent years, but with the completion of more and more developmental projects and the expansion of the Governmental establishment, which is a normal phenomenon, the increase in expenditure on the regular budget is likely to be proportionately more than the increase in revenues. Therefore, even with the effort to economise upon the regular expenses of the Government and to mobilise domestic resources for development, for some years to come it would not be possible for the country to finance rapid

economic development from its own resources.

Growing Reliance on Aid

The experience of similarly placed countries has shown that in the initial stages of development they have depended heavily upon foreign aid. Therefore, in the context of limited resources, it will be necessary, of course, for Nepal to depend on foreign aid for years, with simultaneous efforts to raise internal revenue, thus it is seen that during the past few years dependence on foreign aid has been increasing almost every year. For example, the percentage of foreign aid in the development budget was 71 per cent in 1958-59, 80 per cent in 1959-60, 88 per cent in 1960-61 and 94 per cent in 1961-62.

Foreign aid affects a country's economy in various ways. It may reduce the volume of trade through normal channels and may also affect the direction of trade. This may, however, be true only of some commodities, since many commodities, mainly heavy machinery and equipment would not have been imported in the absence of aid. In the case of Nepal, however, there are some commodities, especially those received as part of U.S. assistance, which supplant commodities which would otherwise have been imported. Secondly, foreign aid has pumped money in the economy which is reflected in increased imports. This will be seen from Table 7. However, even with the utmost help from external sources the problem of Nepal's development will not

Table 5 : Exchange Rate :
Nepalese Rupees for 100
Indian Rupee*

Year	Quarterly Exchange Rate			
	I	II	III	IV
1954	160	161	170	167
1955	173	183	179	173
1956	154	156	150	148
1957	136	135	136	145
1958	155	153	161	169
1959	165	161	165	165

Table 4 : Indices of Price of Selected Commodities
(Base 1954 = 100)

Commodities	1955	1956	1957	1958	1959	1960	1961
Rice	122	124	127	124	124	126	130
Pulse (Mas)	132	150	100	121	139	80	101
Maize	144	152	120	112	116	75	85
Ghee	111	116	113	113	108	120	114
Mustard oil	91	117	111	109	108	96	102
Potato	87	200	117	144	167	174	271

even begin to be solved unless the country dedicates its own resources, human, physical and financial, to a sound and persistent attack on those basic internal causes of mass poverty. This realisation

fortunately has been increasing with experience in recent years.

Along with foreign aid at the Governmental level, private foreign investment can also accelerate the pace of economic development in a

developing country. Besides giving general concessions, while considering whether a particular foreign investment should be allowed or not, broadly speaking, the Government should consider the following fac-



Just right...

Those trousers with the 'Italian cut'—just the thing for him until they were laundered... For a while he thought he was putting on weight—but no, the trousers that looked so smart in the display window had shrunk! If only he had looked for the label 'Sanforized'...

Make certain you get the full measure of value of the material you buy—

Look for

SANFORIZED
REGD. TD. MK.

on the label

and your clothes will never shrink out of fit!

Issued by Cluett, Peabody & Co., Inc. (Incorporated in the U.S.A. with limited liability) proprietors of the registered trademark "SANFORIZED". The trademark proprietors use the trademark SANFORIZED, or permit the said trademark to be used by registered users authorized to use the trademark, only in respect of tested fabric which meets the trademark proprietors' strict requirements as to residual shrinkage.

For information: 'Sanforized' Service, 95 Marine Drive, Bombay 2

The trademark 'SANFORIZED'— registered and trusted in 129 countries of the world— is a vital force for the export of Indian textiles.

tors: (i) Is there a really workable programme of development? (ii) is the investment proposed, technically speaking, in a field where domestic investment is either not adequate or the requisite technical knowledge is not available inside the country? (iii) Will the proposed investment result in the saving of foreign exchange? (iv) Will the proposed project lead to over-all increased productivity rapidly?

Only a Partial Plan

The First Five-Year Plan was a partial plan in the sense that it did not take any approach towards over-all planning, but was more or less a collection of public projects in different fields will estimates, in some cases very rough, of their costs. An estimate of investment funds available was made from time to time and, accordingly, some adjustments were made in the plan. Though the plan was realistic in some aspects, there were certain gaps in its formulation. It was just a five year programme in which different departmental projects were tied together. Without any co-ordinated approach to problems of development, the plan described various programmes in a sketchy way.

The emphasis on financial target was to prove illusory more than once. In planning, a balance between physical resources and financial allocations in different sectors of the economy is always necessary. In case such balance is not struck, lags in planned expenditure are bound to occur. In the First Plan there was no attempt to balance financial outlays and physical resources. In other words, the possible repercussions of a given expenditure on factor allocations and output were not analysed at all. This, as the working of the Plan showed, led to the expenditure targets being attained in some programmes though the physical targets in most cases remained beyond immediate grasp. When quick results in terms of expenditure are demanded, the emphasis is not on how well money is spent, but rather on how much is spent. Consequently, even the evaluation of the few projects undertaken was done mainly on an expenditure basis and the tempo of achievements was measured simply by the tempo of expenditure.

Model for Second Plan

The framers of the First Five Year Plan had *not* followed any systematic planning technique. The framers had of course to work under certain handicaps. The administration was quite new to planning. The system of Government budgeting had just started. The statistical information was very scanty. Even so, we feel that it was a good experiment in collective thinking and action, and though it started in a haphazard and half-hearted way it certainly gave the necessary experience and the self-confidence born of experience to our planners. With the experience and statistical information gathered since 1956, when the First Plan was drawn up, it was thought possible to use better techniques for framing the draft of the Second Plan.

In consideration of both the long-term and short-term problems. His Majesty's Government released in June 1960 a model to provide a basis for the formulation of the draft of the Second Five Year Plan. It was thought that the model would help to provide the framework of a sound and logical arrangement of selected important variables. The objectives of the model as decided by the Government was to achieve an increase of 30 per cent in the national income during the Second Plan period. The total investment required for this increase was estimated at 1960 million rupees. Agricultural production would increase by 16 per cent, while non-agricultural production would rise by 130 per cent at the end of the Plan period. The rise of 16 per cent in agricultural production would be achieved both by introducing in-

tensive techniques of production and bringing more cultivable land under cultivation. The model proposed to keep the number of working people in agriculture constant. It was calculated to increase the real per capita income of farmers by making agriculture more productive. The total outlay in the agricultural sector was estimated at 450 million rupees.

Together with the development of agriculture the model gave due attention to the development of the non-agricultural sector. During the plan period sufficient funds would be provided for setting up a few large industries in the public sector. At the same time the development of cottage and small scale industries both in rural and urban areas was to get priority. A few basic industries and a few hydro-electric plants would be set up in the public sector. In this way a start was proposed to be made during the Second Five Year Plan towards the industrialisation of the country.

High Priority for Overheads

The development of economic and social overheads was also to get a very high priority in the Second Plan. The main objective of the Second and even the Third Five Year Plans was proposed to be to prepare the economy for the take-off and, ultimately, for sustained growth. Thus the basic foundation for the accelerated economic development in the years to come was supposed to be laid in the Second and Third Plans. Provision for economic and social overheads, in the absence of which a high rate of economic growth is not possible, should naturally get very high priority in the Plan. The

Table 6 : Balance of Revenue and Expenditure in Regular Budget
(Millions of Rupees)

	1956-57 (Estimated)	1957-58 (Estimated)	1958-59	1959-1960	1960-61
Revenue	42.90	57.60	73.30	76.76	110.09
Expenditure	48.10	65.70	66.69	72.60	97.40
Surplus (+) or Deficit (-)	- 5.20	- 12.10	+ 6.61	+ 4.16	+ 12.09

Table 7 : Value of Imports under U.S. and Indian Aid
(Millions of Rupees)

	1956-57	1957-58	1958-59	1959-60	1960-61
India	14.6	9.5	16.9	18.4	23.2
U.S.A.	9.9	12.3	48.4	17.7	56.1

total investment required to achieve 130 per cent rise in non-agricultural production was estimated at 1510 million rupees.

The Plan model also proposed to bring about shifts in the distribution of the working population by creating half a million new jobs outside agriculture during the Plan period to absorb the increase in the working force. In the beginning of 1961-62 about 6 per cent of the total working population was estimated to be employed in non-agricultural occupations. The Plan model proposed to increase this percentage to 14.25 per cent at the end of the Plan. On the other hand, the percentage of working population in agriculture would be reduced from 94 per cent in 1961-62 to 85.75 per cent in the beginning of 1966-67. In this way the model attempted to achieve the balanced growth of the economy, by trying to keep the rates of growth of different sectors in proper relationship to each other.

In case the model was followed in formulating the Second Plan, and if the underlying assumptions of the model were proved to be correct, the national income of the country was calculated to increase from 3200 million rupees at the end of 1960-61 to 4160 million rupees at the end of 1965-66, and the average per capita income would rise from 344 rupees to 407 rupees during the same period. In that way, other things remaining the same, the total production of the country was estimated almost to double in the initial years of the Fourth Five Year Plan.

Following the basic approach presented in the model it was proposed that a 'Plan-frame', which would set out the major economic aggregates of relevance to the Plan, would be ready for discussion by the end of September 1960. In the budget speech for the fiscal year 1960-61 on July 6, 1960 the Finance Minister informed the Parliament that the draft of the Second Five Year Plan would be submitted to the Parliament within a period of six months. The objectives of the Second Plan, in broad terms, were to increase national income by 30 per cent, to develop agriculture through the application of improved techniques, to build up the infrastructure for economic development, to industrialize gradually, to provide

social services and to reduce the inequality in incomes.

New Approach

However, after the dissolution of the elected Government, the approach to planning also underwent considerable change. While referring to the problems of economic development, not properly envisaged by the Congress Government, His Majesty the King, in the Royal Message on January 5, 1961 emphasized: "There was no overall planning outlook; no regard was shown to existing conditions, necessary resources, technical personnel and practicability nor were schemes properly formulated. Individual and uncoordinated projects were taken up in haste. The result was that on the one hand the targets could not be achieved and on the other the limited resources of the nation were wasted. The present Government will bear this defect in mind and prepare a plan that will be practical and successful in bringing about the all round development of the country". Later on, while making the policy statement of the Government on planning, the Vice-chairman of the National Planning Council explained: "Shortly after the present Government assumed office the underlying assumptions behind the early preparations of the Second Plan were re-examined. A new and different approach to planning was required and in recent months we have been at work setting up both a new approach and establishing new development objectives, and priorities more consistent with the recent needs of the country."

Accordingly, recognising that a general plan for development over a period of years would require larger internal resources of money and organisational and technical skill than are available at present, His Majesty's Government proposed over the next three years to devise and implement a programme of specific projects with the objects of providing at the end of the period the basic infrastructure which will then support a wider and more comprehensive plan for the development of Nepal's economy and thereby accelerating, more rapidly than hitherto, the rise in the standards of living of the people.

In formulating the Three Year Plan special regard was given to

the following longer-range policy objectives :

- (i) the development of agriculture in view of our increasing population and the need to augment incomes in the rural sector;
- (ii) the expansion of industrial activity in sectors where this would be beneficial, in order to achieve a better balanced national economy;
- (iii) the improvement and extension of social services; and
- (iv) the gradual reduction in social and economic inequalities which are presently responsible for retarding economic growth.

Corrective Measures

However, the Second Plan was not launched immediately after the completion of the First Plan. In fact, the interim period of one year (July 1961-June 1962) between the completion of the First Plan and the initiation of the Second, was devoted to corrective action including collecting statistical data and other information and preparing the Second Plan. The work on the Second Plan proceeded on a 'three point programme'. It consisted of a review of developmental projects and programmes already under way, a review and reappraisal of possible development projects and programmes not yet started, and a study of practical longer range priority development projects and programmes based on above objectives, administrative and technical manpower requirements and domestic and external financial resources. Under the general guidance and direction of the National Planning Council, the plan documents were prepared. It was announced that the first draft of the Three Year Plan would be released in March 1962 for public comment and suggestions (see Appendix) before its implementation. In July 1962 it was proposed to start the Plan which will be a larger development effort than the First Plan, properly co-ordinated and more relevant to the present needs of the country.

Like any other under-developed country, Nepal has its own specific problems of creating among the masses of the people a powerful incentive for increasing production, accelerating considerably the rate of capital formation and using modern technology and scientific methods of expanding output. In the march

towards progress it is appropriate that the experiences of other countries be utilised. Firstly, it should be emphasised that planning should be flexible and should always keep the time horizon in view. Detailed annual plans on the basis of the periodic Plan will have to be prepared and in the light of new experiences necessary adjustments will have to be made at shorter intervals. Secondly, the basic minimum for the growing population (rising by about 2 per cent per annum during the Second Plan period) should be provided in the shortest possible time. Thirdly, in a country like Nepal, basic economic overheads should get greater priority than social overheads with a view to achieving the desired rate of growth in future.

Second Plan: More Realistic

While the basic postulates of the Second Plan are probably more realistic to-day because of the prevailing economic and political philosophy and the availability of more reliable statistics it should be emphasised that, while executing any realistic Plan, certain aspects of a long term character will have to be seriously considered right from now. The problems of an undeveloped country like Nepal are too complicated to be solved either within one or two years or all at once. They demand co-ordinated, consistent and sustained efforts.

Firstly, almost 75 per cent of the plan-work lies in the fulfilment of the Plan or the practical implementation of the individual projects in the Plan. This basically depends on administrative organisation. In many under-developed countries the problem of economic development is more 'organisational' than anything else. In the way of mobilising resources — both domestically and internationally — framing and implementing various schemes, organisation may prove a bottleneck. For instance, utilisation of funds, in spite of availability, may be slow, and the targets may not be attained. Therefore, it would be very necessary to have this aspect under constant watch. The Government has accepted that energetic and proper execution, phase-by-phase, of long-term plans is not possible unless the organization is powerful and supreme. This aspect

needs more serious study and appropriate action.

Secondly, the schemes in the Plan should be scientifically framed and need to be continuously reviewed in the light of practical experience. Some of the defects seen in the early stages could thus be overcome gradually, it would be necessary to co-ordinate different programmes not only to avoid duplication and overlapping, but to remove the bottlenecks in the process of implementation of the Plan.

Importance of Price Policy

Thirdly, in any developing economy there is pressure on the general level of prices. In the initial stages of economic growth in a country like Nepal priority has always to be given to the development of socio-economic overheads and the time-lag between the investment period and the production period is always considerable. The importance and urgency of adopting a sound price policy and defining the ends of such a policy should, therefore, receive proper recognition. The Government has started state trading in iron and steel imported from India. Some sort of price control has also been introduced on goods imported from countries other than India.

Of course, with the process of growth inflationary pressures will continue to beset our economy for several years, since it is an inevitable accompaniment of the process of rapid advancement. We will have to accept this fact. Even during the First Plan period prices in 1961 are estimated to be just over 13 per cent higher than those in 1957. A careful watch should be kept on all the factors that affect the country's economy during the implementation of the Plan. Some of the important factors are public and private expenditure, the general level of prices, the cost of living, savings, credit creation, deficit financing and so on. It will be necessary from time to time to take steps to curb inflationary spirals resulting from economic development,

Lastly, since the statistical data available for the purpose of planning are quite inadequate and other basic conditions are not favourable to planning either, the approach to planning should be thoroughgoing. Industrialisation and technical research should be accepted as the basis for successful planning. It might be fruitful to rely more on the project approach. Planning

Table 8
Foreign Aid Available During First Five Year Plan *

Country or Organisation	(In thousand rupees)					Total
	1956-57	1957-58	1958-59	1959-60	1960-61	
USA	1,27.53	4,84.73	1,79.51	5,62.25	8,69.97	22,23.89
India	1,45.70	96.05	1,71.02	1,84.50	2,23.55	8,30.82
Russia	—	—	—	—	84.56	84.56
China	—	—	—	3,21.35	—	3,21.35
UK	—	—	—	6.73	30.47	37.20
New Zealand	—	—	—	11.30	10.00	21.30
Australia	—	—	—	—	8.49	8.49
Canada	—	—	—	11.25	—	11.25
Switzerland	—	—	—	19.72	4.09	23.81
Ford Foundation	—	—	—	—	1,06.55	1,06.55
UN	—	—	—	1,36.30	33.31	1,69.61

Notes : The figures include financial and technical assistance and, therefore, exceed the total amount actually spent during the plan period. The figures for 1960-61 are estimates.

* Prior to the commencement of the First Five Year Plan, under American and Indian aid (financial and technical) the following amounts were estimated to have been spent :

USA	Rs 2 49.51 000
India	Rs 7,00,18.000

These figures are, of course, not included in the above table.

could be much more successful if it (instead of the macro-approach as being usually practised) were based on individual projects within the framework of given directives.

Appendix

On March 5, 1962 His Majesty's Government released an outline of the 'three-Year Plan for public comment and for suggestions to be included in the first draft of the Plan to be issued later on, before the beginning of the next financial year. The outline plan-frame contained observations on policy and objectives, financial resources, and their allocation, programmes for the different sectors, and so on.

The objectives of the Plan in general terms remained almost the same as mentioned above, with a little more emphasis on encouraging private enterprise, improving the

administrative machinery and adopting necessary measures to maintain economic stability.

In keeping with the priorities, the financial resources were allocated as shown in table 9.

In the context of the increasing dependence on foreign assistance (94 per cent for the fiscal year 1961-62) for planning, the outline emphasized the importance of mobilising domestic savings "for the effective utilization of foreign assistance." However, it pointed out that certain loans (like the Chinese and the Russian) were tied to particular projects. The amount of foreign aid likely to be available during the plan period was estimated at 360 million rupees, leaving a gap of 100 million rupees. The foreign aid tied to specific projects amounted to 120

million rupees and so a sum of 460 million rupees would be the total financial requirements of the Plan. The outline proposed to mobilise domestic savings to the extent of half of the deficit (ie 50 million rupees, or 9 per cent of the total financial outlay). Suggested measures to raise this amount were: increasing the rate of land revenue, increasing customs revenue through effective control over customs posts, betterment levy and irrigation charges, mobilising profits from public enterprises and raising internal loans. It also assumed that the regular budget will be balanced, and that the additional amount available from internal resources will be used for development works. The sources of finance of the Plan are indicated in Table 10.

Table 9

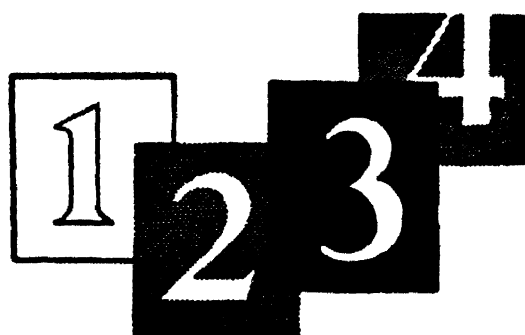
Allocation of Financial Resources

	Amount allocated (Million Rupees)	Loan (Million Rupees)
Transport and Communications and Power	223.0	10.0
Industry	105.0	50.0
Social Services	103.5	
Agriculture	82.0	10.0
Organisation, management survey, statistic*, publicity and training	72.5	
Total	586.0	70.0

Table 10
Sources of Finance
(In million of rupees)

Foreign aid		480
Committed funds	120 *	
Others	360	
His Majesty's Government's Contribution		50
Land Revenue	35.0	
Customs	5.0	
Forests	5.0	
Others	5.0	
Deficit		56.0
Loans		70
Nepal Bank	10	
Foreign Countries	50	
Internal Loan	10	

Excluding Trisoli Project and the Kathmandu-Tibet Road.



Helping the plans

Saving or spending—do it through a Bank and help us increasingly to serve you and the National Plans.

