Chapter - II

NEPALESE ECONOMY

This chapter describes the geographical built of Nepal and its physical features. Sections one and two give a brief introduction of ancient Nepalese economy. Section three describes the economic changes in Nepal after 1950-51. The economic and social infrastructure and different sources of income are discussed in sections four and five. Section six describes efforts at planned development of the Nepalese economy. The chapter is brought to an end by some concluding remarks.

The Himalayan kingdom of Nepal has emerged into the modern world in the middle of the present century. Nepal has a great diversity of climate, vegetation, wild life, land, forests, water resources, mineral resources and above all of population than any other country of a comparable size. This geographical diversity of Nepal has moulded the character of the country, and more so its economy. The geographical built has divided the country into three segments -- the Land Region, the Midland Region and the Alpine Region -- which are completely cut off from another. The language, the customs and the economic means of three regions are so different from one another that they can hardly be considered as forming uniform patterns.
1. Factors Shaping Nepalese Economy.

The economy of a country is not only shaped by its physical features but also by its natural resources. There is every possibility that the mountains and riverbeds of Nepal conceal precious deposits. The discovery of mines in 1969 in many parts of the country lends support to this contention. Again, Nepal is in a favourable position, having forest-resources is an area of 17500 Sq. miles, i.e. 31.1 percent of the total area of Nepal, which is much conducive to economic development. As to water resources, Nepal has not only innumerable fountains, rivulets and lakes, but three major river systems - Kosi in the east, Gandak in the middle and Karnali in the west. These water resources can serve two main economic purpose, viz, irrigation-provision and power-generation. It is estimated that the water resources of Nepal discharge about 168 million acre feet of water per annum. Utilisation of even a small fraction of this amount, say 11.2 million, will be more than sufficient to irrigate the entire cultivable land.

1. For instance, the U.N. Development Programme (UNDP) some times ago announced in New York that two Soviet geologists attached to the programme, working with the Nepal Geological Survey, have discovered reserves of 114 million tons of magnesite and 60,000 tons of Talc about 60 miles north-east of Kathmandu along the Kathmandu-Kodari Highway. They have also found geological structures confirming the existence of copper, lead, zinc, bismuth, tungsten, molybdenum and iron and indications of gold and tin. Times of India, dated 26th Oct., 1969.


3. Ibid., p. 187.
The potential of human resources in the economic development of a country lies in the magnitude and quality of its labour force. This labour force may be defined as population of the age-group 15-60 years. In Nepal 66 percent of the total population comes under this group. The Census Report of 1961 reveals that the total population of Nepal in 1961 was 9.4 millions and density per square mile 178. The same report tells that the birth-rate in Nepal was 33.39 per one thousand and the death-rate 12.99 per one thousand. Thus the natural increase of population is roughly 2 per-cent. From the point of view of economic growth, the occupational distribution of population is a sufficient though rough indicator of the growth process. In Nepal, of the labour force, 93.4 per cent is engaged in agriculture and forestry, 2.2 per cent in industries, and 4.4 per cent in services and commerce. This shows that the role of manufacturing industries in the economic life of the country is quite insignificant, and the contribution of the tertiary services almost nominal. As to the quality of the labour force, it depends upon the level of education, training, medical facilities, health and sanitary conditions, social, cultural and economic institutions,

2. Ibid., p. 9.
etc. In this connection it may be mentioned that the percentage of literate population has been estimated between five and ten in Nepal which is almost lowest among all the countries of the world.

2. Ancient Nepalese Economy.

The physical barriers of Nepal compelled its ancient economy to base on the principles of isolation and regional self sufficiency. It remained traditional from ancient times even up to 1960. The political history of the country, which is a story of constant struggles, gives evidence of the fact that family and clan connexions played a major role in social organization. This social set-up was obviously an impediment of the country in general and to its economic development in particular. During this period of traditional economy ninety-seven per cent of the population was devoted to agriculture only. Nepal’s economy was not feudal but pre-feudal.

It is interesting to note that crafts, cottage industries and commerce flourished more than agriculture during the ancient period. In general 95 per cent of the


farmers were engaged in these industries also. Nepalese
hand-made paper, metal works, wood-carving and cotton-
weaving were famous even outside the country. All state
requirements of arms and ammunitions were met by the local
industries only. Many specialized goods were exported to
foreign countries particularly to Tibet and India. Kathmandu
Valley was a centre of trade as well as art, architecture,
crafts and industries.

The closed and isolated nature of the economy, the
social organisation of the country, and its physical barriers
made the economy of the village self sufficient. The organi-
sations on the level of village units were Panchayats. Be-
sides other administrative functions, these Panchayats were
responsible for all public works like irrigation, transport,
establishment of market and stores, construction of dams and
bridges etc. The Panchayats were also responsible for the
payment of Royal dues from the village and for the proper
utilisation of the part of revenue assigned to them. Incomes
from taxes, from estates owned by them from fees and fines
and from collective trading formed their main sources of
revenue.

The advent of Rana rule in Nepal in 1846 shattered
this old and simple economy. The system of land tenure
remained the same but the condition of agriculture worsened
owing to the individual and personal interests of these rulers. The indigenous and cottage industries received a serious blow as the western consumption pattern became popular in the country. The Anglo Tibet Peace Treaty of 1904, the opening of Chumbi Valley routes between India and Tibet, the Anglo-Nepal Treaty of 1923, all affected adversely the Nepalese industries.

The potentialities that flow from modern science and technology were not available and therefore a ceiling existed on the level of attainable output per head. A few ad hoc technical innovations were introduced, but no discoveries of new crops or in modes of irrigation were made. The area and volume of trade, the standard of living, etc. fluctuated not so much as a result of economic changes but as a result of the foreign impact on the consumption pattern of the people. Nepal's economy was extremely primitive as was Nepalese Society in many respects. In Nepal the Rana rulers formed the social hierarchy, held the big landed estates and enjoyed the privileges of family rule as political rulers with the natural consequence that the Nepalese national economy remained primitive and traditional up to 1950, when the tremors of a social revolution were felt.

The revolution of 1950-51 enabled Nepal to wriggle out of its traditional framework. It tore off the veil that had covered the realities for several centuries and brought Nepal face to face with the problems and responsibilities of the twentieth century. It was realised that if Nepal wanted to raise the standard of living of her people, she had to increase considerably the rate of economic development in the country. The leading requirement on which economic problems depend is of achieving a high rate of investment. In order to raise the rate of investment and all round and radical change in the psychological and sociological attitudes of the society and its working institutions and procedures is needed. To achieve this purpose the Government of Nepal introduced certain measures such as Land Reforms, Village development, the co-operative movement, the construction of social overhead capital, mobilisation of domestic resources, etc.

As to the problem of land reforms, the necessity to protect the rights and interests of those who work in the land was realised. From this point of view, Investigation Commissions and Mobile Courts were set up for immediate settlement of disputes, and later on certain legislations were enforced. In 1952 the Tenancy Rights Acquisition Act
was passed and a Land Reform Commission was constituted. On the basis of the recommendations of this Commission, a Royal Announcement was made in 1956, which was implemented by a legislation known as the Land Reforms Act of 1957. The first legislative measures, which brought about a fundamental institutional change in the land tenure system, was the Bikha Abolition Act of 1959. In the 1961 a Royal land Reform Commission was appointed whose recommendations were enforced through the Agricultural Re-organisation Act of 1963. Further, to supplement the land reform measures more forcefully, the King, with the consent of the National Panchayat, enforced an Act known as Lands Act and Rules in 1964.

All these legislative measures and efforts have brought about certain significant land reforms. Two most conspicuous evils of tenancy system, viz., insecurity of tenure and exorbitant rents, have been eliminated. The ceiling on the ownership of land was fixed at 25 bighas in the Terai, 50 ropanis in Kathmandu Valley and 80 ropanis in the hills. In addition, homestead ceilings have been fixed in the three regions at 3 bighas, 8 ropanis, and 16 ropanis.


2. Unit of the measurement of Agricultural land in the hilly regions of Nepal.
respectively. In the same way, the ceiling on the cultivation of land as a tenant is fixed at 4 bighas in the Terai, 10 ropanis in Kathmandu Valley and 20 ropanis in the hill regions. A provision is made that the rent is not chargeable in excess of 50 per cent of the produce and that occupancy rights are granted to those cultivating the land for one year. The maximum rate of interest is fixed at 10 per cent. The Birta system has been abolished and all rights and authority to the Birta land have ended. The rights, incentive and productivity of cultivators have, thus been protected in the ownership and management of land.

Regarding the village development, the Government has been operating a Village Development Programme since 1953. In 1957, the Programme was envisaged in three stages for the development of agrarian economy: (a) Local Development Stage in which the task of constructing wells, roads and schools etc. was taken with local resources and with 50 per cent Government assistance. (b) Rural Development Stage in which works like demonstration, improved seeds, implements, scientific fertilisers, pest control and drinking water supply were undertaken, and (c) Village Development Stage in which intensive work on previous stages, soil conservation, farming techniques, secondary education, sanitation, health and cottage industries were performed. On the basis of the volume of work, blocks of three categories — Low grade, Intermediate, and Intensive—
were established.

For certain reasons, the Village Development Programme could not be executed satisfactorily. Therefore, in 1962 the Village Panchayat (Representation) Act was passed and the entire work under the Village Development Programme was entrusted to the Village Panchayats. Based on the Policy of decentralization, the Panchayat system got the utmost public cooperation. It has four tiers. At the lowest level are 3474 Village Panchayats and 14 Town Panchayats. On the next tier are 75 District Panchayats. Then there are Zonal Panchayats which are 14 in number. The highest tier of the Panchayat system is the National Panchayat. There are two development departments in the system. The Technical Department is responsible for all technical and administrative works and the function of the co-ordination Department is to co-ordinate the work under various departments of Village Panchayats.

Today Panchayat Development Programmes are grouped under three categories: Departmental Programmes to be financed wholly by Government Departments, Non-Departmental Programmes to be financed partly by the Government and partly by the Panchayats; and Panchayat Programmes to be financed

wholly by the Panchayats. The most remarkable project executed by the Panchayat has been the Rapti Valley Development Project. This Valley has a commanding location for commerce and industries, being situated as a gateway to central Nepal and surrounded by seven districts.

Another economic achievement of the present Government is in the field of co-operatives. The only primitive institution available for the supply of credit was the Sabu (the money lender) who used to give loans at very high rate of interest. After the Revolution of 1950-51, the importance of Co-operative societies was realised for the supply of credit, marketing, production, and several other purposes. The first important step was taken in 1963 when a department of co-operatives was set up. In the beginning its activities were confined to 24 development blocks only. Later it established a network of its staff in all the 14 zones and 75 districts of the country. Another important development in the co-operative movement was the Co-operative Societies Act of 1960, which regularised the establishment, registration and working of the Co-operative Societies. At present there are 545 Co-operative Societies in Nepal. Of these 30 are on district level and one National Co-operative Federation on the national level. Besides, there is one co-operative Bank established in 1962. This Bank has played an important role in land reforms by supplying credit. The main
source of finance of the societies is still the Government. The Government shares up to 80 percent of the local finances. The loans given by Government are advanced at 2 per cent rate of interest while the societies advance loan at 10 per cent rate of interest, making a margin of profit at 8 per cent rate of interest. About 25 percent of the societies are multi purpose societies and the rest are cooperative credit societies.

4. Economic And Social Infrastructure.

In a country like Nepal, where resources are scattered over in accessible places and the people isolated by formidable physical barriers, economic development takes for granted the prior construction of social overhead capital. This capital includes, roughly speaking, power supply, means of transport and communications, irrigation and other economic and social amenities. To serve as a prerequisite to this capital formation is survey-work which is all the more difficult in a mountainous country like Nepal. So far a few surveys have been made regarding forests, minerals, geological elements, water resources, etc., but considering the necessity and scope of such surveys in Nepal, they are inadequate.
As to the power supply, it is a basic requirement not only for the development of industries but also for domestic consumption purposes. In Nepal, as already mentioned, there is ample scope for power generation but so far the development has not been satisfactory. The only notable power projects that have been completed are Panauti Hydel-Power Station and Trisuli Hydel Project.

Irrigation plays the same role in agriculture as power in industrialisation. A co-ordinated programme of irrigation projects was initiated for the first time after 1950-51 Revolution. The construction of projects like Tikabhairab, Mahadevkhola, Bagmati, Phewa, Vijaipur, Jhanj, Tinau, Harinath, Judhanahar, Tilewe, Lundwa, etc. have been some of the main achievements since then. But all these taken together provide irrigation facilities in a total area of 77976 hectares which is quite insufficient to meet the demands. Although water is in abundance, the problem in Nepal is to utilise water scientifically for irrigation purposes.

Dynamic economic growth postulates full development of the means of transport and communications. In fact, lack of transport in Nepal has divided surplus and deficit areas

into rather tight regional compartments. The land-locked position of the country demands favoured treatment of the problem. It is stated in the First Five Year Plan that 83 per cent of the land and 70 per cent of the people were denied transport facilities. Roadways, railways, ropeways and airways are the different means available. Regarding road transport, the progress started in 1950-51 only with the construction of Tribhuvan Rajpath which connected the isolated Kathmandu Valley with Beerganj in Nepal and Raxaul as the Indian border. Since then many roads have been constructed. The construction of some of the roads like Sunauli Pokhra, Kathmandu - Trishuli, and Kathmandu-Koderi is also complete, and of several others is progressing.

The ropeway perhaps the best method of transportation in mountainous countries. In Nepal the first ropeway was constructed in 1927 from Dhursing to Matatirth covering a distance of 14 miles. In 1951 Hetauda-Kathmandu ropeway was constructed. But lack of appropriate surveys of the mountainous land has proved the chief hurdle in the progress of ropeways in Nepal. As to railway, the first line was also constructed in 1927, known as Nepal Government Railway, covering a distance of 29 miles from Amlekhganj to Raxaul. Another line was constructed subsequently from Jayanagar to Janakpur covering 22 miles. It is proposed to upgrade the Raxaul-Amlekhganj rail link and extend it to Hetauda.
As more than 80 per cent of Nepal is mountainous, making surface transport a time-consuming and difficult proposition, air transport is of great necessity in the country. Air transport was started in 1950 with the construction of Gauchar Airport in Kathmandu by the Government of India and the operation of weekly Patna Kathmandu service by the Indian Airlines Corporation which operated some internal services as well. In 1957, Royal Nepal Airlines Corporation took over all the internal services and by 1960 organised external services and maintained scheduled flights to three Indian cities - Patna, Calcutta and Delhi. Besides the all-weather Airports at Kathmandu, Biratnagar, Pokhara, Janakpur and Bhairawa, seven fair-weather airports at Simra, Bharatpur, Dhangarhi, Nepalganj, Dang, Rajbiraj and Palurgtar and four airstrips at Jhapa, Jumla, Banglung and Jiri have also been constructed.

As to communications, Nepal practically made no progress up to 1966. But at present there are seven zonal post-offices, nine central post offices, twenty sub-post offices and 153 branch post-offices. Besides, there is one General Post Office at Kathmandu and one separate Post office for the foreign postal services. There are twenty-eight wireless centres in operation. An automatic Telephone Exchange is housed in a building constructed near Dharahara Tower in Kathmandu. Nepal has been divided into seven zones for purposes of wireless communications and postal communications.
In respect of other economic and social amenities, the introduction of higher education, adult education, secondary education and even primary education (upto 1950, primary education was available to 0.7 per cent of the population) and training are only of recent origin in Nepal. As to higher education, only 11 zones out of the total 14 zones have Art and Science colleges. There is only one University, the Tribhuvan University. There are only 12 Training Institutes, all established after 1950. In the case of health and sanitation, so far there are only 87 Health Centres. As to drinking water supply, partial provision has been made and that too in only four places - Kathmandu, Lalitpur, Bhaktpur and Nepalganj. The Tourist Department was set up in 1956 and Tourist Information Bureau in 1958.

5. Resource Mobilisation.

The present Government has made some attempts to mobilise internal resources of the country. Prior to 1951, under the family rule of the Ranas, Nepal was basically a feudal state and income and expenditure of the Government were not made public. The sources of income used to consist of land revenue, customs, excise duties, royalties on contracts for felling trees, supplying porters and vehicles, and liquor licensing fees. It was only after the political change in 1951 that the budgetary system came to be introduced.
But due to the expanding tasks of administration, the expenditure of the Government services increased considerably. The result was that during the whole one decade from 1961-62 to 1960-61 the annual regular budgets throughout showed deficits. All such deficits were met by drawing on reserves from Bhandarkhal, the main Government treasury under the then regime, where surplus had accumulated in the form of gold, silver, jewellery and local currency.

After 1961 the Government made a change in the tax policy to mobilise domestic resources. Land tax was raised by 25 per cent in the Terai region and by 10 per cent in the Kathmandu Valley and the hills. A new tax was imposed on hotels, and, 1962-63, a comprehensive income-tax was also introduced. The result was that the regular budget of 1962-63 showed a surplus of Rs. 5.3 million, that of 1963-64, of Rs. 40.3 million and of 1964-65, of 65.8 million. These surpluses were adjusted and utilised in the development part of the Budgets incorporated in the Plans which were being constantly financed mostly by foreign aid. But this is the beginning of the mobilisation of domestic resources and is contributing only nominally to the economic development.

6. Planned Development.

For the proper and regular economic development of the country and for the capital formation within the country, the Government of Nepal introduced the system of Planned economy. The first Plan for a duration of five years from 1956 to 1961 was put into practice. It had an outlay of Rs. 330 millions but the actual expenditure incurred was only Rs. 214.5 million. The Plan was not based on overall approach to investment, employment and output targets in relation to available resources and requirements of the country. It was devoid of any strategy of development and had no clearly defined objectives. It therefore suffered seriously from lack of co-ordination and precise relationship between the investment projects. The Second Plan for a period of three years from 1962 to 1965 was launched after one year of the completion of the First Plan. Its primary objective was to prepare an infrastructure for the establishment of a progressive welfare state. Besides, it emphasised the expansion of national production and employment opportunities and the establishment of economic stability and social justice. It had a total outlay of Rs. 670 million but the amount of Rs. 621.8 million was

The Third Plan was for a period of five years from 1965 to 1970. The objective are more clearly defined. Increase in national production by 19 per cent and industrial development through public and private sectors are much emphasised. It has a total outlay of Rs. 2500 million. Naturally enough all the three plans put the first priority on the means of transport and communications. In the Draft outline line of the Fourth Plan top priority to agriculture has given and made adequate provisions of speedy industrialisation through the use of local raw materials. Emphasis has been laid on reducing dependence on foreign aid through greater self-reliance.

The financial resources sought in the Plans have not been scound. The mounting dependence on foreign aid has been much more than ever conceived of in any country. During the First Plan period out of Rs. 214.5 million, the dependence on foreign aid amounted Rs. 155 million, i.e. 72 per cent of the total expenditure. In the Second Plan, this dependence on foreign aid amounted 76.9 per cent of the total expenditure.

It is noteworthy that the development schemes necessary for the economic growth of Nepal have not been properly estimated in the economic Plans. The Projects, which can prepare the social and economic infra-structure, have been very often ignored or not given due place. Some of the foreign countries have helped in preparing and completing some important projects but they were neither given prior consideration in the plans, nor they were included in the Plans. Consequently, the foreign aid to Nepal has remained much more than is estimated or included in the Plans. For instance, during the five year period of the First Plan, the foreign aid to Nepal amounted to Rs. 382.8 million. Of this only Rs. 156 million were included in the Plan. Similarly, in the Second Plan period, the total aid received was Rs. 599.4 million while the aid utilised in the Plan was only Rs. 432.4 million. Several projects aided almost totally by the foreign countries are thus excluded from the Plans.

Nepal, being an emerging economy, suffers from a lack of capacity of absorbing foreign assistance properly. The

difficulty lies with the fact that either the local requirements are not matched or the projects are not initiated by the Government of Nepal at the local level.

One of the main shortcomings of the Plans has been the non-existence of statistical information on important economic variables. Every plan requires sufficient data to serve as basis. Due to lack of this statistics, the Plans in Nepal could not be formulated with well-defined objectives. Not only this, the Plans themselves have so far not laid proper emphasis on survey, statistics and collection of data.

The economic Planning in Nepal has adopted a pattern of mixed economy. It possesses two sectors, public and private. But in the First Plan, no provision was made for the private sector and in the second plan, though a mention was made, no scope was provided for it. In the Third Plan some consideration is given to it in the planned outlay.

Any how, the economic Planning in Nepal have at least been able to make the people of the country 'Plan Conscious.'

Having inspired by the sincere efforts of the Government of Nepal to emerge out of the traditional economy, many countries of the world became conscious to co-operate in the process of economic development of the country. In fact
Nepal has become a pilot plant for a large scale programme of technical and financial assistance.

Such economic assistance to Nepal has been given with a view to making the economic plans of the country successful. But at times it has been used to make some independent efforts in the form of individual projects by the donor countries.

The most important task in the construction process of a welfare state is always concerned with the provision of primary amenities and the preparation of such factors as are necessary for self-sustained development in the long run. Education, training, health and sanitation, construction of buildings, dams, power houses, means of transport and communications, etc. are such provisions. In this direction the United States of America and India are the only two countries that have given appreciable co-operation to Nepal.

7. Concluding Remarks.

The ancient Nepalese economy was a traditional one. Most of the population depended on agriculture, crafts and cottage industries. The crafts and cottage industries flourished more than agriculture during the ancient period.
After the 1950-51 revolution, Government of Nepal introduced certain development measures in the country. But even now there is a general lack of means of transport and communication, banking and credit facilities, power and irrigation, education and health services.

For regular and fast development of her economy Government of Nepal introduced economic planning. However the experiment has not been very successful for a variety of reasons.