

## CHAPTER 13

# Reorienting Economy for Human Development

...The State shall create conditions for economic progress of the majority of the people, who are dependent on agriculture, by introducing measures which will help in raising productivity in the agriculture sector and develop the agricultural sector on the principles of industrial growth by launching land reform programmes.

*Constitution of the Kingdom of Nepal 1990*

Socialism is the longest path from capitalism to capitalism.

A popular joke circulating in Eastern Europe

What should be the end of man and how should he choose his means? Economic rationalism, in the strict sense, has no answer to these questions, for they imply motivations and valuations of a moral and practical order that go beyond the irresistible, but otherwise empty, exhortation to be 'economical'.

Karl Polanyi

[There is a need for] unification of the two conflicting development paradigms: the UN paradigm of sustainable human development as expressed in the UNDP Human Development Report and the paradigm of growth based on macroeconomic discipline and market orientation underlying the Washington Consensus of the Bretton Woods system. Both paradigms contain important elements of truth waiting to be reconciled and combined.

Hans Singer 1996

### 13.1 RATIONALE

The basic structure and trends of the Nepalese economy as discussed in the previous chapters reveal Nepal as a subsistence economy heavily dependent on agriculture. Per capita income growth is very low and skewed in favour of non-agriculture and urban households, resulting in the deterioration of rural household incomes. During the last two decades, there was no growth in per capita agricultural GDP. The unemployment/underemployment situation is acute in the agricultural sector due to the seasonal character of farm activities and severely limited employment in off-farm activities. Incidence of underemployment is higher in the rural areas than in urban areas and among the female labour force. Agricultural land, the main productive resource for most of the households, is unevenly distributed. The size of more than two-thirds of landholdings is below one hectare and land fragmentation is a serious problem.

Disparity in the distribution of productive assets (particularly land) and income earning opportunities has a significant bearing on income distribution (see 7.3 and 7.4). There is

also a marked variation in the spatial distribution of income: per capita income in both the Hills and Tarai is 1.6 times higher than that in the Mountains. It is 2.5 times higher in the urban areas than in rural areas, and nearly 4 times higher in Kathmandu than in the rural Hills of the western region, an area with the lowest level of per capita income. Gender disparity in income distribution is acute due to the control of the male members on family income, absence of property rights for women and unpaid family work of the female labour force.

The incidence of unequal income distribution has been reflected in a high proportion of the population falling below the poverty line. The incidence of poverty in rural areas is two-and-a-half times higher than that in urban areas. Given that 88 percent of the population live in rural areas, poverty is overwhelmingly a rural phenomenon. The growing share of the service sector in GDP and concentration of such activities in urban areas indicate a trend in favour of urban population. Disparity in the distribution of assets and income reflects widening gaps in opportunities and

access to education, health, nutrition, and other facilities for better living. Hence, any effort to enhance human development must focus on the redistribution of assets and income along with attaining high economic growth.

Nepal lacks even the minimum physical infrastructure for development. A large portion of the country is still inaccessible by motor vehicles; power supply is acutely deficient; and most of the arable land is still rained. Safe drinking water facilities cover not more than one-third of the population. Hydropower production is not more than one percent of the country's energy demand. Despite 40 years of planned efforts at development, people's access to basic facilities is still very low and extremely uneven. The degree of deprivation is most severe in the remote hilly regions of the country.

Development policies initiated in the framework of structural adjustment, liberalisation and privatisation have not yet been able to create an environment for "high quality growth". More importantly, the policies have failed to address major issues like poverty, unemployment and income inequality. Ineffectiveness of reform and adjustment measures is explained partly by their failure to embrace agrarian reforms, while knowing that the latter have a significant bearing on poverty alleviation and employment generation. Similarly, no adequate social security measures have been taken to protect people vulnerable to the adjustment programmes.

The current economic trends and policies are also inimical to the country's environmental health. Agriculture has stagnated over a protracted period of time. The subsistence nature of agriculture is characteristic of low resource productivity which has a direct bearing on the country's fragile environment. Low productivity in agriculture means that farmers need to continually expand the cultivated land area in order to produce more to meet their subsistence requirements. This compulsion has contributed to encroachment on forest and other public lands and cultivation on steeply sloping and marginal lands that are too fragile.

A high-growth agriculture, on the other hand, implies that cultivation is confined to lands that are most suitable for intensive production where farmers can obtain an optimal return on their inputs. This means that only the environmentally robust and relatively more fertile lands will be cultivated, sparing fragile areas that could remain under forests or other forms of permanent vegetation. Thus, the need

to reorient the economy is also prompted by the disappointing performance in the agricultural and rural sector and its serious consequence for the country's environment.

Indeed, employment, income and consumption are important economic determinants of human development. The manner in which the economy is structured and how it actually performs is equally important to realise human development as it is so for growth *per se*. A well-designed intervention, even as it supports economic growth, should, in turn, facilitate the generation and reproduction of resources necessary for increased household income and employment along a virtuous cycle. In addition, growth needs to contribute not only to private wealth, howsoever "justly" that might be distributed, but also to public revenue. In taxation policy, due care may be taken to avoid a disincentive to private enterprise and investment, as argued in the optimum tax or "supply side" economic literature. Nonetheless, it is imperative that public revenue is available to support economic and social infrastructure and the expansion and maintenance of human development-friendly services like education, health, drinking water and social security schemes. In addition, reorientation requires restructuring of public expenditure, firstly for a better prioritisation, and secondly, to cut out waste leakage, and unnecessary fat.

What is usually known as structural reform in the conventional wisdom of today is a uni-dimensional and uni-directional shift in policies where it becomes coterminous with economic liberalisation and establishment of market economy. Clearly, both in theory and as observed empirically, this is not appropriate for Nepal. For example, analyses in the preceding chapters reveal that unless the growth process is broad-based, encompassing, above all, the rural economy, rapid economic growth cannot be achieved and sustained. And high economic growth, even if it is attained, does not improve human well-being, unless reform measures pay attention also to the distribution question. An exercise in economic reform, if it is to be indeed a reform, should bring in its fold measures for reorienting the broader economy beyond what happens or does not happen in the state sector. Besides, the structural barriers that remain unattended do not seem to permit a satisfactory performance even in areas that are within the ambit of current reform. Witness the financial profligacy when it comes to serving the interests of those in power.

The need for restructuring the rural sector has not received much attention in today's influential development literature, nor in actual practice, mainly because the task is beyond the designated agent of change, the market. But this only means, as emphasised here, that the role of the state in development cannot be belittled. Nepal has to look into the possibilities in such areas as redistribution of the most important productive asset, land, so that agriculture also gets "rationalised" and the rural households become a part of the reform process. Such restructuring and reorientation should also reinforce poverty alleviation measures, rising above the trickle-down process-based rhetoric on the relationship amongst the market economy, growth and poverty alleviation.

### 13.2 STATE VS MARKET: TRANSCENDING CONCEPTUAL AND POLICY BARRIERS

The neo-classical assumption that an economy automatically finds its way to an equilibrium growth path in the absence of distortions introduced by government interventions just does not hold water, at least, in Nepal's case. And nobody should recognise this better than Nepal's development partners, many of whom have been involved with the process as long as the government and people of Nepal themselves have been. There is no institutional foundation whatsoever to permit the economy to move automatically towards industrialisation and export-led growth. The fundamental problem of

Nepal is that its institutions are nearly as primitive in content, as they were at the time the country launched its development campaign half a century ago. This uncomfortable fact of life cannot be brushed aside because without recognising it and responding to it, it is unlikely that Nepal will be able to harness the potentials of the market economy either. And, as we know from the examples of other countries, at Nepal's stage of development, the required institutions are not automatically built by the market, but are created with intervention by the state.

Furthermore, it needs to be acknowledged that the notion that "markets fail, but governments fail too often" is refuted by events, on almost a daily basis, by the current developments worldwide. An attempt to liberalise and privatise the economy, and give market a free hand in all the spheres of economic decision-making, has threatened economic stability and widened inequality in income distribution in many countries (see Taylor and Pieper 1996). The growing evidence of corruption, even in established democracies, is also attributed to the values that are promoted by the individualistic force of unbridled capitalism legitimised by market economy and the attractive idiom of globalisation. If the debate is not yet settled in the industrialised capitalist countries, it cannot possibly be closed in Nepal (Panday, D. 1997).

#### 13.2.1 State as a resource

It will be pointless to argue for the continuation

#### Box 13.1

#### Governance and incompetent state

If poor performance alone were a sufficient ground for relegating the state to the sideline, it would pose an interesting problem. If, as everyone agrees in Nepal, the capability as well as the effectiveness of the state has fallen, this would be so not only with regard to its development role, but also its traditional functions that are still considered legitimate. The government appears increasingly unable to maintain law and order. The rule of law has little value even for those who are responsible for legislating or enforcing it. The concept of accountability is not observed in practice by almost anyone in power. The traditional revenue collection function, as an institutionalised process, is all but a sham. The driving license or even paying government levies and taxes generally attracts an "administered fee", charged privately but openly. The government institutions that are there to combat corruption are perceived to be corrupt themselves. But can it be possibly argued that all these functions be taken away from the state, because the whole thing is in such a mess? If the state can be and has to be improved for the performance of these important functions –

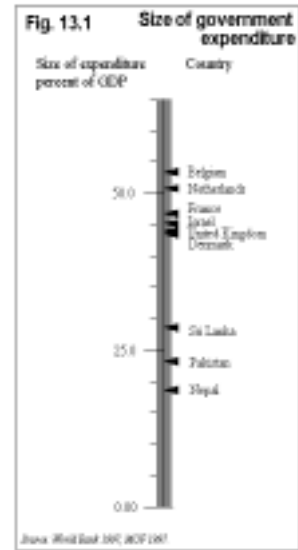
without it, the market economy will not survive – it should be possible to do the same about its capability in development roles also.

This need should be viewed against the growing tendency among the donors to altogether bypass or circumvent the public sector in channelling development assistance. It is driven by the rather naïve perception that, since the public sector is corrupt and ineffectual, resources are better utilised if delivered to the beneficiaries through alternative channels such as NGOs and the private sector. Whether it is a deliberate attempt on the part of donors to further weaken the bureaucratic set-up so that the ubiquitous virtue of the private sector (read market mechanism) could be exalted, or whether it is based on a sincere but unrealistic impatience to help the Nepali people, there are numerous instances to demonstrate that resources mobilised through alternative routes have been even more misutilised. It is seldom realised that leaving the government out is like cutting out an infected limb. The solution, of course, would be to cure the wound rather than throwing away the entire organ.

of a dominant role for an inefficient, corrupt and a regulation-driven, predatory government, which ultimately means it has no democratic attributes either. But, at the cognitive and policy levels, it must be accepted that the state, too, is a resource that must be harnessed, not wasted or subverted, as Nepal enters a new era of development (box 13.2).

Regarding the respective roles of the state and the market, Nepal still has to find out what works and what does not work in the country. Such a search cannot be conducted fruitfully if important options are closed *a priori*. The best way to go about it is to begin the mission in full confidence that the debate in Nepal cannot be about the market against the state or *vice versa*. It has to be about a partnership between the two with the balance of power between them decided by the stage of development in all its ramifications, on the one hand, and “capabilities” of the state, on the other. If the state does not “behave” in a democracy, we have to look at the functioning of that democracy rather than question the legitimacy of a democratic state. This point is elaborated in chapter 12.

Nepal’s current problems have partly to do with the incompetence of the state, no doubt; but the general pathology seems to have little to do



with the notion of an overbearing “big government”. Nepal’s is not a case where a socialistic ownership of means of production or the responsibility of a welfare state has overburdened government. The share of public sector output in GDP is less than 10 percent, though a firm estimate is not available. The private sector has been generally free to invest its resources where it wishes – though it has often been encumbered by bureaucratic excesses and controls and by malpractices that it may itself also have been a party to. Nepal’s total public expenditure, measured as a percentage of GDP, is approximately one-third of the average of OECD countries and significantly lower than that in the South Asian countries (figure 13.1). This is also borne out by Nepal’s falling “public expenditure ratio” discussed in the next section. For now, the leaders running the state should not therefore hesitate to adopt an “interventionist” – even radical – frame of mind, without submitting to the limits imposed on their cognitive faculty by the globalisation agenda and rhetoric. Of course, they should not submit to the predatory instincts of the traditional Nepali state either.

### 13.2.2 Scope for intervention and reorientation

There is an impression that because of the globalization movement in the world and the country’s dependence on the forces driving it, Nepal has little freedom to set its own agenda on the role of the state in economic management. While this is partly true, it is also true that even

#### Box 13.2 State as a resource in liberal democracy

The state has always been a resource for those who are in power. Can it be the same for those who are powerless because they are landless, illiterate and unskilled, and have no productive resources except their labour? If not, should we not be bowing to the wisdom of Karl Marx, then, who, too, believed that the state would always be captured by those who are powerful, instead of burying him all over again. The legitimacy of liberal democracy in a country like Nepal is derived from the claim that its leaders can bring about the change needed to affect the lives of the people democratically and peacefully which communist regimes try to do through totalitarian or even violent means, when deemed necessary. Among the handicapped who need state as a resource are not only people who have been kept socially backward for economic reasons, but also those who are unlucky to be borne with a low caste or ethnic tag or as a female. These groups need resources which the market cannot offer. For this reason, state intervention has been necessary, historically, in all countries in the world to ensure that economic growth encompasses all sectors, regions and sections of the society and enriches the lives of all peoples without discrimination. In Nepal, too, even as the country pursues economic reform in favour of market forces, its obverse cannot be an abdication of its legitimate and necessary functions by the state.

without an encouragement or inducement from these forces, Nepal should try to tap onto the global capital, technology and market for their potential benefits in any case. However, it is another story if the externally driven set of policies or a particular theoretical framework guiding the set of policies is unsuitable, irrelevant, or contrary to the country's vision of development and the associated perception of reality. In this case, nothing in the world can intimidate a nation from acting on its own judgement – provided, of course, that the leaders have the vision, will and capacity to make a judgement.

At present, the process of economic liberalisation has set industry, trade and services free from government intervention. Most prices have been deregulated, many subsidies withdrawn and administrative regulations relaxed. State enterprises are being privatised. On the whole, the public sector is downsized and its share in aggregate consumption and investment demand has come down from 23.1 percent of the public expenditure ratio in 1985/86 to 19.9 percent in 1996/97 (table 14.1 in the next chapter). The government has maintained some role in areas, such as selective subsidies in food, fertiliser and credit, regulation of prices of a few essential goods and services, and targeted credit programmes and regulation of capital flows across the border. This is in addition to the role it plays in the implementation of development programmes through a development budget financed, in large part, by foreign aid. In the future, it would not be necessary to continue involving the state in some of these activities, while its policy and programmatic interventions may be needed in others. For example, incurring public expenditure for building irrigation schemes, especially if this step is accompanied by land reform as discussed below, should be more beneficial than for subsidising purchased inputs. Similarly, trade liberalisation may remain the mainstream government economic policy, but some attention has to be given by the state to the specific needs of domestic industries.

First, the state may need to use its judgement with regard to decisions on the choice of industries and their location, technology (especially as it affects their employment-intensity) and sustainability from environmental point of view. Secondly, the domestic sector may need some incentives in order to provide it with the edge it might need to compete internationally. It is not the physical needs of

specific economic or social sector(s) *per se* that should be the focus of attention or domain of distribution of responsibility between the market and the state. Instead, it is the human needs and potential of different interests and groups in society that require attention of the state. Finally, it needs pointing out that any argument against dependence on the market for the performance of a given function does not mean that the relevant role is surrendered automatically to the state. In Nepal's context, the state means the central government which can be as remote from the ordinary people as the market. Experience tells us that people, especially in rural areas, need services and security for which they cannot access the central government just as they cannot access the market. For a large number of roles, people need to be mobilised as civil society agents in various forms of the social communities including non-governmental associations, and above all, as the elected autonomous bodies in charge of their own affairs. In this sense, there is a dual partnership involved in our vision of the roles of the principal societal agents in human development. The partnership needed between the state and the market has already been mentioned. This partnership has to be complemented by another – between the state and the communities of people variously organised (see 12.4).

### **13.2.3 Reorienting market and liberalisation**

Economic liberalisation as implemented in Nepal, as elsewhere, has meant: (a) internal liberalisation in terms of deregulation, delicensing and abolition or adjustment of "market-distorting" subsidies, rebates, taxes, and administered prices; (b) external liberalisation in terms of adherence to the spirit and norms of free trade in a global economy; and (c) privatisation of public enterprises as a part of the process of downsizing the bureaucracy, relieving the government of unnecessary burden from loss-making entities and encouraging private sector involvement in economic activities of all kinds. As stated in the beginning (see 1.5.6), some increase in the aggregate rate of growth of the economy can arguably be attributed to this policy. However, in terms of the overall objective of bringing about a dramatic change in the behaviour and performance of the market as well as the government, the results are still awaited. This is evident from the very slow expansion of industrial activities, poor

performance of the trade sector and inclination of the private capital – domestic or foreign – towards service sector rather than on production and infrastructure sectors.

There are many underlying conditions that need to be fulfilled for the market to function *efficiently*. The most important of them are: perfect mobility of factors of production between regions and industries, completely flexible commodity and factor prices, free flow of information about market conditions, absence of trade unions and absence of scope for cartelling and syndicating. If these conditions are not fulfilled, liberalisation may remove policy-induced or policy-imposed distortions but it cannot address the structural factors that do not allow relative price movements to reallocate resources to efficient sectors. There are many countries, among which Nepal is one, where most of these conditions are not met, and there is not a single country where all of them are. This is so even without taking into account the *equity* considerations for which alone many societies would deem it proper to intervene in the market, even if it was functioning efficiently. When markets are not functioning according to the rule-book, and when states do not or are not allowed to intervene, or when they intervene wrongly, the concerned economies suffer badly, and their people even more. This can be observed in many developing countries and in the transition economies of eastern and central Europe and, for that matter, even in the industrialised west, to some extent. In countries after countries, poverty has deepened due to the withdrawal of food subsidy and similar welfare benefits. Unemployment has risen. While the salaries and perks of the “captains of industry” rise – to astronomical levels in the countries of West – privatisation and downsizing adds to the burden of workers looking for a workplace and livelihood. Such a scenario cannot be a point of departure for a programme of human development.

A major task ahead for the economic planners and policy-makers in Nepal is, therefore, to identify the areas and ways and means of adjusting the liberalisation paradigm to suit the reality of the country and demands of human development.

### **13.3 PROMOTION OF “HIGH QUALITY” GROWTH**

The conventional wisdom of today has it that Nepal needs to accelerate its economic growth in

order to promote human development and alleviate poverty. This has all the virtues of a partial truth: there is more to the relation between growth and human development than what is implied. The case made in this report for reorienting the economy is that the growth so achieved must be of “high quality” along the line of what has been called “good economic growth”. Such a growth is not just high; it is also anchored on the elements that are supportive of human development. In other words, a good economic growth would be reasonably high while at the same time it should not be at the cost of social equity, and it should be sustainable. Above all, it should be based on values that promote human development now and safeguard its development into the future, and which empower all sections and strata of people in society.

There are two ways in which growth assumes such quality and has impact on human development. First, employment and work are essentials in the life of a human adult providing for at least a minimally acceptable level of income and consumption. These enable the individual to acquire a decent life for oneself and one’s family, and participate in, and contribute to, the welfare of the community as a whole in a respectable and dignified manner. Such a minimally acceptable level of living for the majority of people is a precondition to preserve (sustain) their pride, dignity and respect that have been systematically eroded by growing poverty, discrimination and injustice. This lies at the heart of people’s empowerment. High economic growth can contribute to this process by expanding and creating new avenues of employment. A growth process that is not labour-intensive or job-creating is therefore *harmful* for human development. *Second*, high economic growth widens the scope for higher levels of public revenue enabling the government to allocate more resources for the social sector, particularly to the human priority sector. The process of empowerment is likely not only to enhance the level of income and support consumption needs but also to make growth more evenly distributed as it creates a favourable environment for making a creative and productive use of labour, the only resource abundantly possessed by the poor. Such an equitable growth is almost always more environment-friendly and sensitive to gender and other forms of social equality than the growth which is lop-sided in favour of one section of the population at the cost of another.

The emphasis on restructuring of the rural economy has been guided by these considerations.

Attainment of a broad-based and widely participatory growth enhances the capability of government to generate extra revenue and spend it on priority human development areas such as education, health and drinking water. These considerations are of critical relevance to Nepal which is burdened by low revenue performance, high degree of aid-dependence and an emerging threat of decline in aid flows. Therefore, the strategic planning for growth and prioritisation of sectors and activities should be tested for their impact on employment, equity (including inter-generational equity) and public revenue.

The disadvantaged groups generally overlap with the rural inhabitants. It is, therefore, their future that should be at the heart of any discourse about the future of Nepali economy. We may begin with a question that may appear rhetorical, but that needs to be asked for the sake of clarity of the issues involved. What is to be done with and for the 88 percent of the Nepali population that resides in the rural areas, more or less divorced from the “national” economy, while the rest of the minority is presumably integrated with the globalised market and its associated development process? One likely answer is the government’s often-pronounced (from the Panchayat regime to now) two-pronged development strategy<sup>1</sup>. With it, the government expects the urban economy to make a turn-around through liberalisation and operation of the market forces, while it itself concentrates on rural development and poverty alleviation measures. Yet, even in serious discussions and deliberations, the edge of the “second prong” does not get more than a hurried and abstract attention, as far as its operational dimensions are concerned. It is difficult to see how this dualistic process – resembling apartheid of some genre – is different from what the country has experienced so far. An exercise in economic reorientation for human development should try to get away from this conceptual bind and find a synergistic medium where the rural economy too gets restructured and integrated with the “national” economy to play its role as a part of the whole.

### 13.4 RESTRUCTURING THE ECONOMY

*Prima facie*, it appears that Nepal has not yet found out what really works in the country in

terms of economic transformation. A deeper probing would however suggest that a hindsight of the country’s own past experience in development and governance, and the success stories from her immediate neighbours and East Asian countries have provided ample clues to what this country needs to do in order to improve its economic performance and the living condition of the rural masses. In this sense, it would be pretentious to maintain that Nepal is still groping to invent a development strategy relevant to its diverse politico-economic, socio-ethno-cultural and agro-ecological condition. For instance, it was realised in the early 1960s that comprehensive land reform, combining a ceiling on holdings, protection of tenancy rights, improved land administration and rural savings mobilisation, is essential to transform the subsistence-based rural economy. The Lands Act of 1964 and the Compulsory Savings Scheme embodied these considerations. However, the state apparatus began to sabotage the implementation of these policies soon after they took off the ground.

#### 13.4.1 Restructuring agrarian relationships: land reform

*The issue.* Land is the most important asset in rural Nepal. It determines the structure of the rural economy supported by the consequences of exercise of political power by the government in Kathmandu. The importance of land in rural Nepal can be seen with the naked eye. It can be understood better by the inverse relationship between landholding and poverty all over South Asia. (The singular importance of land-ownership and agriculture has already been discussed in chapters 1, 6 and 7.)

It has long been recognised that land reform encompassing both redistribution and tenure is the most potent means of restructuring rural economy. In addition to transforming agriculture, it can help achieve faster industrialisation, enhance growth and alleviate poverty in both rural and urban areas through improvement in nutritional status, health and level of living. It could also contribute indirectly to education and access to other opportunities. It has also been argued that egalitarian land distribution leads to a better status of women in the rural area and to protection of environment, though admittedly this is not a well-researched area yet (Rashid and Quibria 1995). The above-mentioned two-pronged strategy should therefore admit a strong commitment to land

reform to complement emphasis on market-oriented “economic reform”. The synergy between the two may be harnessed, if households without access to market at present can hope to acquire it when with land reform, the rural economy, too, starts churning on a more productive mode than at present. Empirical studies have shown that an owner-tiller uses his land more efficiently than either owner-tiller-cum-tenant or a pure tenant with rented-in land (IDS 1986). Similarly, studies have also shown a negative relationship between farm size and land productivity (e.g., IDS 1986, NRB 1994). A study of 19 developing countries covering Nepal and other Asian, African and Latin American nations has indicated a marginally negative correlation (-0.014) between agricultural GDP growth rate and land concentration, indicating an inverse relationship between inequality in land distribution and productivity (El-Chonemy 1990). The APP Report (APROSC and JMA 1995) also suggests that land redistribution has the potential to increase both output and equity.

If economic logic alone were to rule the society, land reform would become one of the less difficult policy decisions to make. In recent times, there has been an apparent consensus even at the political level on the need for land reform. The agreement has been facilitated by the recommendations of many commissions set up to study and advise on measures to be taken in this respect. The High Level Land Reform Commission of 1995 is the latest in the series. Yet, the reality binding the political economy is such that the country is still far behind in implementing its stated policies. The little progress in implementation that is there has been of a type that has elsewhere been called reform “by grace” and not “by leverage” (Rashid and Quibria 1995). Saddled with backward agriculture and increasingly nonviable rural economy, especially in the Hills and Mountains, the country and its leaders need to get serious about land reform. If they cannot make use of the convenient platform where equity can be pursued without sacrificing productivity, this may mean writing off the harmonious development of the rural sector altogether. On the other hand, if land reform is taken up in earnest, it will complement the economic liberalisation measures and contribute to the structural reform of the entire national economy – not just the “modern” sector. Hence, a sincere commitment to land reform should serve as a litmus test on the ideological stances of major political groups which profess their commitment

to social justice and poverty alleviation.

**Two approaches and experiences.** Historical experiences reveal two broad approaches to land reform: (i) a radical approach carried out by popular revolution or dictatorial action; and (ii) a slow democratic approach through a constitutional process. Following either of these approaches, various countries made a major breakthrough in land reform bringing the campaign to a peak in the early post-war period in the '60s and '70s (box 13.3). However, in the '80s and '90s, the concern for land reform subsided<sup>2</sup>, an understandable phenomenon at a time when the agricultural sector as a whole has been relegated to the backwaters of the economic liberalisation paradigm.

**Opportunity and possibilities.** The two different approaches just mentioned stem from different values subscribed to by the societies with regard to property rights and the relation between the individual citizen and the society. For some countries, land reform has meant righting the historical wrong. For others, the redistribution of land is a political act transforming the balance of power in favour of the weaker sections of the society. Nepal, enjoying the consensus as it does among the major political forces at present, may be lucky that it does not need to make an ideological issue out of the necessary reform. It can regard and pursue reform as merely an economic act which is essential for agricultural growth, community welfare and viability of the rural economy.

Yet, Nepal cannot take a radical approach to land reform, i.e., it cannot deny the notion of property rights, because the political forces have committed themselves to democracy and therefore have to use democratic means for its realisation. Nonetheless, it now seems that the leaders may have to be more “radical” than in the past about their commitment to land reform, even as they execute that commitment through the democratic process. Radicalism in the sense of taking an extreme position may not be acceptable. But, as some “radical democrats” (e.g., Heilbroner 1982) would argue, the government needs to be radical in order to get at the root of the problem – in this case, the will to change – if it is serious in doing something about it at all.

The report and recommendations of the High-Level Land Reform Commission of 1995, which are yet to be made public, can become a useful guide for adopting the necessary measures. In fact, a legislation has been enacted

**Box 13.3****Lessons of experience with land reform**

The rapid and bold land and agrarian adopted reform in the People's Republic of China from 1949 to 1978 is an interesting evidence. Before the reform, 10 percent of total landowners – absentee and rentier – controlled 70 percent of the cultivated land, with tenancy subsuming 30 to 50 percent of agricultural households and landlessness ranging from another 20 to 30 percent. The communist government attacked the feudal system and provided land to the tenants, sharecroppers and landless agricultural workers. There was no compensation for the land so expropriated. Significantly, technological improvement and mobilisation of agricultural labour force was efficiently matched and managed with skill development and labour-intensive agro-based industries. As a result, the growth rate of agriculture increased remarkably (El-Chonemy 1990).

In Japan, 69 percent of the agricultural households were tenants who worked on 46 percent of the cultivated land. With reform, the landlords were left with only one hectare of land. The remaining was collected by giving a very low compensation. As a result, 38 percent of the total cultivated land was distributed to tenants and landless agro-households. The positive result of that measure on Japan's economy is history.

In South Korea also, landless agricultural workers accounted for 30 percent of agricultural households in the pre-land-reform period. At that time, 4.5 percent of the landowners received 52 percent of the net farm income. With the reform, 1.15 million hectares of land were acquired and distributed to the landless and tenant families at an average of 0.9 hectares. The rent was also reduced from 50 - 70 percent to a maximum of 33 percent (El-

Chonemy 1990).

In Iraq, before land reform, 1 percent of landholders held 47 percent of agricultural land, while 34.4 percent of the landholders held only 0.3 percent of the land. Revolutionary land reform in 1958 changed that situation in a drastic manner. Forty percent of the agricultural households became the direct beneficiaries of land redistribution and 1.92 million hectares of land was redistributed.

In Cuba, prior to land reform, 9 percent of the landowners owned 73 percent of land. Later, the ceiling was fixed at 6.7 hectares. Land in excess of it was expropriated and distributed to peasants.

Land reform efforts were initiated in Nepal after the end of Rana Regime in 1951. The relevant steps taken included: Land Reform Commission 1952, 13-point Royal Declaration of 1956, Lands Act 1958, Birta Abolition Act 1959, Agriculture (New Provision) Act 1962 and Lands Act 1964. In actuality, only the Birta Abolition Act and the Lands Act 1964 produced some results. The Lands Act of 1964 put a differential ceiling of 16.9 hectares, 2.6 hectares and 4.2 hectares in the Tarai, Kathmandu Valley and other hill areas respectively. An additional exemption was made to the land for housing purposes. Rent was also fixed at one-half of the output of the main crop. It is a measure of Nepal's social structure and the political feasibility of the reform programme of this nature that, in the end, only 31,203 hectares (only 1.5 percent of the total arable land) was found to be in excess of the ceiling and, thus, available for distribution. The outcome of tenancy reform measures was hardly better.

by the parliament which, however, is challenged in the court already<sup>3</sup>. Any land reform measure must respect the right to property as guaranteed by the constitution. A reasonable compensation should be fixed for the landowners. The land in excess of the ceiling and thus acquired by the government could still be provided to the poor families at a below-market price through budgetary subsidy to be financed, in part, by a special levy on urban property.

If the ceiling on land were to be lowered to three hectares, for example, it would release 304 thousand hectares of land for acquisition and redistribution<sup>4</sup>. In addition, there is also a possibility of reclaiming or acquiring land that is wasted either because of disuse or natural factors. However, even for a radical approach, the technical side of the problem is too complex for such a solution. First, there is likely to be a strong voice to have some exemptions for commercial farming, arguing that a breakthrough in agriculture and its potential for creating additional jobs is only possible with large commercial operations. Secondly, redistribution of land may exacerbate the problem of fragmentation further. In view of this, it may be possible to redistribute only two-

thirds of the land so acquired by the State among the landless labourers, including the bonded households, and others who own less than 0.2 hectare, although purely dependent on land for their livelihood. The second constraint is more credible than the first one. In a situation where seven out of ten households own less than a quarter of a hectare, and nine out of ten households own less than two hectares, the argument for allowing larger "commercial" holdings does not really hold much steam. As a matter of fact, the basic objective of land reform is to create a congenial environment for the majority of small farmers to enable them to transform their current subsistence-ridden farming into a dynamic, commercially-oriented operation. A properly designed and effectively implemented land reform envisages a breakthrough in farm incomes and rural employment through intensification, diversification and specialisation of the overwhelmingly large number of small operations whose aggregate impact in terms of increased employment and income would be several times higher than what a small number of large operations could provide. In the context of poverty reduction and human development,

the sensible strategy would be to support and promote a broad-based and participatory growth which is possible only through focusing on the small farmers. Besides, exemption for large holdings (except perhaps for plantation crops) carries the risk of negating the very objective of land reform as the powerful landed interests could abuse the system (as has been observed in the past).

However, even through this route, not all the needy agricultural families can be provided with adequate size of land. In 1991, there were 32.1 thousand landless households, slightly above 1 percent of the total agricultural households (Agricultural Census 1991/92). Less than 2 percent (49,114 holdings) of the households were reported as pure tenants (i.e., renting land from others for cultivation). The existing land legislation entitles a registered tenant to claim one-fourth of the rented land. This has encouraged landowners to enter into informal tenurial arrangements to prevent tenants from claiming their lawful share. Hence the number of non-registered tenants could far outweigh the registered ones. If the 200 thousand hectares of land acquired is distributed at the rate of 0.5 ha per household, only 400 thousand agricultural families will get land and be able to earn a livelihood. Gainful wage employment in agriculture has to be expanded by crop diversification, improving cropping intensity and creating off-farm employment. Along with this, agro-based small-scale industries will have to be developed to absorb excess rural labour.

**Supplementary measures.** Land reform is a precondition for a growth-with-equity strategy, but it alone is not sufficient. It could turn out to be a mere propaganda, as in the past and an unnecessary political burden to bear – if it is not accompanied by supplementary measures. Without them, in fact, there may be no productivity gains at all from land redistribution or tenure reform. A number of key interventions are required in agriculture, irrigation, rural credit, rural infrastructure and macroeconomic policies, which are discussed in the next section. In addition, the key elements of a comprehensive land reform include: (i) land redistribution; (ii) rationalisation of holding size; (iii) protection of tenancy rights; (iv) well maintained land records and properly functioning land administration; (v) adequate legal and regulatory provisions; (vi) a responsive institutional set-up from the central to local levels to provide essential services in the

changed context following the reform; (vii) a sensible land use policy to promote productivity-raising investment on land; and (viii) special considerations for the economically most deprived individuals, families and communities, such as the female-headed households, landless labourers and marginal cultivators, including the *kamaiyas*. It is expected that the High-Level Land Reform Commission of 1995 has covered these aspects in a holistic manner. In case it has not, immediate action is required to prepare a comprehensive reform package keeping in view the above-mentioned key aspects.

The following aspects also deserve serious attention while implementing land reform as envisaged above.

*First*, the problem of land fragmentation is quite acute, with four parcels per holding on an average. Hence a special drive has to be initiated to discourage further fragmentation and provide appropriate incentives for consolidation.

*Second*, the cooperative movement in Nepal has a chequered history, and has been largely ineffective. This is mainly because of the political influence, bureaucratic control and systematic weakening of the decision-making role of the members themselves. The cooperatives, on the other hand, hold enormous potential to act as effective grass-roots level institutions to organise the farmers and rural entrepreneurs and to protect their interests. The existing constraints to a spontaneous growth and smooth functioning of the cooperatives need to be critically assessed and corrected so that they could emerge as the genuine institutions of the rural majority.

*Third*, since not all the landless and poor agricultural families can be provided land, the agricultural wage structure should be monitored and fine-tuned to address the problem within the limits of the productivity gains accrued to the landowners who have benefited from land distribution and associated measures. It may be necessary to implement a minimum wage policy for agricultural labourers.

*Fourth*, the rural infrastructure, mainly roads, electricity and telecommunication have to be developed not only for promoting cottage industries, and processing and marketing of agro-products, but also to attract competent development workers to stay and serving in the rural areas. One of the main reasons why trained people are presently averse to serve in the rural areas is that these areas lack the basic transportation and communication facilities and minimum health and education services for their

children and other family members.

*Fifth*, as genuine land reform gets under way, there will be a need for assigning or establishing a specialised financial institution to deal with the financing of poor households for procuring land, either in the process of eliminating dual ownership or for cost sharing to the government-distributed land. Such an institution will also meet the financial needs for land improvement, irrigation and production credit.

*Sixth*, as the agricultural and rural transformation process picks up momentum along the lines suggested by APP, there will be a multiplier effect spilling over the nonagricultural sector, in both the rural and urban areas. This would help expand the nonfarm sector employment and income opportunities in activities such as manufacturing, agro-processing, trade, services and construction. Hence the behaviour and performance of the nonfarm sector needs to be carefully monitored along with the farm sector, in a coherent and holistic manner in order to ensure balanced and sustainable development.

### 13.4.2 Reorienting agriculture

Nepal at the current stage of development has no choice but to focus on developing the predominant agricultural sector. The basic rationale behind this strategic imperative is explained in detail in the Agriculture Perspective Plan (APROSC and JMA 1995). The most compelling argument is that, if the country wishes to break the current subsistence trap and forge ahead on a dynamic and high-growth path with built-in equity, this is the only available option. Development of agriculture inherently supports the employment and equity considerations because by its very nature it embraces the entire economy. If pursued within the framework of rural restructuring as argued earlier, this sector has a higher potential for combating poverty than any other. The preparation and adoption of APP has foreclosed the need for any new attempt at this point (box 13.4).

APP has been adopted by the

#### Box 13.4

#### The APP strategy

APP is based on the assumption that it is time for Nepal to commence accelerating growth, and it lays down the basic priorities for doing so. The minimum foundation of physical infrastructure, human capital and institutions has been laid.

The place to start accelerated growth is where the mass of people are – rural Nepal; in the sector already commanding the largest share of Nepal's resources – agriculture; and, with investments to raise the productivity of those people and their resources – agricultural technology generation and rural infrastructure.

Thus, APP has four priority inputs – irrigation, roads, technology and fertilisers. They are all technology-related and productivity increasing. APP also gives priority to a few high-value commodities that will bring dramatic increase in farm incomes, especially in the hills.

APP is regionally balanced. It has a massive effect in reduction of poverty through its direct effects from agricultural growth, and far more so, from indirect employment-producing multipliers in the non-agricultural sector. The latter will disburse urbanisation over most of the country.

What are the essential decisions to make APP work?

First, appointment of a high level oversight body reporting to a cabinet sub-committee and an associated independent analytical unit to provide the power of information to that body. Without these, APP will go the way of the several past strategic plans for agriculture.

Second, the agricultural road investment plan must be seen as both minimal and proven as feasible by any number of examples (e.g., Himachal Pradesh and western Szechuan). A new department of agricultural roads must be created and staffed; local government must be galvanized and monitored for action, including giving priority to roads that tap major commercial potentials; even while

currently known construction techniques are applied, improved methods must be developed; and, foreign donors must be led to vigorous supportive actions.

Third, the district administrations in Tarai must put in package groundwater development with roads and other key inputs and ADB/N must give a dominant priority to accelerating its lending programme for groundwater development, even as the government provides land consolidation enabling legislation and settles the land tenure issues.

Fourth, AIC must redefine its role to achieve accelerated growth in fertiliser use by full privatisation of retail distribution, assuring that supplies and stocks are increased adequately to meet rapid demand growth, that various constraints to that growth are removed and that the subsidy policy, whatever it may be, facilitates, not retards, growth in fertiliser use.

Fifth, NARC and associated extension efforts must set a few priorities for on-farm-oriented research that will provide practical improved technologies for sharply increasing agricultural production and farm income. In that context, the resources available to NARC must be radically increased.

The effect of these closely monitored efforts will be to accelerate agricultural growth and to have powerful multiplier effects on other sectors, on poverty alleviation, on the involvement of women and on environmental enhancement. These successes will also raise the returns to myriad other public and private actions and mobilise resources in those activities for productive effect. It is the mobilising of so many now nascent resources that will be the first sign of success of the APP priorities.

The essence of APP is simplicity and priorities. It is not a grand plan; it is the opportunity and the prospects that are grand.

Source: APROSC and JMA 1995.

government and has the advantage of being accepted by all major political groups of the country. An earnest implementation of APP is as critical to a widespread rural transformation as is the effective implementation of a comprehensive land reform programme. In fact, these two components need to be fully integrated and implemented as a package.

APP identifies four priority inputs whose adequate provision is critical to its successful implementation. These are farmer-controlled and year-round irrigation, fertilizers, technological packages and rural infrastructure (agricultural roads and rural electricity).

*Irrigation.* Nepal has indeed invested considerable amount of resources in developing irrigation infrastructure, but that investment has gone thus far to large surface irrigation projects operated by government agencies. Only recently efforts have been initiated to transfer their operation and management to the beneficiary farmers through user groups. Yet, APP has pointed to the vast potential of developing groundwater irrigation in Tarai which can be less costly and involve little gestation time for completion. Above all, groundwater irrigation is fully within the control of farmers since most of them would be privately owned and operated, and the users can operate the system whenever they need water for their crops round the year.

Irrigation increases cropping intensity and expands employment opportunities in agriculture (NRB 1994). Studies have shown that small farmer-managed irrigation projects are more cost-effective and efficient than government-run large projects (also see chapter 10). Therefore, encouraging local farmers in constructing and managing small irrigation projects with financial and technical support from government will not only make better use of the resources but also ensure project sustainability. Farmers can similarly be organised into cooperatives or public (and private) limited companies to build, own and operate irrigation schemes based on groundwater, particularly in Tarai. It is reported that the cost of groundwater irrigation is one-seventh the cost of surface irrigation in Tarai. Involving women in these irrigation schemes as shareholders and members of cooperatives and user groups may provide an additional institutional dimension. In addition, priority can be given to women's training in organisation and management of irrigation projects, or companies and cooperatives to attract them into management roles.

*Fertilizer.* Chronic shortage of fertilizer has become quite common in Nepal due mainly to the failure of the public sector to procure adequate amounts of this essential input. The non-availability of fertilizer on time has been observed to be a more binding constraint than its price, yet there seems to be little effort to resolve this problem in a long-lasting fashion<sup>5</sup>.

*Research and Extension.* Agricultural research in Nepal has not been able to respond effectively to the opportunities offered by the country's broad agro-climatic diversities. There are a number of reasons for this. The research system lacks a clear sense of focus and priority in terms of disciplinary areas, commodities and geographic regions. As a result, the scarce resources are scattered across a wide range of activities without making any significant impact in any. Above all, agricultural research in Nepal is grossly under-funded, even though ample evidence exists to demonstrate that investment in research has a very high rate of return.

It is generally dominated by production-related considerations, leaving unattended the problems associated with marketing, storage, processing, credit and cooperatives. The constraints and opportunities faced by farmers and entrepreneurs under diverse conditions of climate, topography, market accessibility and socio-cultural and politico-economic milieu are not incorporated in the research agenda. Above all, it lacks a broader and holistic approach to developing alternative packages of technology advantageous to the majority farm households and entrepreneurs. This, along with low funding, explains the rather disappointing performance of the sector on the technology front.

A number of extension programmes and approaches have been tried in Nepal over the years, such as block development (concentrating delivery of essential inputs and services in a selected irrigated area), training and visit system (extension workers visiting every farm household weekly with a distinct farming-related message given at regular training sessions), integrated rural development approaches, the *Tuki* (lamp) system (delivering essential inputs through private individuals under a contractual arrangement) and farming systems research. Most of these approaches have been experimented upon and discontinued due either to a shift in policy or withdrawal of donor support.

One lesson that has been learnt is that the farmers have to be their own extension agents. Some technical knowledge has to come from outside, but there is a wide range of indigenous

expertise, experience and wisdom whose time-tested relevance and suitability to local conditions could not be surpassed by externally borrowed ideas. Parallel institutional mechanisms have been devised to make best out of the indigenous resource base and skills. One singular element of the ineffectiveness in the country's extension system is its failure to promote and build on the indigenous resources and skills. This approach has also a bearing on how development is viewed generally and how the farmers are made the subject and not the object of development of their community. In addition, this approach also permits the participation of local communities in agricultural development which has not been the case so far. In addition to the technical agents of the government, the NGO sector can be mobilised to provide necessary support to the VDCs and communities involved.

The conventional approach to dealing with agriculture has also been a problem. Agricultural development in Nepal has been viewed narrowly from a sectoral perspective, while its transformation calls for a cross-sectoral effort and a strong macroeconomic policy support. Above all, the importance of rural infrastructure and communication is now well established in linking the production pockets with the market, in promoting agro-based industries locally, in retaining qualified technicians in the field and in helping to speed up the process of commercialisation.

The above critical input and support elements have been dealt with in detail in the APP, along with the emphasis that these need to be integrated carefully into a package. The absence of one key element would render the whole package ineffective. The public sector has a critical role here in providing the identified priority inputs and support. While groundwater irrigation will expand mainly through private initiative, it would not materialise unless adequate credit provisions are made by the public sector. Fertiliser could be supplied through the private sector in a competitive environment, but the presence of subsidy complicates the issue. Similarly, both technology and rural infrastructure are public goods for which there would be no private interest in getting involved on a large scale. Even in the case of privately supplied inputs and services, such as seeds and planting materials, and storage and marketing, the government has the responsibility to provide the necessary legal and regulatory instruments and control quality of

the goods and services delivered.

*Credit.* Reform in the system of credit delivery is an integral part of institutional reform in agriculture. Apart from production credit, the implementation of land reform measures would call for an expanded capacity to provide and administer institutional credit. Acquisition of surplus land with adequate compensation, abolition of dual ownership on land, land consolidation and plotting and provisioning of adequate farm inputs all will require institutional expansion and strengthening for smooth credit delivery and administration. Such credit facilities are important particularly to benefit the indebted and landless households.

*Women.* Uplifting women's status along with a high growth in agriculture requires additional measures. Special incentive schemes should be designed for those agricultural activities and products in which women particularly play an important role, not only as labourers but also as entrepreneurs. These are livestock and poultry keeping, vegetable production and small-scale income generating activities. Along with this, special attention should be given to developing appropriate technologies for women farmers and entrepreneurs, focusing on measures to reduce drudgery and enhance productivity, and on their access to credit and the income generated.

### **13.4.3 Promoting agro-enterprises**

Agro-industries exert a strong productivity as well as distributive effect. They are highly labour-intensive, have wide employment-generating backward and forward linkages, can be undertaken with modest capital and skill, and are located in rural areas where there are no activities other than agriculture. The promotion of agro-enterprises should be a critical element of the growth strategy. Agro-industries have been a major driving force for high income growths in the middle-income countries of Asia such as Thailand (FAO 1992). In fact, agro-industries greatly facilitated Thailand's rapid transformation from a low-income agrarian economy to a prosperous diversified economy through close links with the agriculture and service sectors, and the export market. Even the low income countries of South Asia like India and Pakistan have promoted a growth process based on agro-industries.

The growth observed in recent years in the manufacturing sector of Nepal has had little linkage with agriculture, or even the rural

economy. For example, the two “growth industries” – carpet and ready-made garments – depend upon imported raw materials, and at least in the case of one, on imported labour as well. The growth of this industry is necessary also to attain a better geographic spread of industrial activities. The major manufacturing units will probably continue to remain clustered in certain urban centres. Similarly, agro-industries have had a limited impact on the regional development of the country. Agro-industries can be dispersed and located nearer to the source of supply of raw materials, i.e., the rural areas. At present, however, about 77 percent of the employment and 81 percent of the output of agro-enterprises are concentrated in the central development region (CBS 1992). The following measures may be considered for the promotion of agro-industries in support of human development in general, and employment generation and regional equity in particular.

*First*, in order to promote backward linkages of the agro-enterprises with local production of raw materials, incentives should be provided for such industries, contract farmers producing such raw materials and integrated units that directly link up agro-products with agro-enterprises. *Second*, research and development efforts have to be invigorated and made responsive to the needs of agro-industries. Private participation in such activities should be encouraged by inducing the private sector through tax incentives on research and development. *Third*, bank financing of agro-enterprises has to be strengthened. Also, schemes should be designed to reduce the financial risks to entrepreneurs and investors in agro-enterprises. The priority sector lending programme has to be revamped in order to develop agro-enterprises. *Fourth*, institutional arrangements have to be developed for marketing the production of small and scattered enterprises. One way is to strengthen agricultural cooperatives for this purpose. Another is to develop a hierarchy of companies where smaller producers organise into a bigger one (like a holding company, perhaps) to enable them to promote organised production and marketing. And *fifth*, assistance should be provided to these enterprises by the government for access to information and technology, training and research and development, in addition to the institutional support for credit as stated.

#### 13.4.4 Industrial promotion

Before proceeding further, it should be noted that the above mentioned policy measures and the ones to follow in this section raise a practical point. The question is: what flexibility does the government have in influencing the character and direction of industrial development in the country, given the liberalised trade regime and market economic principles it is expected to follow? Can the government deliberately favour agro-industries, for example, or even those industries in general that are employment-intensive? Will any policy initiative involving incentives of one kind or another mean “distortions” that are not permitted by the liberalisation doctrine? We can do no more, at this juncture, than stress the philosophical and conceptual framework which has guided this study.

Industrial growth will have a positive impact on human development only if (i) the industrial structure is labour-intensive; (ii) no gender discrimination is practised at work, and the workers are well-paid; (iii) no child labour is employed in industry; (iv) the productivity growth is passed on to the workers through wage hikes; (v) the work environment is healthy, and industrial hazards and polluting substances are disposed properly; and (vi) job security and retirement benefits are built-in with employment. But structural as well as legal reforms and their enforcement are needed to attain these provisions. An effective and private sector-friendly government and a human development-friendly private sector together can produce the quality growth that can translate the benefits of industrial growth into human development (see 12.5).

Some of the measures just cited are not only consistent with, but are required by, a liberal economy. Some others may be more contentious. First, here too, it is necessary that industries based on agriculture and mining be given top priority through institutional support. Second, industries that use local raw materials, generate substantial employment, produce nutritious foods and promote exports should be prioritised for financial, institutional and other support from the government. Third, micro-enterprises which are highly labour-intensive and use local resources and technology need to be promoted through efficient and strong institutional set-up for financing, marketing and research and development. Fourth, long-term

financing facilities should be enhanced through financial institutions, stock market development and encouragement of foreign direct investment. However, it needs to be stressed again that not all types of foreign investment contribute to income and employment generation. The government should work for a decision space where it should be possible for it to be selective about foreign direct investment (FDI) without discriminating against domestic investors. Like the national industrial sector, FDI, too, needs to be encouraged in industries where they create employment, promote exports, transfer technology and are generally human development-friendly. Finally, industries having market prospects in India and other SAARC region countries have to be promoted. The prospect of the present SAPTA evolving into SAFTA and consequently the extended South Asian market needs to be kept into consideration in providing public support to new industries.

### 13.4.5 Tourism development

Tourism is one of the few areas where Nepal has a potentially competitive advantage and can compete in the international market with a relatively smaller effort. The observations made in the context of “reorienting the economy” may not have many new things to say in this regard. However, if the authorities take these observations seriously, plan carefully and implement the recommendations, tourism can be of great value to feed economic growth as well as human development. The following measures may be pursued to attain these objectives.

*First*, a high import content (62.3 percent of the tourist expenditure) has constrained the prospect of high value added in the tourism sector and limited the contribution of this sector to less than 3 percent to the GDP. Hence incentives should be given for greater use of indigenous or local goods and services by tourism. This has implications for product line in industries as well as agriculture, and also for training and skill development to compete with the foreign manpower.

*Second*, tourism by itself will have little impact on employment and income in the rural areas if it remains mainly an urban economic activity. Development of rural tourism can have an impact on the rural economy similar to agriculture, and it can yield even higher returns on the efforts made. It should be noted that some attempts are already being made in this respect. This sector can generate employment for women

and men relatively quickly and has the additional advantage of being conducive to a regionally balanced development. Development of new trekking routes and promotion of resorts can be undertaken by the private sector with and without foreign participation. It should also be noted that some attempts are already being made in this respect. It is the infrastructure, both physical and institutional, that becomes critical because the government has not been very innovative in this respect so far. The recent setting up of the Tourism Promotion Board with the participation of the private sector may be able to lend fresh direction to this sector; but, again, such institutional innovation is not being made for the first time in Nepal’s history of development. There are areas of cultural heritage and historical importance all over the country that require imaginative attention. Besides, religious tourism will have to be developed to attract tourists from India, the rest of South Asia and East Asia. Nepal can be an attractive destination for 15 million Japanese people and a large number of other people from both the Buddhist and Hindu communities in the world. If the government lacks in necessary innovation, preservation and promotion of what the country has to offer, the private sector can do very little on its own.

*Third*, the travel and trekking agencies can and should expand their network in India, and other countries of South Asia and abroad. But the capacity of airlines presently operating in Nepal remains a bottleneck. The private airlines have recently been given the permission to operate internationally, but they have not secured a route that can be profitable even with a reasonable gestation period. The solution does not appear too difficult, at least when considered apolitically and dispassionately. The RNAC should either be privatised or given full autonomy, the latter possibly in conjunction with a collaborative arrangement with a reputed foreign airlines. This can be followed by an increase in the fleet of RNAC and regular scheduled flights to destinations currently agreed with other governments. If tourism is to play its potential as an engine of growth (widely distributed), there should be no hesitation in putting investment in it, especially given the magnitude of resources being wasted by the government and in the public sector. Decision on a new international airport should be taken as soon as possible.

*Fourth*, foreign investment in the tourism industry has to be encouraged and additional

incentives for ploughing back the profit into the same industry could be provided.

*Fifth*, as internal tourism has a significant effect on income distribution and regional development, efforts have to be made to promote such tourism by arranging package tours for domestic tourists, making provisions for compulsory use of the 'house-leave' facility by employees and employers. As Nepal is observing the "Visit Nepal Year 1998", it is right time that such practices be introduced at the national level.

*Sixth*, quality tourism should be given a high priority by the government. Provisions like minimum amounts to be possessed by the tourists at the time of immigration, minimum amount to be spent during one's stay and a code of conduct for the tourists during their stay have to be worked out.

### **13.4.6 Water resources**

Enough has been said and written about the country's water resources. Water is definitely a resource which should have been harnessed a long time ago for the benefit of the Nepali economy and society. The little progress that apparently has been made towards the finalisation of some schemes to be implemented in cooperation with India or in participation of the private sector is still shrouded in uncertainty about their immediate future. More uncertain may be the benefits that these schemes have to offer to redress the problems and constraints to human development and poverty alleviation.

No doubt, the development of water resources for irrigation, power and navigation promotes economic growth. There is, however, a need for a perspective on how to tie up water resource development with human development. This is where the question of priority and trade-off comes in. Like people, water is a resource that is scattered all over the country. Harnessing it for drinking water, energy and irrigation equitably can genuinely be an instrument for human development. It helps to generate additional employment in agriculture and off-farm activities, supports extension of education and health facilities to remote areas and helps to protect the environment. A human development approach to water resources development would require emphasis on smaller schemes that can be implemented relatively easily and quickly, and that can be located equitably throughout the various regions. In the use of water, this approach requires that the first priority be given

to drinking water, followed by irrigation and energy for domestic household and industrial uses.

### **13.4.7 Human resource development**

In the often-cited examples of the East Asian countries, the quality of human resources has played a decisive role in the growth of their economies. It has been observed, in the case of these countries, that the traditional factors of production, viz., labour, capital and technology do not explain more than 60 percent of their growth; the rest of the growth is attributed to efficiency parameters associated with the quality of the human resource. A reoriented economy for Nepal should be able to capture the potential that lies in this sphere for the same effect. It will be an exercise twice-blessed because human resource development, apart from contributing to growth, feeds itself directly into the substance of human development that the country now seeks.

Developing human beings as a resource requires investment in education, skill development, health and other basic needs of the people. This subject has already been dealt with in other chapters in greater detail. Here, it may be necessary only to draw attention to a few overriding principles and values that should be guiding the state and society in this respect. It is necessary to stress this point because of the danger that development of education, health or other related sectors may once again be pursued in the same mechanical fashion as before without taking cognisance of the intrinsic merit and purpose of this pursuit.

Human resource development is not a technical exercise to be handled mechanically by technicians for simply upgrading the technical capacity (or physical capacity) of the population. If technical capacity alone mattered, there would not be a growing number of educated unemployed in the country. Nor would there be a general and growing perception that the professional, technical and other educated classes are as responsible as any other for the present economic, social and moral stasis of the country. The absence of a moral anchor, a professional code of conduct that is abided by all, or even a sense of "citizenhood" in the majority of such cases does not leave much for the uneducated, illiterate and allegedly ignorant people to emulate. Moreover, it also needs to be asked that, if corruption is as rampant as it is perceived to be in the country, what relation

does it have with education as observed in Nepal? Corruption takes place when “entrusted power” is abused (see 12.3.5). The domain of entrusted power encompasses not only the state but also the professions, the other civil society agents, and even the private sector. At the individual level, it is the educated people who mostly exercise this power. If so, one will have to agree that corruption or abuse of authority is perpetrated by the educated people, most of whom also have better access to health care and other amenities than others. If they also constitute a resource for the country’s development, recognition of this irony should be the first agenda of any programme in human resource development. There cannot be a reorientation of the economy, or of the society for that matter, without a reorientation of values guiding the development programmes in education, health and related sectors.

### **13.5 TRANSLATING ECONOMIC GROWTH INTO HUMAN DEVELOPMENT**

The countries that have been successful in achieving high human development have invested heavily on their people, have put in place the right policy fundamentals and have not discriminated against sex, race and region. The tragedy of *exclusion* cannot be eliminated unless disparities across genders, races and regions are properly addressed by bringing more people into the nation’s economic mainstream and promoting equitable access to the benefits of development. Realisation of the key development challenge – *inclusion* of most of the people into the mainstream of development – and subsequent state actions alone can translate economic growth and development into human development<sup>6</sup>. Such actions may have to be initiated with an interventionist approach to poverty alleviation, restructuring expenditure, tax and subsidy systems, widening social security provisions and giving economic liberalisation a human face.

#### **13.5.1 Poverty alleviation**

For poverty alleviation, growth has to be distributed to all the sectors, regions and sections of the population. This, however, depends upon a faithful implementation of almost all the strategies and policies outlined in the various chapters of this study. Agricultural

development and employment generation within and outside agriculture emerge in that context as two critical imperatives. The present structure of the economy and labour force shows that only two-thirds of the new labour force that enters the job market each year can be absorbed by the existing labour absorption capacity of output growth<sup>7</sup>. For an economic growth that can fully absorb at least the new labour force entering the job market each year, either the growth rate itself should be very high (more than 7 percent) at the existing labour intensity of output growth, or the structure of production should change in favour of labour-intensive technology so that the employment intensity of growth improves, making more jobs available for even a relatively low growth rate. Any combination of these measures may prevent the economy from swelling up the reservoir of surplus labour. But the existing stock of unemployed and underemployed labour force still remains unabsorbed, and, until they are gainfully employed, poverty can not be reduced.

How can economic growth be made more job-creating? The solution lies in restructuring agriculture and industry, along with budgetary reallocations, in a way that makes these sectors mutually complementary. Measures such as the creation of micro-credit institutions, promotion of agro-enterprises and adoption of labour-intensive development activities at the local level would all augment the restructuring process. In this regard, some of the policies for enhancing employment may be as the following.

*First*, as agriculture is the most labour-intensive sector, economic growth emanating from this sector must be more job-creating. Thus agrarian reform assumes top priority in the agenda for employment creation. Land reform, together with irrigation development and enhancement of credit delivery increases cropping intensity in agriculture, thus inducing employment. Land reform alone can give gainful employment opportunities to 200 thousand landless households who are working as sharecroppers, lowly paid wage workers, or who are totally unemployed.

However, the backlog of underemployment in agriculture leaves little room for fresh labour absorption in this sector even with agrarian reform. Therefore, off-farm employment opportunities have to be expanded with institutional support from the government. Such support may come as provision of credit, skill development training, technical help and marketing assistance.

*Second*, as labour-intensive industrial expansion creates opportunities for more employment, emphasis should be laid on micro-enterprises which are less capital-intensive and more labour-intensive. Studies show that micro-enterprises can generate one employment for about Rs 10 thousand of investment in some of the sectors (Sharma *et al.* 1996) whereas large enterprises create one job for every Rs 90 thousand of investment (CBS 1992). Employment potentials should also be given due attention while inviting foreign direct investment in industries. It must be understood that foreign investment, which does not either create job, promote exports, or transfer technology, has little contribution to growth and poverty reduction, and therefore, needs a close scrutiny.

*Third*, development activities in the public sector need to be made more labour-intensive. Civil construction is one area where a trade-off between the use of labour-intensive or capital-intensive technology can be exercised. Roads, canals, drinking water and sewerage, flood control and embankment projects and public construction should give priority to labour-intensive technology wherever possible, and people's participation in development work should be mobilised not in terms of financial contribution, but in terms of physical labour itself.

*Fourth*, development activities must be made participatory whereby the government efforts and the people's initiative can go hand in hand in developing rural infrastructure like rural roads and bridges, small irrigation canals, school and health centre buildings, drinking water and sewerage, small hydropower projects and community buildings for library, sports and cultural activities. Such programmes could be run under the food-for-work programme, with wages sufficient for meeting the basic food needs and with adequate budgetary provision for participatory work.

*Fifth*, as the micro-credit programme has been highly successful in creating job opportunities and thus in reducing poverty in many countries (Rahman and Khandker 1994), an extensive micro-credit programme focused on the poor should be implemented. This is all the more necessary because land, the major productive resource, can not be made available to all the asset-less households, and credit is the only resource that can help in making a productive use of abundant labour, the only asset of the poor.

The micro-credit programme has covered a

very small number of poor households, although some studies claim its coverage to be as high as 19 percent of the population below the poverty line (Sharma and Nepal 1997). In this regard, emphasis has to be given to establishing new micro-financing institutions, expanding the service network, strengthening the capital base, lowering the service delivery cost and continuing subsidy to the targeted sections of the society, particularly women and the poor.

*Sixth*, unemployment exists not only because of the lack of job opportunities, but also because of the lack of skill on the part of unemployed labour. The dualistic nature of the labour market – abundance of unskilled labour and short supply of skilled labour – has given access to immigrant workers in the Nepalese labour market. This anomaly has to be addressed by the provision of skill development training and reorienting the education system to the country's manpower needs. In particular, semi-skilled workers like those involved in manufacturing, construction and services have to be prepared for the displacement of immigrant workers by domestic labour.

*Seventh*, social mobilisation is also necessary for employment generation. NGOs can work with the local governments and people to chalk out employment and income generating activities through literacy and awareness campaigns, credit delivery, skill development and marketing support. With decentralisation of the central government's role and responsibility to the local government, the latter has to work together with the central government and NGOs for promoting employment generating activities at the local level.

However, creation of employment opportunities in general does not by itself address the problem of regional imbalances in job opportunities due to the disintegrated nature of the labour market. Similarly, the female unemployment problem may remain unaddressed due to gender discrimination in job opportunities. It has already been observed that most of the job opportunities created in the process of growth have been absorbed by men, and the situation of women unemployment has become worse. This calls for empowering women for access to jobs, enforcement of laws which protect women against job discrimination and a time-bound reservation of organized sector jobs for women. The right to property, education, skill development, attitudinal changes of the society and enforcement of the right of women as envisaged in the constitution itself

would distribute job opportunities induced by the growth process and by government interventions more favourable for women.

Even with all these measures, poverty may still prevail in some remote and inaccessible geographic areas and most deprived sections of the population. To address that problem, a social security programme needs to be introduced, initially targeted on such areas and groups. For the poorer sections, deprived communities and remote areas, the state should guarantee a minimum package of services, including free education up to the secondary level, unemployment benefits, old age pensions, survivor allowances, disability allowances, medical insurance and maternity insurance. Those who can not afford the market price for meeting their basic needs must be supported by the state. Food rationing up to a certain quantity for the target groups, and delivery at subsidised prices, particularly in the remote areas, is also necessary, as people in these areas are not in a position to buy food at the market price due to very high transportation costs. However, targeted food subsidy is only a stop-gap measure for poverty reduction. In the long run, all the able-bodied people must be empowered to afford their consumption at the market price.

### 13.5.2 Social infrastructure

Together with roads, as provisioned in APP, it is necessary that every village have access to piped drinking water, electricity where possible, a health post, a high school and community centres where they meet to exchange ideas and debate on issues of interest to them. These facilities are necessary on their own merit, and for human development in general. But there is more to it than this. People in the rural areas have to feel confident that they are also human beings and that they are also noticed by the power that be. In this manner, they will gain the necessary self-respect on the basis of which they can work for real *vikas*, not development delivered from the heavens, or outside. In sum, they need to see a future for themselves, which,

for many of them, is best not thought about at present. If they can think optimistically about the future, they have a zest for life without which no development is possible, and human life worth living.

When a reoriented economy paves the way for a more focused and socially desirable process of economic transformation, the issue of sustainability assumes critical importance. Sustainability is critical not only from the standpoint of environment and resource management, but also for sustained efforts which require, among other things, an egalitarian perspective about them. As some analysts have put it, "...when a change makes conditions better for some, it may result in worsening of conditions elsewhere" (Axinn and Axinn 1997: 70). From a human development perspective, a further note of caution, to quote the same authors again, may be that "The growth of cities, for example, may offer higher levels of living to some people. Like a magnet, rural people are drawn to their fringes, and urban populations grow. But then pressures increase for urban people to extract food and other goods from rural people, and economic and political consequences may lead to turbulence".

The measures for the reorientation of economy thus must take cognisance of both the potential and the problems involved. Development does not always have to be at the cost of the environment, and the two can augment each other if carried out with proper care. Some groundwork has already been made in integrating environmental considerations into the development process<sup>8</sup>. The country now needs to develop the necessary institutional capacity and manpower to effectively implement the existing policies and regulations.

Public sector resource allocation needs to be fully consistent with the above priority programmes and the first chunk of the available resources should obviously go to them. The anomaly, thus far, has been that a distinct mismatch exists between prioritisation, on the one hand, and the scale of budget allocated, on the other. This is the subject of the next chapter.