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KINGDOM OF NEPAL

PRESIDENT'S MEMORANDUM

POVERTY ALLEVIATION PROJECT IN WESTERN TERAI (LOAN NO. 452-NP)
INCLUSION OF NEW PROJECT COMPONENT AND REALLOCATION OF LOAN
PROCEEDS

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I. BACKGROUND

1. The Poverty Alleviation Project in Western Terai was approved by IFAD in September 1997 and declared effective in March 1998, and is expected to close in December 2004. The total cost of the project amounts to USD 9.73 million, of which SDR 6.55 million (approximately USD 8.87 million) was provided by IFAD in the form of a loan, USD 0.44 million by His Majesty's the Government of Nepal (the Government), USD 0.08 million by the Agricultural Development Bank of Nepal (ADBN) and USD 0.34 million by the project beneficiaries. The project is administered and supervised by the United Nations Office for Project Services (UNOPS).

2. The overall objective of the project is to increase the income and improve the welfare of small farmers, the landless and rural women in the project area; and to improve the financial viability and sustainability of selected credit service providers. This will be achieved through providing: credit services to target groups; institutional support to selected bank branches to establish a methodology for the Grameen approach in Nepal; skills development training to beneficiaries on a demand-driven basis; extension services on a wide range of topics; essential rural infrastructure on a demand-driven, self-help basis; and support to the project implementation agencies.

3. As main implementing agency, the Ministry of Local Development is responsible for coordinating all project activities and for implementing the components for extension and skills training and for community development. Nepal Rastra Bank is responsible for the implementation of the credit services and ADBN for the shallow tubewell activities.

4. To date, the project has made a significant impact on the beneficiaries, despite a slow disbursement rate. However, a number of unexpected events have arisen during implementation, as discussed below in Sections II and III. The major issue of concern is the emergence of a crisis facing a particular sub-set of the IFAD target group – the *ex-Kamaiyas* (ex-bonded households).

5. Following a recommendation by the July 2000 UNOPS supervision mission and as requested by the Government in September 2000, the Asia and the Pacific Division of IFAD fielded a fact-finding mission headed by the responsible Country Portfolio Manager. After intensive interaction with various departments of the Government, the major donor agencies, non-governmental organizations (NGOs) and the *ex-Kamaiyas* themselves, the fact-finding mission prepared an aide-mémoire containing recommendations for changes in the project design. The Government agreed in principle to the recommendations, and IFAD subsequently fielded a technical follow-up mission. That mission worked closely with the Government, communities and NGOs to produce a costed proposal for a new project component comprising three main sub-components to be targeted at the *ex-Kamaiya* families: (i) habitation development; (ii) livelihood promotion; and (iii) capacity strengthening. The total cost of the new component is estimated at NPR 302 million (USD 4.1 million). On the basis of the detailed component design outlined in the January 2001 report of the technical follow-up mission, and in response to a formal request from the Government, it is proposed that: (i) the current project design be



modified to include the new component; (ii) the cost of the component be accommodated through reallocation of loan proceeds; and (iii) the existing loan agreement be amended accordingly.

II. THE EX-KAMAIYAS

6. In Nepal, slavery was abolished in 1924 and the Constitution of 1990 banned the practice of bonded labour. Any form of forceful employment of labour in any activity is unconstitutional and punishable by law. The *Muluki Ain* (Civil Code) of 1963 and the Contract Act of 1964 also prohibit such contractual labour arrangements. Despite these legal provisions, bonded labour in the form of what is known as the *Kamaiya* system has been in practice in Nepal until recently, most prevalently in five districts in the Terai – Banke, Bardiya, Dang, Kailali and Kanchanpur – of the mid-western and far-western regions. The *Kamaiya* system was overwhelmingly present (above 95%) among the *Tharus*, namely, the original inhabitants of the Terai of Nepal. This highlights the ethnic dimension of the system.

7. The Government began to show concern about this problem in the mid-1980s, when an official investigation began. Ultimately, in response to rising public and political concern about the practice of bonded labour, the Government announced a ban on the *Kamaiya* system on 17 July 2000, declaring it illegal, freeing the former *Kamaiyas* from all debts to their landlords with immediate effect, and providing for three-to-ten years of imprisonment in the case of default.

8. While this action received wide popular support, a new problem has emerged to face the ex-*Kamaiyas*. Immediately following the announcement on 17 July 2000, some 1 300 ex-*Kamaiya* families became homeless as they were pushed out of their previous dwellings and forced to take shelter in public places – schools, offices, land and other places. The rescue measures adopted by various agencies in response to this problem have helped to temporarily rehabilitate the ex-*Kamaiyas* in camps but their access to basic services remains very limited and their medium- to long-term livelihood prospects remain precarious. There are reports of starvation and inadequate access to safe drinking water. Furthermore, those who are already displaced are only a fraction of the estimated 9 000 ex-*Kamaiya* families, who possess no land and homesteads of their own and live on whatever is provided to them by their respective landlords. The need for an effective and sustainable solution to the problem of the ex-*Kamaiyas* is thus urgent and crucial to ensure their successful emancipation.

III. RATIONALE FOR THE NEW PROJECT COMPONENT

9. The problems of the ex-*Kamaiya* system were brought to IFAD's attention by a general identification mission fielded by the FAO Investment Centre in May 1993. One of the mission's proposals for IFAD intervention referred to the urgent need to help such people to escape from debt-bondedness, especially among the *Tharus*. The Poverty Alleviation Project in Western Terai (PAPWT) was identified immediately after receipt of the mission's report. By September 1994, the formulation report, which laid considerable emphasis on the plight of the ex-*Kamaiyas* and other landless squatters, was available. The groups were identified as the priority target group for the IFAD project and the mission recommended a squatter resettlement programme that included support for improved housing. However, that approach was dropped at appraisal on the grounds that the new Government's land tenure and housing assistance policy had changed and the NGO identified to implement the component was no longer available.

10. PAPWT was approved in its truncated form and was being implemented as such when the Government declared that all bonded labourers were to be freed as of 17 July 2000. A strong civil-society movement that has been evolving in Nepal since the introduction of representative democracy can be attributed as the main reason behind the Government's sudden decision. This bold policy change on the part of the Government naturally has major implications for the ongoing PAPWT.



11. While now nominally ‘free’, most of the *ex-Kamaiyas* have no land or homesteads of their own and are living in relief camps mostly operated by NGOs and supported by United Nations agencies such as World Food Programme and the United Nations Children’s Fund. Living conditions in the camps are very poor, the vulnerability of the *ex-Kamaiyas* remains high and, as the years pass, they will be less and less likely to strike out on their own. Realizing that the *ex-Kamaiyas* seriously risk having to return to the moneylenders, the Government prepared a paper entitled “Proposal for Immediate Rescue and Rehabilitation of Recently Emancipated Ex-Kamaiya Labourers of Western Nepal” and submitted it to various donors, including IFAD.

12. The *ex-Kamaiyas* are beyond doubt the most vulnerable and exploited group of rural poor in Nepal, and the fact that it is the *Tharus* – an indigenous group – who are the principal victims of the system make it especially reprehensible. Several IFAD missions fielded during the preparation of PAPWT made it amply clear that this group was deserving of special attention and support from IFAD. With the advantage of hindsight, it is clear that the PAPWT appraisal mission underestimated the strength the civil-society pressure to free the *ex-Kamaiyas*. It is also clear that the original design should have been flexible enough to accommodate such a change in government policy and to enable the project to target the *ex-Kamaiyas* as originally intended.

13. Implementation of PAPWT’s original components has been slow. In the 35 months that have elapsed since the project became effective, the disbursement rate is less than 19%, including the allocation to the Special Account. One of the main components – shallow tubewells – is not likely to be implemented in any significant way because the Government has eliminated the subsidies envisaged for this component. Further, the Nepalese rupee (NPR) has depreciated by over 30% since appraisal. Thus, the disbursement rates in SDR terms are expected to be lower than expected at appraisal. The proposal for an *ex-Kamaiya* component (see Section IV) is made with full regard to the reallocations that would be necessary to accommodate inclusion of the new component. It also takes account both of the current disbursement rate and of the above-mentioned changes in the Government’s subsidy policy that will affect the current components of PAPWT fairly significantly.

IV. ACTIVITIES FOR FINANCING UNDER THE NEW COMPONENT

14. The proposed *ex-Kamaiya* rehabilitation activities component has three sub-components, namely: (i) habitation development; (ii) livelihood promotion; and (iii) capacity strengthening.

Habitation Development

15. Support will be provided for the development of: (i) a minimum acceptable level of housing; (ii) drinking water; and (iii) sanitation facilities. Bearing in mind such factors as the cost ceiling, technical feasibility and suitability based on the physical and climatic conditions of the Terai, provision is made for 9 000 clay brick walled houses at a unit cost of NPR 19 398. Unskilled and semi-skilled labour will be provided by the *ex-Kamaiyas* themselves, and the Government will provide timber for construction. Taking advantage of a cheap and easily available groundwater resource, provision is also made for a total of 1 800 hand tubewells at a unit cost of NPR 3 500 for the benefit of 9 000 *ex-Kamaiya* families. Finally, provision is made for 9 000 ventilated improved pit latrines at a unit cost of NPR 2 175.

Livelihood Promotion

16. This sub-component has four elements: (i) agricultural extension; (ii) skills training; (iii) irrigation; and (iv) working capital support. NGO(s) will be contracted to implement the entire sub-component for a period of at least two years and to mobilize, motivate and train the *ex-Kamaiya* groups in the commercial production of various high-value agricultural commodities, in keeping with local conditions. New and improved marketing channels will be created and the activities will be



institutionalized within the framework of marketing cooperatives managed by the producers. Costing of the requirements for technical assistance is based on the assumption that the NGO(s) will maintain one office for every 1 000 target families. The *ex-Kamaiya* families will need various forms of specialized technical training to develop their skills, but mainly day-long courses designed to develop skills in specific activities related to a particular microenterprise. Provision is made for an average of five such courses per family at a cost of NPR 1 000 per family (NPR 200 per participant per course) and for a total of 900 group shallow tubewells/lift-wells at the rate of one per group of 10 families. Assuming that the required labour will be provided by the *ex-Kamaiyas*, the unit cost is estimated at NPR 40 000. Since the financial conditions of the target families do not allow them to buy improved seed, fertilizer, farm implements and non-farm inputs, it is proposed that each family be provided with an initial working capital of NPR 3 000 in the form of a grant.

Capacity Strengthening

17. This sub-component focuses on strengthening the capacity both of PAPWT and of local bodies to implement the new *ex-Kamaiya* rehabilitation activity component. PAPWT now covers only ten village development committees (VDCs) per district, too few to allow it to meet the increased demand for services delivery under the new component. To strengthen its management capacity, the project will be equipped with additional staff and logistic facilities. As the focal agencies for local development, district development committees and VDCs are legally empowered to set development priorities and monitor and evaluate the development programmes under implementation within their respective constituencies. Active involvement of these local bodies will be crucial to the successful implementation of the new component and hence to the long-term, sustainable rehabilitation of the *ex-Kamaiyas*. Their role will be particularly important for creating an enabling social, psychological and political environment that will prevent the exploitative bonded labour practices from re-emerging, and for launching specialized programmes for the women and children (e.g. special scholarships, health and nutrition programmes, business, literacy and skill development programmes for women, etc.). As their chronic shortage of funds would limit their capacity to launch such programmes, provision is made for a special *ex-Kamaiya* rehabilitation fund to be lodged with each VDC. The provision made for this purpose amounts to NPR 500 per family.

V. REALLOCATION OF IFAD LOAN PROCEEDS TO FINANCE PROJECT ACTIVITIES DURING THE PERIOD UP TO THE LOAN CLOSING DATE

18. The proposed reallocation of loan proceeds takes account of the funds required to finance the new activities. The table below indicates the activities proposed for financing. It should be noted that savings under existing categories as well as funds made available by the devaluation of the Nepalese Rupee would allow for the additional component without jeopardizing other activities planned in the original project design. In particular, the original group shallow tubewells component for irrigation is not likely to be implemented in any significant way because the Government has eliminated the subsidies that had been envisaged for this component.

**EX-KAMAIIYA REHABILITATION ACTIVITIES COMPONENT
BREAKDOWN OF COSTS BY SUB-COMPONENT**

Sub-Component	Total Cost (NPR '000)	Total Cost (USD '000)
Habitation development	200 462	2 708.9
• Housing	174 582	2 359.2
• Drinking water	6 300	85.1
• Sanitation	19 580	264.6
Livelihood promotion	91 100	1 231.1
• Agricultural extension	19 100	258.1
• Skill training	9 000	121.6
• Irrigation	36 000	486.5
• Working capital support	27 000	364.9
Capacity strengthening	10 300	139.2
• PAPWT strengthening	5 800	78.4
• Strengthening local bodies	4 500	60.8
Total cost	301 862	4 079.2

VI. RECOMMENDATION

19. I recommend that the Executive Board approve:
- the inclusion of an *ex-Kamaiya* rehabilitation activities component in the Poverty Alleviation Project in Western Terai (Loan No. 452-NP) in line with the component description in Section IV and the cost breakdown in the table appearing above; and
 - a reallocation of funds, as appropriate, to provide for inclusion of the new component.

Lennart Båge
President

