CHAPTER ONE

INTRODUCTION

Nepal is situated on the southern slopes of the eastern Himalayan ranges. It is spread over an area of 14,5639 sq. km. It is a mountainous land-locked country which is bordered by India on the east, west and south and by the Tibet on the north. This is a Hindu kingdom\(^1\) inhabiting 14.68 million people of which roughly 4 percent is urbanised.\(^2\) The Nepalese society has traditionally been organized on a caste-hierarchy of Brahman, Kshatriyas, Vaishyas and Shudras. Kinship continues to provide the strongest social link. Joint family system is widely prevalent. Because of the paternalistic attitude women depend on men and youths on elders. The national language of the country is Nepali. The ethnic diversity of the country is, however, manifested by about forty languages and dialects. Only 20 percent of the people in the country are literate. The present political system prevailing in the country is 'Panchayat Democracy'; the king is supreme under the system.\(^3\)

1. Article 3(1) of the Constitution of Nepal states "Nepal is an independent, indivisible and sovereign monarchical hindu state."
3. Panchayat democracy is a partless three tier system: Village or Town Panchayat at the lowest reach, District Panchayat at the middle reach and National Panchayat at the highest reach. Although the system was originally initiated by the King in
The economic system of the country can be rightly described as mixed economy. The Government takes active interest in the economic activity of the country. The economy is predominantly agricultural. The industrial sector of country is still in its embryonic stage. The manufacturing sector contributes only 3.8 percent to the GDP of the country (1976-77)\(^4\) and provides employment to only 1.1 percent of the economically active population (Figures based on 1971 census)\(^5\). Nepal has had so far six

1961 by replacing the Parliamentary system, the same has now been voted by the people in the referendum held in May 1980. Till 1980 the representatives to the National Panchayat were elected indirectly. After the third amendment in the Constitution, the representatives in this body are elected on the basis of adult franchise. The general election was held after 22 years in May 1981. Under the panchayat system for the first time an elected Government has been formed on June 16, 1961. These aspects have been discussed and touched upon by various writers and the press including Leo Rose, 'Nepal's Experiment with Traditional Monarchy', *Pacific Affairs*, Canada, vol. XXXVI, No. 1, 1963; Dr. Karan Singh, 'New Political Phase in Nepal', *The Tribune*, Chandigarh, May 29, 1981; *The Rising Nepal*, Kathmandu, June 17, 1981.


development plans beginning from 1956. The target of the earlier plans were, however, not fully realised. During the fifth plan (1975-80) period the annual growth rate has been 2 percent as against a target of 4 to 5 percent.

For the same period the growth in population is estimated as 2.2 percent. Under the circumstances the economic development process in the country has been very tardy and posing to the Government a challenge. A multi directional approach has been envisaged in the sixth plan (1980-85) which subsumes among other things two important facets viz (a) controlling of population growth and (b) enhancing production. The increase in production can be realised by the better management of the institutions and their resources.


8. Fifth plan, op.cit., p. 36. Also The Tribune, Chandigarh July 20, 1981 wherein it was reported that heavy reliance on foreign aid, appalling trade deficits and declining production on the agricultural front have plagued the Nepalese economy.

1.1 Statement of the problem

As stated earlier the predominant place that agriculture occupies in the economy of Nepal is highlighted by the fact that this sector alone absorbs well over 94 percent of the total labour force, besides contributing to the tune of 64 percent to gross domestic product (Table 1.1).

Table 1.1: Place of agriculture in Nepalese economy

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Total Figures</th>
<th>Share of different sectors in percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Economically active population in thousand as per 1971 census*</td>
<td>4853</td>
<td>94.4</td>
</tr>
<tr>
<td>b) Gross domestic product at 1974-75 price in million &amp; for the year 1976-77**</td>
<td>17853</td>
<td>64.2</td>
</tr>
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This domination of agricultural sector also indicates that without the proper development of this sector the overall development of the country is virtually next to impossible. In the absence of foreign aid, this sector would have to meet virtually the entire cost of all the developmental
activities. Furthermore, growing demand for food resulting from the rapid population explosion has to be met by this sector. Thus, the agricultural sector has to maintain an adequate food supply for the ever growing population at the same time provide finance for the development activities as well.

Realising the importance of this sector in national economy, His Majesty's Government of Nepal (HMG/N) has given adequate emphasis to the development of this sector which is succinctly manifested from the funds allocated to this sector during different development plans (Table 1.2).

Table 1.2: Funds allocated to agricultural sector during different plans

<table>
<thead>
<tr>
<th>Plans</th>
<th>Total outlay in Million ₹</th>
<th>Share of different sectors in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td>1st plan (1956-61)</td>
<td>330</td>
<td>28.63</td>
</tr>
<tr>
<td>2nd plan (1962-65)</td>
<td>600</td>
<td>19.51</td>
</tr>
<tr>
<td>3rd plan (1965-70)</td>
<td>2507</td>
<td>25.82</td>
</tr>
<tr>
<td>4th plan (1970-75)</td>
<td>3540</td>
<td>33.10</td>
</tr>
<tr>
<td>5th plan (1975-80)</td>
<td>11404</td>
<td>31.31</td>
</tr>
<tr>
<td>6th plan (1980-85)</td>
<td>28000</td>
<td>31.4</td>
</tr>
</tbody>
</table>

Source: Respective plan documents of Nepal, National Planning Commission, Kathmandu.
The stress on the agriculture is further reflected in the establishment of various institutions - Government and Semi-Government, whose sole objective has been on developing agriculture. Among these agencies, Agricultural Inputs Corporation, Agricultural Development Bank, Cooperative Societies are notable. Over and beyond this, extension services of the Government are constantly endeavouring to arouse enthusiasm of farmers to use improved farming practices and obtain maximum returns from their farm operations.

Despite cumulative and concentrated efforts of the Government and huge investments sunk in agriculture, the performance of this sector has not been very encouraging and to the level of national aspirations. The crux of the problem lies in the fact that the food surplus which had been used to finance the developmental efforts can be wiped out in the decade in offing as during the fifth plan (1975-80) the agriculture production has not improved whereas the population has been making rapid strides. The problem is further aggravated by the fact that time is not very far off when the food grain exporting Nepal may have to import foodgrains if the present trend does not

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11. During the fourth plan period (1970-71 to 1974-75) increase in food production was less than the increase in population. *The Economic Report of 1974-75*, Nepal Rastra Bank, Kathmandu, p. 53.
abate. These glaring facts clearly call for an immediate attention to strengthen the efforts at increasing the production of the agricultural sector.

There are basically two methods, extensive and intensive, of increasing agricultural production. Extensive method of increasing agriculture production demands for more new land under cultivation. By now, however, it is widely accepted in Nepal that land expansion for increasing the agricultural production has reached its maximum level. Forest land has reduced to a meagre figure of 11 percent of the total land causing grave ecological imbalance. In such a situation expansion of land through deforestation is not contemptable. Thus the only alternative left is the intensive methods of increasing agricultural production which requires adoption of modern farming practices.  

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12. Seven least developed countries of Asia and Pacific face acute problem in the 1980s and beyond. The countries are Afghanistan, Bangladesh, Bhutan, Nepal, Laos, Maldives and Samoa. This warning is contained in a report adopted by experts at their five days meeting held in Bangkok organised by the UN Economic and Social Commission for Asia and Pacific (ESCAP) and UN Conference on Trade and Development (UNCTAD) as part of the preparation for the UN Conference on the least developed countries to be held in 1981. The Times of India, New Delhi, August 22, 1980.

13. Experts also have noted that the agricultural productivity of the world's 50 least developed countries as a whole had been quite low because of inadequacy of inputs and the lack of 'institution-infrastructure'. The Times of India, New Delhi, August 22, 1980.
use of improved INPUTS such as chemical fertilizers, seeds, plant protection materials, and tools and implements with the supporting services such as irrigation facilities, credit facilities, extension services, land reform measures, soil improvement measures and marketing facilities.

It is clear from the above that the role of improved INPUTS in increasing agricultural output of the country is vital. In Nepal, there is one wholly Government owned Corporation known as Agricultural Inputs Corporation (AIC) which manages these INPUTS. This Corporation was established in the year 1966 christened as 'Agricultural Supply Corporation' with the objective of distributing improved agricultural INPUTS to the farmers. In the year 1972 it was amalgamated with 'Food Management Committee' and it was renamed as 'Agricultural Marketing Corporation' (AMC). AMC which was originally supposed to look after the INPUTS as well as food grains failed to discharge twin responsibilities devolved on its shoulders in a competent manner. There was very inadequate attention that was being paid by it towards the INPUTS aspect. Therefore, in 1974 AMC was bifurcated into two units namely 'Nepal Food Corporation' and 'Agricultural Inputs Corporation'.

The objectives of AIC remain the same as those of initially set up 'Agricultural Supply Corporation'. The Corporation deals with four types of INPUTS namely chemical fertilizers, improved seeds, agricultural tools and implements, and chemicals (plant protection materials).
The Corporation commands a lion's share in the AGRI-INPUTS market of the country as it is the sole dealer of chemical fertilizers and also commands major share of other improved INPUTS. This means that together with other allied institutions, the Corporation has to play an important role in increasing agricultural output of the country.

Though the Corporation has been in existence for, now, more than 15 years there has been no systematic attempt at evaluating the working and role of the Corporation. While the Ministry of Agriculture, the Administrative Ministry of the Corporation, do evaluate the performance of the Corporation each year on the basis of targets set in; the scope of such evaluations, however, has been very much limited. No effort has yet been made to study organizational problems as well as other functional aspects of management of the Corporation in a systematic manner.

The performance of any enterprise largely hinges upon how the various activities of the enterprise are directed to achieve the intended objectives. This calls for studying

14. Among the four INPUTS - Chemical fertilizers, improved seeds, chemicals and tools, handled by the Corporation fertilizers constitute 92 percent of the Corporation's total sales (1979-80) in which it, being the sole dealer of fertilizers in the country, commands 100 percent market shares. In case of improved seeds Government farms and progressive tillers also sell the same to farmers. Chemicals are imported by private traders who also command certain share of the market. Tools and implements are also sold by the sales depots of Agricultural Tools Factory. In addition to these the farmers in the Terai region sometimes visit nearby Indian market for purchasing seeds, chemicals, tools if these are locally not available.

15. While constituting the new Government on 16 June, 1981, certain new ministries have been created and old ones bifurcated. Food and Agricultural Ministry has also been bifurcated into Agriculture and Food; while agriculture has been assigned to Agriculture Ministry, food has been attached to Finance Ministry.
organizational as well as other functional aspect of the Corporation. Further, in the process of agricultural development of the country, the service of the Corporation together with other institutions has at least three developmental implications: (a) to increase land productivity and total agriculture production; (b) to increase income of the farmers; and (c) to provide increased employment opportunities to rural workers.

How far the Corporation has been able to meet these expectations needs to be studied to appreciate the role of the Corporation.

1.2 Objectives of the study

The basic purposes of the study are to examine organization and management of the Corporation and to find out its impact on agriculture. Specially, the study attempts to:

- examine organization pattern and management structure of the Corporation,
- evaluate the procurement policy of the Corporation,
- examine the distribution system of the Corporation,
- evaluate the inventory management of the Corporation and to investigate into the adequacy of the storage capacity,
- assess pricing policies of the Corporation,
- analyse personnel policies and practices of the Corporation,
- analyse financial management of the Corporation, and
- study the impact of Corporation’s services on agriculture with special reference to land productivity, income and employment.
1.3 Scope of the study

The scope of this study is confined to the Corporation's functional areas. It is designed to cover the problems confronting the organization since its inception to 1979-80. For the purpose of studying the impact of the Corporation on agriculture the study has been limited to one district of Nepal.

1.4 Need for the study

The need for the study was prompted by the following considerations:

1. There is now an increasing concern being evinced by all concerned for the modernization and streamlining of management practices in the enterprises whether in private or public sector in Nepal.

2. In view of the paucity of information on management practices in Nepal there is now a felt need for providing information that can constitute as infrastructure on which further research on management practices can be taken up. The presentation of enterprise's practices in different functional areas seems to be a meaningful starting point.

3. With the surge of management education in Nepal, it has become urgent to provide useful teaching material based on indigenous information to the faculty involved in management education and training. At the present moment the availability of such material is very limited in Nepal.

iv. There is need to promote better understanding of management practices in Nepal. Incorporating farmers' opinion on certain aspects of Corporations' practices such as pricing, quantity, and quality of INPUTS etc. will improve the performance of the Corporation.

1.5 Sources of data

Both primary and secondary sources of data have been used. Among the secondary sources used are: various published and unpublished reports of His Majesty's Government of Nepal (HMG/N), Agriculture Marketing Service department (AMSD), Agricultural Projects Service Centre (APSC), Corporation Coordination Council (CCC), Agricultural Input Corporation (AIC), Agricultural Development Bank (ADB), Centre for Economic Development and Administration (CEDA), Central Bureau of Statistics (CBS), Plan documents, legislation of Nepal and other books, reports and articles relevant to the subject.

Most of the data required for the research work have been collected at different stages through primary sources. At the first stage the Corporation was visited with a pre-planned schedule prepared for collecting information on various aspects of management practices. The schedule was designed in such a way as to get answers to both type of questions: what is being done and how it is being done? Besides, some items relating to management policies were also incorporated in the schedule. Personal interviews were conducted with the help of the schedule. The procedure adopted for the
purpose was to interview (a) Chief Executive of the Corporation, 
(b) The Deputy General Manager of the Corporation, (c) All the 
Division Chiefs of the Head Office. In addition unstructured 
interviews of other officers including officers at field 
offices were also conducted and their practices observed during 
the visits to the Corporation and its field offices.

In the light of the facts collected during the first 
visit a questionnaire was prepared to know the opinion of 
and elicit information from the farmers regarding the services 
rendered by the Corporation and their farming practices.

A pilot survey covering 10 farmers was conducted in 
the village selected for the study. On the basis of data 
yielded by the study necessary changes were made in questionnaire. 
The questionnaire used is given at Appendix 1.1.

The village selected for the study was again visited 
with the questionnaire. With the help of the District 
Agriculture Development Officer (DAFO) the services of the 
technician engaged in the field were obtained for introducing 
the author to the Pradhan and Un-pradhan, Panch of the village. 
They provided the basic information regarding village and also 
helped the author in locating the houses of the farmers 
selected in the sample. The responses of the farmers were 
personally recorded by the author herself at the time of 
administering the questionnaire. The farmers were met indi-
vidually and separately. Though the questionnaire was in 
English but at the time of administering it was translated by
As mentioned earlier, information were collected from the Chief Executive, Deputy General Manager, Division Chiefs of the Corporation’s head office and other concerned officers or head office and field offices. For administering questionnaire to the farmer one district was selected. In order to find out the impact of the Corporation on farmers it was thought to select a district where the INPUTS were highly concentrated. On the basis of INPUTS consumption in aggregate of the last 10 years (1970-1979), Kathmandu district had been the major INPUTS consuming area. Although Kathmandu had maximum concentration of INPUTS, this district was not selected for the present study because of two reasons:

Firstly, Kathmandu is very advanced and rich as compared to the other regions of Nepal. As such it does not represent the country as a whole. Secondly, relatively higher level of development of Kathmandu district will have significant impact on the variables like agricultural productivity, income level and rural employment of the farmers. This may in all likelihood, reinforce or counteract the impact of the Corporation. Therefore, selection of Kathmandu as sample district would have tended to give a somewhat distorted estimate of the impact of the Corporation.
A district where such factors are rather negligible, the changes in the indicator variables may be attributed to AIC, with a greater degree of confidence. Therefore, it was thought appropriate to select a district where there is sufficient concentration of INPUTS and at the same time the impact of other variables is negligible. But under-developed region, where the impact of other factor would be negligible, do not have sufficient concentration of INPUTS. As a judicious compromise Parsa district was selected as the sample district.

Parsa district was too large to handle for a study of the present type. Therefore, it was further decided to limit the survey to a village where there was sufficient concentration of INPUTS and at the same time the village would represent the district economy as a whole. Village-wise data of INPUTS consumption and other indicators of economy was not available. Therefore, the help of knowledgeable persons such as District Agriculture Development Officer, Branch Managers of AIC and ABB and Parchayat Development Officer was sought for the selection of a village which fits into above criteria. On the basis of their suggestions Siraiya village of Parsa district was selected for the study.

1.7 Size of the sample

There were altogether 322 households in the village. In order to have a fair representation of the village in the sample it was decided to study 50% of the households. A list of the households were obtained from the office of
the Village Panchayat. Every odd number (1, 3, 5... 31) household from the list was selected as sample which provided 161 households. At the time of interview, however, 4 farmers were not available, 3 farmers refused to provide any information and 4 farmers could not provide the information to the extent of its being usable. Thus the total 150 households which constitute 93.2 percent of the sample and 46.6 percent of the total household of the village are the basis for collection of information about the farmers.

1.8 Analysis of data

The analysis of data were done at two stages. The first stage relates to the analysis of the management practices of the Corporation. At the second stage the information collected from farmers through questionnaire were tabulated and analysed. The data on the farmers as a whole were analysed and same were also analysed in term of the size of the farm holding - small, medium and large.

1.9 Limitations

Any study of this nature is bound to be fraught with certain limitations and this study is no exception.

Firstly, the limitation is regarding availability of data. The Corporation has maintained the aggregate sales quantity of different types of INPUTS for all the years since its genesis while the quantities of INPUTS made available to different field offices and sales made by them are not available. Therefore, the analysis has to be made in terms of aggregate data only.
Secondly, the Corporation has not published so far its trading and profit and loss account and balance sheet. In the absence of such information the financial working and position of the Corporation could not be analysed properly.

Thirdly, in spite of the best efforts by the author, many of the important and essential information such as number and timing of board meetings, presence of directors, number and nature of agenda discussed and the resolutions of the meeting etc. were not made available to the author as these were treated confidential by the management of the enterprise. In the absence of access to these informations it was not possible to evaluate the effectiveness of board.

Fourthly the conclusions arrived at by analysing the data on farmers of a village are valid and universalisable to the extent such a small sample represents the farmers of Nepal.

1.10 Presentation of the study

The study has been presented in 10 chapters. While the present chapter is introductory in nature, second chapter deals with the organization structure and management pattern of the Corporation. Procurement policy of the Corporation has been evaluated in chapter three. Chapter four dwells upon the distribution system of the Corporation. Inventory management has been evaluated in chapter five and
the pricing policy of the Corporation is the subject matter of chapter six. Chapter seven analyses the personnel practices of the Corporation while chapter eight is devoted to financial management of the Corporation. The impact of the Corporation on agriculture has been assessed in chapter nine. Finally, chapter ten summarizes the major findings of the study and offers suggestions.