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The Politics of Poverty Alleviation in Nepal

Structural Analysis of Socioeconomic Development from the Past Five Decades

by

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Structural Analysis of Socioeconomic Development from the Past Five Decades

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Abstract: *As Nepal opened her door for international communities, it emerged from a barter system to global economy. During the last five decades (1950/51 – 2000/01) the country has witnessed different motley politico-economic decision making systems. The initial years in 1950s after emancipation from a very autocratic regime of more than 100 years were a political mess. The second half of 1950s was in the process streamlining, but another unfortunate political incident of 1960 pushed the country in different direction. The socioeconomic development of 1961 to 1990 was very sluggish, regionally biased, and unproductive, which forced the increment of mass poverty level in Nepal. The socioeconomic progress after 1990 seems encouraging but the real achievements have been shadowed by the weakness of politico-economical characters of ruling leaders. In last 50 years, Nepal followed the modernization path and experienced lots of developmental patch-ups, which did not sustain and enhance the productivity at the local level. Rather, the country witnessed a persistent poverty in spite of huge national and international expenses. In order to break the spurring poverty level the village economy needs to be enhanced with equal emphasis on human or social and ecological capitals enrichment activities.*

The modern socioeconomic development of Nepal started only after 1950 from a very low level of socioeconomic endowments. Prior to 1950, Nepal lacked any system of civil service, record of public welfare and accounting, basic social, economic, and demographic indicators (USAID, 1973). Development planning began with the establishment of a central planning agency, the National Planning Commission, in 1956. The country completed the Ninth Five-year Plan in the year 2002, and pursuing the 10th Five year Plan. The last five decades of economic growth in Nepal have not turned out as expected. One of the key indicators of

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socioeconomic development reveals that Nepal has the highest poverty level in South Asia (UNDP, 2001). An estimated 44 percent of rural households where 85 percent of the 24 million people reside and 23 percent of urban households live below the poverty line. The 1995/1996 Household Survey reported that about 42 percent of the population lived below the poverty line (with a Gini index of 36.7), and approximately the same poverty rate was reported in the 1984/1985 Multi-purpose Household Budget Survey (CBS, 1996). Both studies measured poverty level on the basis of minimum daily calorie intake, and found either persistence or even spurred poverty condition. The analytically unanswered question is why the poverty level is spurring in spite of huge national and international efforts. Is Nepal merely lacking a comprehensive development strategy for economic growth vis-à-vis socioeconomic development (Karan and Ishii, 1996) or is development really failed in Nepal (Pandey, 1999)?

This essay is a retrospection of the major socioeconomic development policies that Nepal adopted in last five decades from 1950/51 to 2000/01. The following units discuss economic growth and socioeconomic development phases of modern Nepal. A few major economic measures and resources mobilization policies and barriers of development are discussed. A structural analysis of socioeconomic transactions of the entire economy is examined, and key policy strategies regarding poverty and sustainability are argued.

THE ECONOMY BEFORE 1950

As Nepal freed from geo-political isolation in 1950, modernization paradigm has driven economic growth, albeit socioeconomic development in Nepal[2]. The modern theory of economic growth introduced by Harrod (1939) and Domar (1946) evolved different perspectives of modernization. In the Western world, modernization occurred through the process of commercialization, whereas in many non-western areas, it is largely due to commercialization and bureaucracy (Apter, 1987), but in many eastern countries modernization is portrayed as industrialization, urbanization, and bureaucratization (Zhang and Darwin, 1994).

Traditionally, the Nepalese economy is an agriculture based village economy that evolved through the barter system among different economic activities existed in the villages. Major agricultural crops are rice, corn, oilseeds, cotton, jute, and sugarcane. The economy from the village to the state level was integrated in the late 18th century, when a warrior King P. N. Shah of Gorkha, initiated a political unification process to build a new Nepal. The Divine Counsel of the King guided the policy for the State in matters of agriculture, trade, and governance. One of the major problems of that economy was a lack of capital in the state's treasury (Regmi, 1971). That might be one reason why the state even allocated land to the

[2] It should be noted the distinction between economic growth and development. Growth is a quantitative unit such as gross domestic product, but development is a qualitative term. Development comprises economic growth plus structure of an economy which includes production, consumption, employment, distribution, and environmental endowments.

government employees as a pay. War also became a major source of revenue for the government. For instance, the East India Company that lost a war with Nepal in 1816 agreed to pay a sum of Rs. 200,000 per year, which is popularly known as the *Sugauli Treaty*. Likewise, the rulers of Nepal were also receiving an annual sum of Rs.10,000 from the Tibetan government, as the latter lost to former in a war of 1855-56 (Rose, 1971). Nonetheless, during the late 18th century government's annual revenue estimated to be about 25 hundred thousand Rupees (Kirkpatrick, 1986). The main sources of revenue were duties on imports and exports. Major importable items were gold and silver, whereas exportable commodities were mostly forests and natural products, and agricultural produces. Kirkpatrick also mentioned the iron and copper mines, and that the latter were of excellent quantity. The metal craft industry was one of the prosperous industrial sectors and it is still a major cottage industry in the capital city and other areas.

Since the King was the absolute head of the state, all social and economic decisions as well as political resolutions were final. Later on, during early 19th century, the Kingship came under control of a certain ruling class - the Ranas, whose different family members ruled the nation from 1846 to 1950. The role of King as decision maker was practically eliminated, and the Ranas became the decisive authority. Socioeconomic development during the Rana period was virtually nonexistent. There was no national accounting system of income and expenditures during the Rana regime. Major sources of revenue were taxes on imports and exports. The rulers collected money through the sale of the natural resources like forest products, and wild animals. As the Ranas had maintained a good relationship with administrators of the East India Company and during the end of 19th century the British East India Company was expanding railway networks in the north plains of India, which required hardwood, and the forests of Nepal got a huge market (Ghimire,1992). Unfortunately, revenue generated by the sale of forests went to the rulers, not to the public. Historically, Kathmandu was a crossroad of trans-Himalayan trade between Tibet and India, and other parts of the South Asia, and the Ranas as rulers were also able to exploit such trade. All sorts of revenue and economic opportunities were the prerogatives of the rulers – the Ranas. These rulers spent little on public welfare during their 104 years rule. Regmi (1971) discussed the state of economic during the Rana regime. Whatever they got from the people or other taxable sources was their own private property, which they enjoyed at home or abroad. It won't be an exaggeration to say that before 1950, the Nepalese economy was exclusively controlled and operated by the Rana rulers and their families and allies who exclusively kept Nepal isolated from outside influence and disenchanted any sociopolitical change for more than a century. The family reign of Ranas ended in 1950 by the Nepali Congress led people's movement.

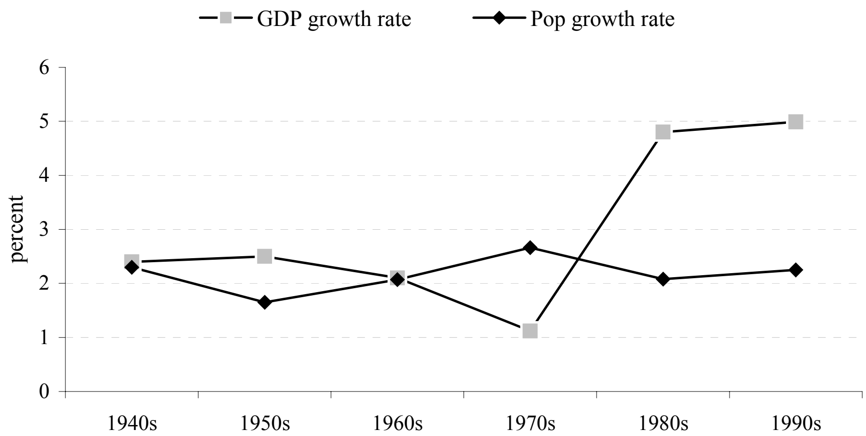
THE ECONOMY OF TRANSITION (1951-1960)

After the end of the Rana reign, the role of King as a head of the state was re-established, and political parties emerged. Socioeconomic development and modernization of the country became the primary goal of the civilian rulers. The first half of the 1950s opened the door of the country to foreign dignitaries. With the establishment of the United States Technical Cooperation Division in 1952, Nepal indicated that it was ready to accept development aid. At the beginning of the 1950s instability of successive governments lead to a little confusion among people, who were not aware enough about the rights and responsibilities. The first scientific census of 1951/52 indicated that out of a total population of 8.2 million people only two percent were literate – a key indicator of the social development. Land reforms and tenancy rights were the major issues of public concern, so the Land Act of 1957 was introduced to overcome eroding confidence in the political parties. This Act was expected to remedy the problem of insecure tenancy rights and regulated rents (Regmi, 1962). Likewise, forests were nationalized in 1956 and became the property of the government. The political confusion was ameliorated only after the first general election, held in 1959. After that election, the first elected government in Nepal of the Nepali Congress – a social democratic party, enforced another landmark law concerning privileged land ownership - the *Birta* Abolition Act of 1959. This law aimed to reduce the power of feudal landlords. As the Nepali Congress government determined to overhaul the socioeconomic structure, and bureaucratic systems through its social democratic philosophy, the then King Mahendra did a Royal coup in December 1960 and seized the parliament and its authority. Nevertheless, the average annual gross domestic product (GDP) growth rate for the period 1950s was reported about 2.4 percent.

THE ECONOMY IN BETWEEN 1961 -1990

In 1961, King Mahendra after overthrowing the multiparty democracy and banning political parties introduced his own political system – *party less Panchayati system*. By the introduction of this non-party political system the King became the absolute decision making authority, and pursued a state controlled mixed economic philosophy – a symptom of autocratic regime. This system lasted for about 30 years, so is mainly responsible for socioeconomic progress or loss in Nepal after she opened her door to international community in 1950s. Although the party-less system attempted to stimulate economic growth by its so-called ‘mixed economic philosophy’, it had little success. The economic growth rate during the *Panchayati system* (1961 to 1990) was very slow and even negative (Figure 1) if compared with that of population growth rate. Consequently, per capita real income thus grew marginally less than one percent. So, overall economic growth during the thirty years of the *Panchayat* system was sluggish though may be better than during the earlier autocratic period of the Ranas, before 1950. Khadka (1994) extensively discusses the *Panchayati* economic system and its failures.

Figure 1. Growth Rates of Gross Domestic Product and Population in Nepal



Nepal entered an economic crisis in the 1960s. A crisis of structural underdevelopment of the economy which is spatial and chronic due to:

(i) The higher growth rate of population than agricultural productivity,
(ii) The state's revenue generation attitude rather than stimulating the production and expansion of the economic bases,
(iii) Virtual lack of employment opportunities outside agriculture, and extensification, instead of intensification of agriculture that led to further environmental deterioration (Blaikie, Cameron, and Seddon, 2001).

During the *Panchayati* period, few unique characters of the economic growth were introduced. Nepal's economic activities have become the function of donor money. Nepal would have received more foreign aid per head than any other country, but the dismal side is that much of the money was returned back to donor countries. MacFarlane (1994) argued that the impacts of such donors were on a small segment of the society and the growth of towns. The aid surplus generated in the rural areas was siphoned off to the Kathmandu valley and surrounding areas. On the other hand, people started to move from rural areas to towns where they could find more physical facilities than available in the villages. The growth of the urban population shows that in-country migration in search of a better life was substantial. In 1951/52 only 0.24 million people lived in the towns, that figure grew to 1.7 million in 1991 and to 2.32 million in 2001. Macfarlane further observed that a small affluent class of people in Kathmandu enjoyed a first class world standard of living, whereas 95 percent of the people lived in poverty. The urban biased development efforts of the *Panchyati* system led to massive inequalities among different regions and social classes. Unbalanced economic growth was evident between urban and rural, east and west, hill and plain areas. Forty hill or mountain districts out of seventy five total districts in the country fell below the national level of socioeconomic standards (Ojha, 1997). This implies that economic growth in some areas of the country was at the cost of other regions which could be another indicator of centralization of resources vis-à-vis failure of successive plans.

THE ECONOMY IN 1990S

The People's Movement of 1990 overthrew the party less political system, *Panchayat*, and restored the multiparty politics. One of the fundamental changes after the restoration of a multiparty system was the decision making process at executive level. In the new parliamentary system, the council of ministers was responsible for economic as well as development policy decisions that were accountable to the parliament. The new political system also started to follow the market strategies introduced by the Nepali Congress which ruled most of the period in the nineties. Originally, the Nepali Congress envisaged itself as a social democratic party, but after thirty years of political struggle against the *Panchayati system*, and restoration of the multiparty polity in 1990, it totally relied on market philosophy that could have overlooked local socioeconomic structure particularly in the village economy. Nevertheless, modern paradigms of development were cemented by the National Planning Commission (NPC) on its 8th Five-Year Plan (1992-1997) so that it could achieve sustained economic growth, alleviate poverty, and reduce regional disparities. The government expected to follow the development approaches as outlined in the Eighth Plan, which were:

(i) market oriented, open, and liberalized economic approaches,
(ii) decentralization of policy by devolution of power to the local bodies,
(iii) regional and rural development,
(iv) mobilize the private sector and limit the role of public sector, and
(v) encourage the involvement of civic societies in the process of socioeconomic development (NPC, 1992, and 1997).

Further, His Majesty's Government of Nepal (HMGN) introduced a concept of the long term development in the 9th Five – Year Plan (1997-2002). One of the goals of long term development is to reduce the poverty line below 10 percent by the end of 12th Five year plan, i.e., by 2017. A comparative economic growth in terms of GDP contributing activities in the country is depicted in Table 1. One of the salient features of this economy is the increased GDP contribution from non-agricultural sectors, which is about 62 percent. HMGN is determined to increase the GDP contribution from non-agricultural sectors. Liberalization, privatization, and land appropriation were some major policy initiatives different governments in the nineties. Increase economic growth and decrease population growth rates are the traditional strategies to meet that goal along with some additional conventional programs such as employment generation, production and productivity enhancement, good governance, and human resources development.

Table 1. Sector-Wise GDP Contribution (on Percentage Basis)

Sectors	1990/91	2000/01*
Agriculture, irrigation and forestry	47.47	37.9
Industry, mining and quarrying	6.74	9.5
Electricity, gas and water	0.77	1.8
Construction	9.25	10.01
Trade, hotel, and transport	10.52	11.5
Transport and communication	6.55	8.4
Finance and real state	9.45	10.6
Community and social services	9.23	10.2

* estimates

Despite early warnings on the wrong path of development HMGN overlooked people oriented plans, policies, and programs, and over emphasized the capital intensive sectors such as factories, dams, roads, which could show immediate results but neglected local economic considerations (Hagen, 1971). Subsequently, the government seemed proud of owning more than 60 public enterprises, which ranged from cigarette to cement manufacturing, distilleries, oil supply, housing, lumber, and brick kilns. As of now, as country competes with international market, many of the state-owned enterprises in Nepal are labeled as sick industries due to their dependence on the taxpayers' money. The Economic Surveys published by the Ministry of Finance show that all the public enterprises (manufacturing sector) were in losses in the 1990s. The governments decided to privatize some of these public enterprises so that the private sector would be involved in the national building process. In the 1990s, 16 public enterprises were privatized, and the list of agencies to leave government control is very long including such agencies as cigarette producing, distillery, lime stone crushing and so on[3]. The main problems of the process and prospects for industrialization in Nepal range from human resources to capital mobilization, raw materials, inconsistent government policies, bribery, incentives, and the loan system, and a lack of coordination (Zivetz, 1992). The pace of industrialization was also hindered by the presence of a small domestic market, low income, scarce raw materials, low skill and geographical conditions.

[3] <http://www.privat.gov.np> and <http://www.mof.gov.np/> (January 31, 2005).

Local manufacturing industries have low productivity compared to foreign firms with high capital intensity (Koirala and Koshal, 1999). The country has a comparative advantage mainly in unskilled labor intensive, traditional skill intensive high value or low volume / or weight goods (Adhikari, 1998). Foreign investment has been beneficial to both the foreign investors and the national economy in Nepal (Chitrakar and Weiss, 1995), but policy reforms in the industrial sector are yet to be in line with comparative advantages (Sharma, 2001). However, the manufacturing sector's annual real GDP contribution increased from one percent in 1970s to about 10 percent in late 1990s.

Agriculture and Land Reform

Agriculture and land reforms are also tied with poverty alleviation in the planning documents. Since prehistoric times, agriculture has been the backbone of the Nepalese economy, so people keep a unique value to land. According to the 1961 Census, 97.1 percent of people living in the rural areas were entirely dependent upon agriculture. The same Census also revealed a very unequal farmland distribution pattern among the Nepalese households. For instance, about 75 percent of households had one or less than one hectare of land and eight percent of households owns 39 percent of cultivated land. In past fifty years, there had been many attempts to appropriate the large land holdings and to distribute land to landless people, as well as to secure tenancy rights, but almost all such efforts failed. The reason could be politico-bureaucratic inertia and corruption in the process of land appropriation. After the Royal coup in 1960, King Mahendra introduced a comprehensive land reform program in 1964 with a new Land Act-1964. The land reform program had acute social and psychological consequences, but had little impact on agrarian structure (Regmi, 1977). Land reform was one of the early prescriptions of the donors for many Asian countries, because the hidden objective was to check further growth of communism (Ladejinsky, 1977). The outcome of the 1964 Land Reform effort was insignificant. For example, the government was able to confiscate only 66,000 hectares of land above the ceiling, though the expectation was for nearly 600,000 hectares, and out of which only 34,000 hectares were redistributed (KC, 1986). Again, the 2001 summer parliamentary session of Nepal passed another so-called revolutionary Land Bill that reduced the legal size of land holding per family which is as 7 hectors in Terai, 1.1 in Kathmandu valley, and 2.75 hectares in hills. A political pronouncement was made without weighing up of socioeconomic implications, and exclusive of any schemes and information of land appropriation and redistribution. The new land ceilings are based essentially on perceived differences in regional population density and subjective judgment (Thapa, 2001). The country has yet to investigate the outcome of the 2001 land appropriation measures. Consequently, land allocation to the so-called landless people has become a never-ending process since the 1960s without any significant positive outcome (Shrestha, 2001).

Land distribution is further fragmented because of the land inheritance system in a typical Nepali family structure. Land is the basic form of family wealth and income generating sources. Children do have the heredity rights to parental property including the land. As a family grows; children as they mature would like to be independent, either parent will give their parts of land to their offspring, particularly to son (s) or they will ask to their parents for some land so that s/he will be able to take care of him/herself by land-based agricultural activities. Offspring may switch to other businesses by selling the part or all of the land obtained from their parents. This system of land inheritance and allocation between or among offspring and parents reduces the land ownership size per family, which depends on the stock of land owned by parents, and family size. Eventually, in each successive generation, available land will be further fragmented. This kind of land inheritance system primarily hampers the poor families who have less land. The poor will further become destitute due to the lack of sufficient land to feed them. For example, if one family has two offspring and three hectares of land, and if the parents wish to distribute their land equally among themselves, each will end up with one hectare. This family may survive at the subsistence level, but what will happen to the next generation? The dynamics of family multiplication and land fragmentation is ongoing. It is estimated that nearly 1.2 million out of total 4.2 million families do not have any lands (CBS, 2001).

On the other side, concern on land productivity was simply ignored. For example, between 1961/62 to 1980/81 there was an increase in the amount of cropland by 1.7 percent annually, but productivity decreased by 0.58 percent annually (Yadav, 19877). The stagnation of grain production in the plain (Terai) triggered an economic crisis in Nepal, which led to a huge gap between production and supply of total food grains (Seddon, 1994), because, during 1980s, agriculture was still one of the significant contributors of the GDP. The World Bank (1991) viewed that the agricultural land base is approaching the saturation point, but the scope for increasing productivity still exists. The Bank concluded that poor economic performance and rapid population growth are the leading factors for the poverty of Nepal. Many governments, i.e., governments formed before 1990 and after 1990, attempted to redistribute the land in order to reduce the landless induced poverty as perceived and failed miserably. In the words of an eminent economist, Kenneth Boulding (1968), “Abolition of poverty can only come from development, not from redistribution, not taking from the rich to give to poor, but by making everybody richer.”

Forest Resources

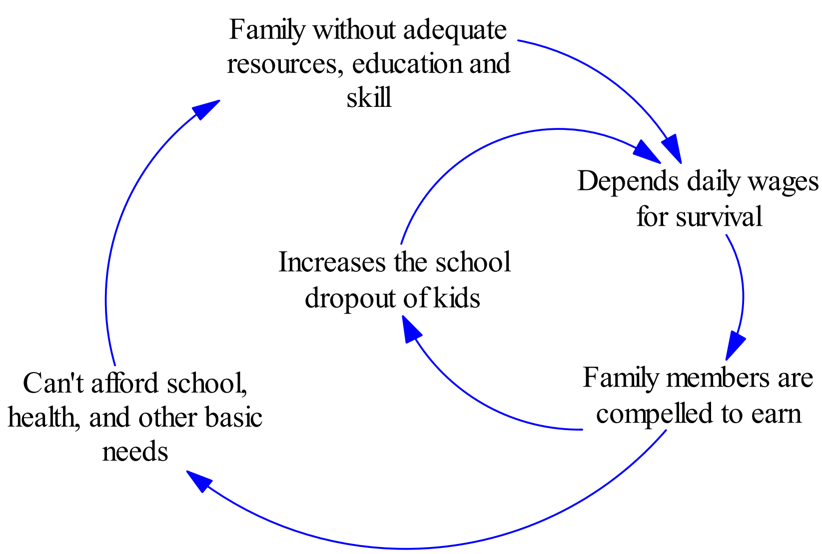
Green forests were the wealth of rulers and administrators in Nepal. Before 1950, it was believed that the total natural stock of trees covered more than two thirds of the country. After a civilian revolution in 1950, forests in Nepal underwent successive ownership changes. In 1956, forests in Nepal were nationalized by the government, which tried to protect them from being “the tragedy of commons”. However, in 1961 after the King introduced his political system, State monopoly over the forest resources were attempted several times under different names and isolated people’s role on forest conservation and management. For example, the rulers cleared an undeclared amount of forest area and diverted the money to political gains in the general referendum of 1979. The government was involved in clearing forest areas and settling people from different parts of the country. Despite total state control over forest areas, the government failed to effectively manage forest areas. Massive deforestation began in the 1950s with the gradual collapse of the feudal forest management system (Gilmour, and Fisher, 1991). Ives and Messerli (2001) accounted the history and dynamics of deforestation in Nepal. They observed that 50 percent of Nepal's forest cover has been lost in thirty years. Furthermore, additional causes of forest depletion in Nepal were fuel wood collection from forests, grazing, illegal logging, and marginal expansion of agriculture areas by slash and burn activities (Ministry of Population and Environment, 2001). A recent national forest inventory of Nepal, which began in 1990 and ended in 1998, provided the first countrywide forest inventory since the 1960s. The Department of Forest Research and Survey in 1999 estimated that in Nepal, forest covers about 4.27 million hectares (29%) and shrub covers 1.56 million hectares (10.6%) of a total land area of 14.72 million hectares (Härkönen, 2002).

Forest management became one of the main concerns after the political change in 1990. As government realized in the Forest Sector Master Plan that local people's involvement is necessary in order to save and to manage local forest resources, people oriented Forest Acts and Rules were promulgated in early nineties. The Forest Act-1992 and the Forest Regulations-1994 embraced the dynamics of local people and forest resources through the community forestry. 'Community forestry refers to the situation where forests are controlled and managed as the common property by groups of rural people who agree to use them to support their farms and households' (Jackson, and Ingles, 1995). Acharya (2002) reviewed the prospects of community forestry in Nepal which serves a pioneer model of natural resource management. Nepal is a leader in engaging community for protection and management of forest (World Bank, 2001). The government of Nepal aims to hand over about 3.5 million hectares (about 61 percent of total forest area) of forest areas to FUGs. The Community Forestry Division at the Department of Forest estimated that at the end of December 2002, there were 12,079 FUGs and about 955,358 hectares of forest handed over. The total beneficiaries were about 1.34 million people. There are about 556 FUGs are exclusively managed by women. FUGs are trying to reverse a phenomenon of the tragedy of commons based on their social structures and values. Local people are building up their social capital in order to enhance the natural capital through mutual cooperation. People in different regions are experiencing the resilience of the local ecosystem over a period of one decade. Local people not only are taking the "interest" from the forest, i.e., fuel wood, food and timber, depending upon the harvest rate, but also are committed to increasing the forest stock – a capital enhancement. The FUG of Nepal is a successful model of resource management, and provides a conclusive example of strong sustainability (Devkota, 2005).

BARRIERS OF DEVELOPMENT IN NEPAL

In spite of few positive economic indicators of past decade(s), Nepal is still in the web of a vicious cycle of poverty and a low level of social, economic, and political development. The crises are intertwined with politico-economics, and means and ends of governance. Different estimates indicate that majority of the population of Nepal is struggling with absolute poverty (Kievelitz, Ojha, and Sharma, 1998) though HMGN claims it has reduced the absolute poverty level to 38 percent. The persistent poverty is a single but a significant indicator failure of socioeconomic development goal mentioned in different planning documents. All stakeholders of development such as politicians, planners, bureaucrats, entrepreneurs, and donors were ineffective to arrest the feedback loops of poverty (Figure 2). A poverty stricken family is deprived of sufficient resource endowments like agricultural land, education, and skills to sustain the family. These make it difficult to earn a daily wage and to feed the family. As the family grows, all members are encouraged to earn by selling their physical labor power. School attending children have to drop out from school in order to support the family. The lack of education or skill is another source of a poverty loop for the next generation, and that may continue.

Figure 2. A Typical Feedback-Loop for a Poverty-Stricken Family



Nepal is a victim of under-development and poor policies (Meier, 2001). When policies and governing institutions are incompatible development may fail. This is evident in Nepal, where development suffers despite the positive economic growth statistics in the recent decade. Some major tribulations hindering socioeconomic development in Nepal are:

Corruption and Lack of Financial Discipline

Corruption affects different aspects of development such as the level of investment, property rights regime, income distribution, access to resources, and assets within the country (Jain, 2001). Corruption in Nepal spreads from different executive levels to primary units of political, bureaucratic, and legislative bodies. The 2004 annual report of the Amnesty International ranks Nepal as one of the corrupted countries in the world. Mieko Nishimizu[4] the World Bank's Vice President for the South Asia region, explicitly stated, "Nepal has a serious crisis of governance, and high level of corruption". Take another example: the 2001 annual report of the Auditor General mentions that Nepal's total unaccounted expenses reached Rs. 38.42 billion (1 USD = Rs. 75), which is about 40 percent of the 2001 GDP. Although all unaccounted expenses may not represent corruption, it indicates a lack of fiscal discipline at different levels in the State. Politico-bureaucratic dishonesty is injecting a negative feeling to the people. The responsible authority to maintain fiscal discipline is either the minister or the secretary or both. Since there are a number of corruption cases filed against many former ministers and bureaucrats, a motley relation between or among different money laundering stakeholders cannot be ignored.

Donor driven initiation

Nepal prides herself for not being a politically colonized state since the historic period, but this image is tarnished by economic dependency. After Nepal became a member of The Colombo Plan (Benham, 1954), a gateway opened for foreign financial and technical assistance. Since 1950s Nepal's dependency upon foreign aid has been unnecessarily huge. It is estimated that the total foreign loans drawn by the country reached Rs. 194.37 billion in 2001. Even today, two thirds of the annual budget is supported by foreign donations. On the other hand, out of the gross domestic product of \$ 5.5 billion about \$ 1.7 billion is the present value of debt. The amount of per capita debt owed has reached \$14.70 (World Bank, 2001). Further, there is not a complete record of the foreign money flow in the country. "It is a serious matter that there are no records of how much aid and loans are brought into the country. We have repeatedly demanded with the government to come up with a mechanism to keep track of these amounts to avoid irregularities and misuse of funds but this has not happened"[5]. The Auditor General's Annual Report-2001 mentions that the trend of misuse of foreign aid and loans is on the rise. There is no data of how the devaluation of the Nepalese rupee against the dollars has added to the burden. The report further says that the devaluation of the currency has increased the loan burden by an additional 10.4 percent just in 2000. Additionally

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[4] Nishimizu, Mieko quoted in *The Kathmandu Post,* <www.kantipuronline.com> (September 11, 2002).

[5] Auditor General quoted in *The Kathmandu Post* <www.kantipuronline.com> (October 01, 2001).

donors are able to bypass the government and initiate projects or programs of their own.

Foreign aid, though unavoidable, rather than enhancing the productivity in Nepal, became an economic burden due to unsustainability of the projects (Schwartz, and Paulhare, 2000). Foreign aid has destroyed the indigenous economic system such as local knowledge and cooperative spirit – a form of social capital that were sustainable, though may not be modern (Shrestha, 1993; Mihaly, 1965). One of the major augments for foreign aid is that it has enhanced the level of investment in Nepal because the country had a very low domestic saving rate (Pant, 1991). Although foreign aid to Nepal is being streamlined through the Nepal Aid Group – a World Bank aegis, in general, HMGN is still lagging behind in its effort to use aid resources efficiently in terms of needs and capacity.

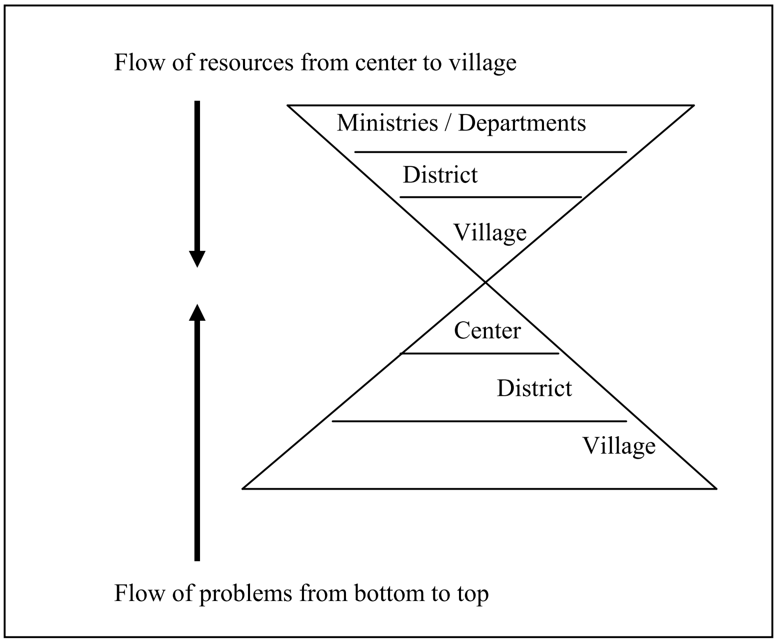
Human capital and low productivity

One of the impediments to economic growth and development in Nepal is low productivity rather than a paucity of resources (Shah, 1988). For instance, The Labor Force Survey reveals a general outlook of work force quality such as nearly 6.8 million have never attended school, and approximately 4 million people never completed high school (CBS, 1999). These figures imply a very poor status of human skill and capital of majority of the population. As discussed earlier, agricultural sector productivity growth has been more or less stagnant in the last five decades, and other economic sectors were unable to absorb a significant fraction of the work force. Entrepreneurs at the national level were not capable of absorbing the growing number of unemployed people, which may be due to lack of capital or skills. Since economic opportunity in the rural areas is very limited, the so-called economically active population is increasingly interested in working in foreign countries. Nepalese labor forces are spreading over the East, Southeast, South and West Asia in search of jobs. The exact figure and character of such labor forces working outside the country is not available, but the guess estimation is about one million people are distributed throughout the world. The remittance money sent by these labor forces is the main sources of monetary flow in the country. For instance, for the year of 1999 it is estimated on social accounting matrices (discussed below) that about one billion dollar of remittance money was sent by people working or living outside the country, and that amount is more or less equal to the fiscal budget of the government. Subsequently, the latest National Living Standard Survey of 2004 (CBS, 2005) claims that absolute poverty level is decreased around 30 percent of population in spite of political instability and slow economic growth. One of the primary factors behind this poverty scenario is believed due to the injection of remittance cash in household economic activities which is about 32 percent of household. The same survey also confirms that about 30 of population earn less seven dollars per month, and the gap between the rich and poor is increased.

Neglect of Villages

Although HMGN spent five decades of development planning at the village development committee (VDC) level basic socioeconomic development structures such as primary health care center, post office, telephone, technical advisers for agriculture, and proper infrastructure facilities are still lacking. Take a simple example of the health post, which are public institutes, and run by only paramedics in rural areas. As of 2000, there were altogether 711 health posts in the country where 3914 VDCs exist (Ministry of Finance, 2001). Ironically, HMGN stopped to produce paramedics in late 1970s and restarted in late 1990s. On the other hand, population stabilization has been a primary planning objective of HMGN since 1970s. Based on population census information it can be inferred that during the past five decades the average population growth rate decreased from 2.3 (1951/52) to 2.27 (2001), which also indicates that the annual population stabilization efforts had insignificant impact despite spent of billions, if not trillions of Rupees. Population spurred since seventies, and the Sixth Five-year Plan of Nepal (1980-85) aimed to reduce population growth rate to 1.6 percent in 1990, and 1.2 percent in the year of 2000. The Seventh Five-year Plan (1985-90) reiterated the same objective of population stabilization. Further, at the end of the Ninth Five-year Plan (1997-2002), population growth rate was still above 2 percent. By these account, it can be inferred that the Plans never achieved their goal. One of the reasons failing to meet the goal could be lack of politico-economic development structures at the VDCs. Had population stabilization activities were complemented by setting up a health post in each VDC, it would have achieved different scenarios. The local needs and center's contribution is in opposite direction. The situation is like juxtaposing two pyramids of flows of problems and resources (Box). Norberg-Hodge (1992) observed a similar centralized development experience in the nearby region of Ladakh, which also became of victim the modernization paradigm that led to the disruption and degradation of self – reliant local economies. Earlier Haq (1976) also discussed the sins of a centralized developing planning in Pakistan that failed to address the poor community in the country; a situation is similar to Nepal. Haq also concluded that both mixed economy and the generous assistance of developed countries to upgrade the living standard and growth were inappropriate models of development.

Box. Top-Down Flow of Resources and Bottom-Up Flow of Problems



Emergence of Maoist Insurgence

Since February 1996 the country has been turned into a sociopolitical battlefield because of surfacing of a certain violent breed of communist, Communist Party of Nepal (Maoist). Theoretically, it follows Mao Zedong's political philosophy and has an ambition of transforming the Nepali society through the 'people's war'. Different perspectives of the Maoists insurgence in Nepal are discussed by Hutt (2004). The rationale of the 'people's war' is to fulfill its 40 point demands which basically include socioeconomic development issues, and change of state's political system. Maoists strategically selected the villages as their bases that are disused by the politicians, rulers and administrators over the period of time. Gersony (2003) discusses some typical characters of the villages where Maoists began their struggle. The socioeconomic demands of the Maoists are not new but laudable. However, its activities to accomplish such goals are brutal, and condemnable. Many of these socioeconomic issues, in fact, were raised by different political parties at different time periods such as political movements against *Panchayat* and at least in their election manifestos. Once elected or gained any high level positions, such subject matters were disregarded by major parties. Maoists are exploiting that sort of election politics of seasoned political parties. One of the leaders of the Maoists in Nepal, Baburam Bhattarai (2003) concludes, "The problems of development / underdevelopment of Nepal both in the social and spatial dimensions are essentially the problem of transition of a pre-capitalist society hybridized primarily under the retrograde internal social structure but increasingly mediated by the exogenous capitalist/ imperialist interest.” It also implies that Nepal may need of an overhauling of politico-economic structure in order to build a new Nepal, since Maoists are crippling the economic activities, creating political instability, displacing people from their home areas, and operating their own shadow administrative unit in many rural areas.

Further, after King Gyanendra ascended the throne on June 2001 after a controversial royal massacre of June 1 2001, many political developments have happened. For instance, the King gave permission to mobilize army to crush the Maoists. The Royal Nepalese Army under the command and control of the King came out in November 2001 to enforce emergency. The objective of mobilization of the army seemed dubious. Further involvement of the army and continuation of emergency became a hot political issue that ended by dissolving the parliament. Subsequently, on October 4, 2002, the King sacked the prime minister and dissolved the parliament. In absence of a parliament, the King’s active involvement in day-to-day politics indicates a tendency towards absolute monarchy, but the existing Constitution does not support a vacuum of parliament in Nepal.

STRUCTURAL ANALYSIS OF THE NEPALESE ECONOMY

Structural analysis of economic development has been widely used as a development tool in less- developed countries like Nepal. Though the causes and effects of poverty are understood in different Plan documents, there is a persistent disparity of income or and consumption. Following the philosophy of modernization, the government of Nepal is determined to increase the rate of economic growth so that the poor will benefit as directly as possible from economic development. To promote the growth agenda, a variety of strategies, polices, plans and programs were put forward, but outputs were at dismal in real terms such as population stabilization. What is the difference between the new plan and old versions, since both new and old Plans also had the same goals of socioeconomic development? Hence, it is imperative to examine the socioeconomic structure of the nation that portrays the interrelationships among economic, social, environmental, demographic, and technological contexts of a particular society. Structural analysis characterizes the economy at a meso-level and uses the models of input-output analysis and social accounting matrix (SAM) (Duchin, 1998). Structurally, a SAM is a transparent transaction of a socioeconomic system (Thorbecke, 1998) to describe the factors of production, economic behavior of household income, and consumption, government expenditures, imports, exports and foreign investments (Pyatt, 1991). The SAM approach has been widely used in developing countries since 1970s (Round, 2003). Recently, a SAM is employed to derive a multiplier decomposition procedure focusing on poverty alleviation in Indonesia (Thorbecke and Jung, 1996), South

Africa (Khan, 1999), and a structural analysis of the Vietnamese economy (Tarp, Ronald-Holst, and Rand, 2003).

A summarized output of 26 x 26 sectors SAM for the year of 1999 is depicted in Table 2 (Devkota, 2003). As table 2 shows agriculture has the lowest (1.769), and the construction sector has the highest income multiplier effects (1.908). Interestingly, banking and real estate have the lowest output impact (2.201) compared to all other production sectors. Both construction and manufacturing industries are the leading sectors having high output multipliers. Agriculture sectors' aggregate income multiplier (1.769) and output multiplier (2.294) are smaller than those found in Korea, Pakistan, India, Sri Lanka, and Indonesia. The multipliers for the Nepali economy are comparable with those of an African country. Similarly, the average income multiplier (1.801) and output multiplier (2.458) is more or less equal with Kenya, Surinam, and Egypt, but less than India (income = 3.684; output = 5.946), Pakistan (income = 4.028; output = 8.770), Sri Lanka (income = 2.055; output =3.090), and Indonesia (income = 2.119; output = 3.390) (Cohen, 2002). It might be noticed that the output multipliers for Nepal are relatively homogeneous. Cohen also found a homogeneous pattern of output multipliers in the less developed countries he studied.

Economic growth is also a function of investment that obviously will have multiplier effects, but there are a few noteworthy considerations. As discussed in earlier, there are certain barriers to socioeconomic development such as two-thirds of Nepal's annual budget is supported by the kindness of donors or by different types of loans, which may or may not be available as expected to meet the targeted level of investment. Another fundamental problem is whether the increased nominal income level will alleviate poverty in real terms. Economic factor like change in the price level always pose problems to low-income households. It is expected that from 2000 to 2007 the GDP deflator will rise by 76 percent, which will obviously impact investment since from 1995/1996 to 1999/2000 the national average inflation rate was 35 percent. These facts will obviously set back real income growth, particularly for poor and low-income families.

There are additional factors that may hamper the investment induced income multiplier scenarios. For instance, investment in agriculture demands a high priority due to the fact that 90 percent of the people depend on agriculture, and it contributes 40 percent of GDP. The Labor Force Survey of 1998/1999 estimated that out of 9.5 million employed people, the agriculture sector employs 6.4 million people. The problem is further complicated by households' land holding capacity. The average land hold size in 1991/1992 was 0.68 hectare in mountain, areas 0.77 in hills, and 1.26 hectare in the Terai. About 70 percent of the landholdings are less than one ha, and agricultural productivity has been stagnant for decades. The total cultivated land in the country is 2.6 million hectares, and 30 per cent of the cultivated area is comprised of farms less than 1 ha. The recent Population Census 2001 reveals about 24.4 percent of population does not have any land. The prevailing land holding pattern means no or low possibility for income generating chances for poor households. The cumulative impacts of such factors may reduce the investment-income multipliers, and may increase income disparity.

Table 2. SAM Multipliers by Production Sectors

	Agriculture	Manuf. Ind.	Construction	Gas Water Electricity	Trade Hotel Resturant	Transport Communication	Banking Real Estate	Community, Social Serv.
Food	0.450351752	0.45296453	0.485599954	0.4516548	0.453645382	0.452485608	0.454960073	0.465799951
Non-food	0.214864063	0.21611063	0.231681078	0.215485751	0.216435463	0.215882132	0.217062706	0.222234442
Housing/Others	0.078569154	0.07902498	0.084718617	0.078796486	0.079143766	0.07894143	0.079373129	0.081264274
Factors	1.769721905	1.77998918	1.908234779	1.774842418	1.782664696	1.778107199	1.787830963	1.830427821
1st Deciles HH*	0.029525077	0.02969637	0.031835951	0.029610505	0.029741008	0.029664973	0.029827199	0.030537862
2nd Deciles HH	0.03857906	0.03880288	0.041598572	0.038690685	0.038861207	0.038761855	0.038973829	0.039902419
3rd Deciles HH	0.045292367	0.04555514	0.048837317	0.045423416	0.045623611	0.045506971	0.04575583	0.046846009
4th Deciles HH	0.052073031	0.05237514	0.056148691	0.052223699	0.052453865	0.052319763	0.052605879	0.053859267
5th Deciles HH	0.059190483	0.05953388	0.063823213	0.059361745	0.05962337	0.059470939	0.059796162	0.061220865
6th Deciles HH	0.067279007	0.06766933	0.072544811	0.067473672	0.067771049	0.067597788	0.067967454	0.069586846
7th Deciles HH	0.077118828	0.07756624	0.083154777	0.077341964	0.077682834	0.077484233	0.077907963	0.079764198
8th Deciles HH	0.090231106	0.09075459	0.097293328	0.090492181	0.090891008	0.090658639	0.091154415	0.09332626
9th Deciles HH	0.110011785	0.11065003	0.118622205	0.110330093	0.110816352	0.110533043	0.111137504	0.113785466
10th Deciles HH	0.174484226	0.17549652	0.188140785	0.174989078	0.175760309	0.175310967	0.176269673	0.180469474
Firms	1.025936936	1.03188904	1.10623513	1.028905382	1.033440085	1.030798029	1.036435055	1.061129155
Total income multiplier	1.769721905	1.77998918	1.908234779	1.774842418	1.782664696	1.778107199	1.787830963	1.830427821
Agriculture	1.42295374	0.5763816	0.445428144	0.367984692	0.372761509	0.36815245	0.372234113	0.392247469
Manufacturing industries	0.311779613	1.40846758	0.528998287	0.280610686	0.277928532	0.275207013	0.288674904	0.355855711
Construction	0	0	1	0	0	0	0	0
Gas Electricity Water	0.010815996	0.02155681	0.014118462	1.026796707	0.016646915	0.012966103	0.012595016	0.014447941
Trade Hotel Restaurant	0.164155548	0.22633462	0.222240089	0.15476546	1.239840762	0.314552756	0.161938663	0.205025918
Transport Communication	0.173214536	0.25843783	0.237470796	0.156874215	0.23152787	1.259120847	0.159864175	0.220929061
Banking Real Estate	0.185343476	0.22619835	0.206335072	0.292573133	0.201171866	0.292337215	1.169361716	0.176552641
Community Social Service	0.025936936	0.03188904	0.10623513	0.028905382	0.033440085	0.030798029	0.036435055	1.061129155
Total output multiplier	2.294199844	2.74926582	2.760825979	2.308510275	2.373317539	2.553134414	2.201103641	2.426187895

* household

Government initiated land reform measures in the past did not deliver any significant results.

One of the viable options is effective mobilization of human capital which has low endowment due to poor education vis-à-vis skills. As the SAM coefficients justify, investment in household sectors have high multiplier values, and thus it is imperative to intervene at household level to enhance human and social capital. To this end, improving community and social services could benefit at least the 1st, 2nd and 3rd deciles households that may include socioeconomically discriminated households like *Dalits*. Poverty alleviation programs should exclusively target these households to enrich their human skill and education as well as quality of life, and break the vicious cycle of poverty. Thorbecke and Jung (1996) used a SAM multiplier decomposition method to analyze poverty in Indonesia, and concluded that, “human capital of the poor must be enhanced through education and vocational training”. They observed that the agriculture and service sectors contribute more to overall poverty alleviation than do industrial sectors. Both economic growth and increasing the capital stock of the poor by appropriate skill enhancement may help to alleviate poverty. HMGN needs an urgent coherent national strategy to utilize human resources in order to alleviate poverty. Had either government or donor communities spent their efforts to enhance the skill of human resources at village level, resources would have been used in productive and beneficial ways. Though human capital depends up on the education and skill, unfortunately, the general education system in Nepal is anti-development and the educated masses in Nepal are just as loathe to working physically and productively (Bista, 1994). The greatest challenge for the HMGN is the provision of occupational training for national self-sufficiency that in turn can help to alleviate unemployment (Skar, and Cederroth, 1997)

CONCLUSION

The past fifty years of economic development policies in Nepal, which tried to transform the traditional society through modernization models, is lagging behind to arrest the poverty level. Economic development polices in Nepal have been dominated by the modernization paradigm emphasizing economic growth, industrialization, and urbanization, and as a result Nepal today has some salient characteristics:

(i) It is one of the poorest countries in the world.
(ii) It has one of highest per capita debt in the world.
(iii) It is dependent upon outside donors for nearly two thirds of its annual fiscal budget.
(iv) Majority of population struggles to meet basic needs.
(v) Huge disparities exist between rich and poor families.
(vi) It has a long history of failed attempts of land reforms.
(vii) Its agricultural productivity is stagnant for many decades.

(viii) Government's policy failure induced loss of natural resources.
(ix) A huge regionally biased economic growth induced for regional migration.
(x) Cities sprouted without any proper planning and turned into the hub of the environmental problems.

Nepal's unrelenting poverty indicates a failure of central level planning exercises. The structural analysis explored some of the macroeconomic relationships and found some serious contradictions between the stated goals of the plan and the feasibility of achieving those goals. Among the production activities, the agriculture sector has the lowest income coefficients where as community and social services, and construction activities have high total income multipliers. Regarding the output coefficients, the banking sector has the lowest, and industries and construction activities have high aggregate output multipliers. The Tenth Plan envisions a huge investment so that the standard of living of the poor may be raised. Investment in the community and social sectors will deliver a high output due to these sectors' high multiplier values. The investment – income multiplier scenarios indicate that the income level of households may increase during the Plan period, keeping many factors mute such as bad governance, high corruption, increasing inflation, and ill-defined sources of investment funding.

Nepal needs a new development strategy to alleviate poverty. Socioeconomic development philosophy and policies including institutional reforms are necessary to alleviate rural poverty. In spite of few positive indicators of economic growth, development in general has yet to satisfy the large masses of people, who are struggling with stagnant agricultural yields, increasing numbers of hungry people, and widening income disparity. For example, it would have been a good initiation of pro-poor socioeconomic development policy had HMGN built at least one health post in each VDC in order to provide the services for population stabilization. Villages have been relegated to the bottom in terms of availability of economic structures, development institutions as well as resources where the crux of problems exists. This needs to be reversed in order to sustain the village economy and to reduce the level of poverty. Therefore in order to break the vicious cycle of poverty vis-à-vis under-development, each VDC should be assigned as a socioeconomic development unit. To complement the VDCs, a district unit can play a developmental planning and monitoring role. The village and district are politico-administrative units, which have to deal with lots of socioeconomic problems (Box), but have an insignificant resources and rights. Institutional reforms to strengthen the VDCs and district units are essential so that they will be complemented by both economic and development planning, and implementation facilities. Decentralization should focus on the VDCs that meets local needs as much as possible. To this regard, local bodies (villages and districts) must be empowered through a coherent policy of accountability, institutional and financial decentralization, ecological and economical rights along with civil liberties. Once VDCs are ensured through basic socioeconomic developmental structures like health clinics, basic education, technical assistance to farmers, local community infrastructure, and conservation programs, local communities would become sustainable with reduced income disparity. Institutional arrangements are the necessary foundations for vibrant economic systems, poverty alleviation and sustainable development cannot take place without them (Bromley, 1998). To break the vicious cycle of poverty, at least the 1st, 2nd and 3rd deciles households that may include socioeconomically discriminated households should exclusively target to enrich their human capital such as vocational or semi-skilled professional education.

Nepal is struggling to meet basic human needs such as an adequate supply of food, water, healthcare, shelter, and minimum education; all of which needs to be sustained economically, environmentally, and socially. Human needs are not limited to simply consumption and saving, which may be short-term gains or goals. The conventional vision of economic growth through trickle down economics - a weak sustainability model has not improved the economic situation of majority of the Nepalese. Repetition of successive five-year development plans would be futile, since these plans are failed at local level. Planners and policy makers should realize that the least developed countries like Nepal do not need to follow a similar route of development adopted by the developed countries. They need to be compatible with local socioeconomic structure. Poor countries need to revise planning and policy models in the context of their own socioeconomic structure, value systems, and cultures. Henceforth, development plans, policies, and programs should emphasize other pillars of development such as social and ecological capital. As sustainability cannot be achieved in parts it should address the entire structure – economy, society, and ecology. HMGN should plan to meet economic growth that complemented by social and ecological capital development – a form of strong sustainability that may involve structural changes within the economy and society. Augmentation of social capital is possible by enriching human capital, particularly focusing on the deprived classes of society who will ultimately determine the future of sustainability. Nepal could pursue a long term sustainability path through increased human capital without increasing material throughput, supporting increased equality, and maintaining the stock of natural capital for the future – en route to strong sustainability. To address such issues at local level, Nepal may need a progressive constitution to speed up socioeconomic development vis-à-vis alleviate poverty. A new constitution that guarantees sociopolitical, economic and ecological rights to local government units like villages, towns, and districts, which must be constitutionally empowered with rights, resources, and responsibility, and accountability.

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