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## CHAPTER – II

### **GENERAL ECONOMIC- OVERVIEW OF NEPAL AND PERFORMANCE OF THE AGRICULTURAL SECTOR**

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# GENERAL ECONOMIC- OVERVIEW OF NEPAL AND PERFORMANCE OF THE AGRICULTURAL SECTOR

### 2.1 Introduction

The purpose of this chapter is to provide an objective analysis of general economic situation of Nepal. The overall effect of development efforts is examined in terms of growth in real GDP. An attempt has been made to evaluate the performance of agricultural sector under different plan periods.

### 2.2 General Information of Nepal

#### Location

Nepal is a landlocked country and the home place of natural beauty with a total area of 147,181 sq. km. It is located in between 26°22' North to 30°27' North latitudes and 80°4' East to 88°12' East longitudes. Its elevation ranges from 90 m. to 8,848 m. Its shape is pseudo-rectangular having length 885 km. east to west and average breadth is about 193 km. North to South. It is 145 km. in the narrowest to 241 km. in the broadest part. The country is bordering between the two most populous countries of the world, India in the east, south, west and China in the north.

#### Administrative Division

Nepal is divided administratively into 5 development regions, 15 zones and 75 districts. All 75 districts are again divided into Village Development Committees (VDCs)/municipalities. Number of VDCs and municipalities are 3,913 and 58 respectively (CBS: 2003).

#### Ecological Division

Nepal is a landlocked country surrounded by mountains. Mountains and hills cover about 83 percent of its area (CBS: 2001). About 17 percent of the area lies in Terai region (Ibid). Nepal is divided into three regions on the basis of its physical features: a) Mountain region, b) Hilly region and c) Terai region.

#### Mountain Region

The mountain region ranges in altitude from 4877 meters to 8848 meters above the sea level. This region includes some of the world's famous peaks such as Mt. Everest, Annapurna, Gaurisankar, and Machapuchhare. Mt. Everest is the world's

highest peak with 8,848-meter height. The area above 5000 meter is always covered with snow. This region is least fertile. So there is sparse human habitation in this region. The big rivers of the country originate in this region. This region covers about 15 percent area of the country. Only about 2 percent land of this region is arable (Ibid).

### **Hilly Region**

The hilly region has covered 68 percent of the total area of the country. This region lies mostly between 610 meters and 4877 meters in altitude. This region includes the capital of Nepal, Katmandu Valley and the beautiful place Pokhara valley. The most fertile valleys like Salyantar, Rumjatar, Tumlingtar, and Rampur also lie in the region. This region is extensively cultivated. This region has been the traditional area of Nepalese settlement. About 46 percent of the total population resides in this region. About 10 percent land of this region is arable (Ibid).

### **Terai Region**

Terai region has covered about 17 percent of the total area of the country. This region is very important from economic viewpoint. This region includes the most fertile land and dense forest of the country. About 60 percent of the cultivated land of the country lies in this region (Ibid). Hence this region is known as the grain basket of the country. The Morang district of our study area is also in this region.

### **Climate**

Nepal has monsoon climate. The climate of the country varies from region to region. There is colder temperature in the mountain region and hot temperature in Terai region. The central hilly region and valleys have pleasant and equable climate. Nepal is again divided into 3 parts on the basis of climate- (a) the Alpine climate, (b) the Temperate climate, and (c) the Sub-tropical climate.

### **Rainfall**

In Nepal rainfall occurs out of southwestern monsoon. The rainfall occurs mainly during the summer season. The eastern part gets double of the rainfall as compared to the western part. But during winter, the western part gets more rainfall than the eastern part due to northeastern wind. The average rainfall is 65" to 90" in central and southeastern region. The minimum rainfall is 25" and average rainfall 50" in western region and hilly ranges.

## **Population**

As of final result of the census 2001(CBS: 2002) total population of Nepal is 23,151,423 and the total households are 4,253,220. The male and female composition of population of the country is 11,563,921 and 11,587,502 respectively. According to the result, the decennial, 1991-2001, growth rate of the population of Nepal is 2.24 per cent per annum. Based on the same result the country's urban population is 3,227,879 and the rural population is 19,923,544. The urban population is 14.2 percent of the total population and the rural population is 85.8 per cent.

## **Natural Resources**

For the all round development of the country a careful utilization of natural resources is necessary. The economic development of any country depends upon not only on the availability of natural resources, but also on the extent of its rational utilization. Three major natural resources of Nepal are - water resource, mineral resource and forest resource.

## **2.3 Economy**

Economic growth of the country has not improved markedly over time to over take population growth. The current population growth rate is 2.24 percent per annum (CBS: 2002). Growing population has concealed the gain achieved by development activities. Little over half (57%) of the population of working age was reported economically active in 2001 and among them 81 percent were engaged in agricultural activities (CBS: 2002)

### **2.3.1 Gross Domestic Product (GDP)**

The Gross Domestic Product provides a broad view of economic development. The national income statistics reveal the basic changes in the past and suggests the trend of the future. Keeping this in mind, the total GDP, the contribution of agricultural and non-agricultural sectors to total GDP between the fiscal years 1990/91 to 2001/02 of Nepal have been presented in table 2.1 and figure 2.1 below.

**Table 2.1: Real Gross Domestic Product of Nepal at Factor Cost**

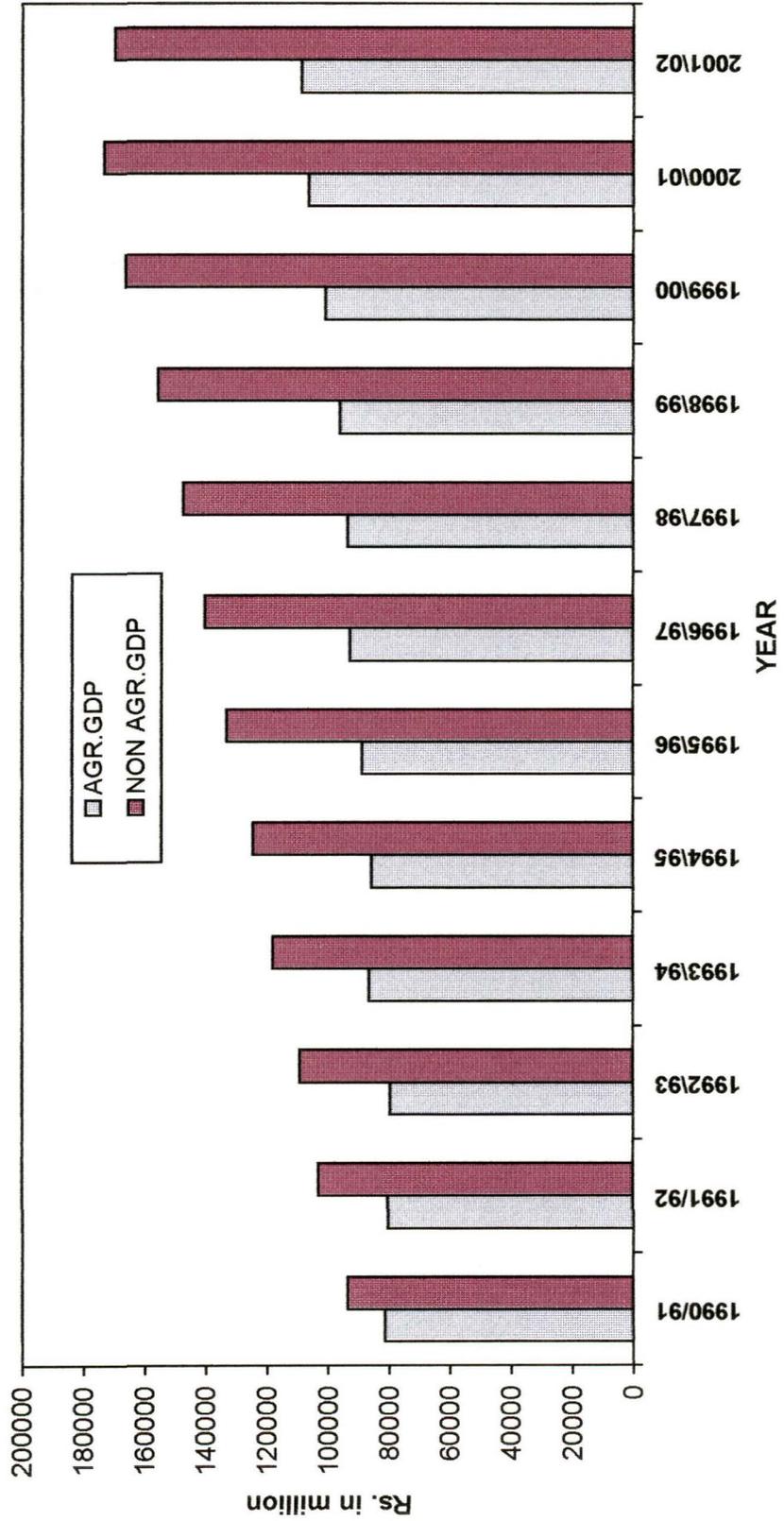
(At 1994/95 prices)

(Rs. in million)

Year	Real Total GDP	Agricultural GDP	% of Total GDP	Non-Agricultural	% of Total GDP
1990/91	174909	81320	46.49	93588	53.51
1991/92	183371	80392	43.84	102979	56.16
1992/93	188780	79631	42.18	109149	57.82
1993/94	204397	86356	42.25	118041	57.75
1994/95	209976	85569	40.75	124407	59.25
1995/96	221930	88830	40.03	133100	59.97
1996/97	233040	92706	39.78	140334	60.22
1997/98	240816	93496	38.82	147320	61.18
1998/99	251788	96151	38.19	155607	61.81
1999/00	267096	100856	37.76	166240	62.24
2000/01	279749	106380	38.03	173369	61.97
2001/02	278471	108752	39.05	169719	60.95

Source: Economic Survey, 2002/2003, Ministry of Finance (MOF), His Majesty's Government of Nepal (HMG/N)

**FIGURE 2.1: MULTIPLE BAR DIAGRAM SHOWING AGRICULTURAL AND NON-AGRICULTURAL GDP IN NEPAL (1990/91-2001/02)**



Although gradually declining over the years, the agricultural sector still continues to be the dominant sector in the economy. In 2001/02, its contribution to GDP was 39.05 percent as compared to 46.49 percent in 1990/91 (Table 2.1). Even though the contribution of manufacturing sector increased from 6.96 percent in 1990/91 to 8.94 percent in 2001/02 (Table 2.2), it did not reflect a large and diversified manufacturing sector. The growth rates of real GDP, agricultural GDP and non-agricultural GDP between 1990/91 and 2001/02 have been presented in the table 2.2 and the figure 2.2 below.

**Table 2.2: Growth Rates of Real GDP, Agricultural GDP and Non-Agricultural GDP during 1990/91- 2001/02**

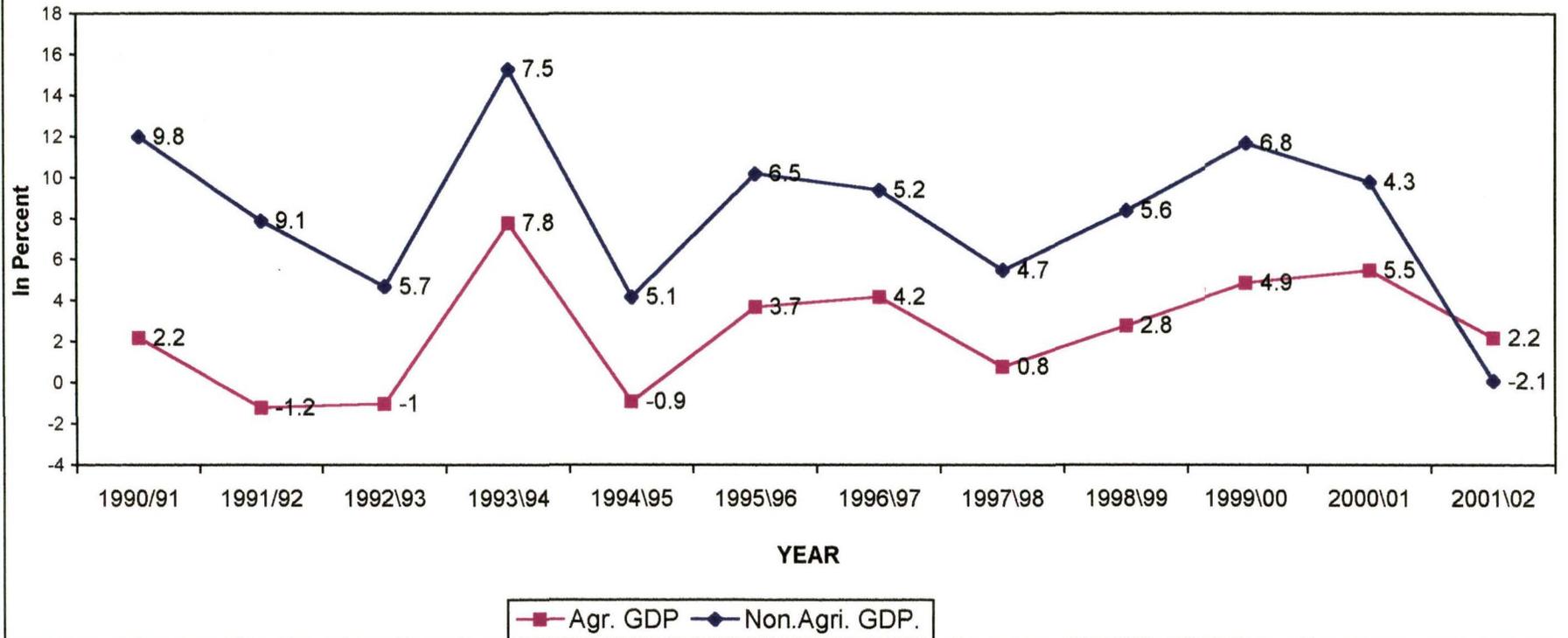
(At 1994/95 prices)

(In percent)

Fiscal Year	Real-GDP	Agricultural GDP	Non-agricultural GDP
1990/91	6.3	2.2	9.8
1991/92	4.6	-1.2	9.1
1992/93	2.9	-1.0	5.7
1993/94	7.8	7.8	7.5
1994/95	2.7	-0.9	5.1
1995/96	5.4	3.7	6.5
1996/97	4.8	4.2	5.2
1997/98	3.3	0.8	4.7
1998/99	4.3	2.8	5.6
1999/00	6.1	4.9	6.8
2000/01	4.7	5.5	4.3
2001/02	-0.5	2.2	-2.1
Average	4.34	2.58	5.68

Source: Economic Survey, 2002/03, MOF, HMG, Nepal

Fig 2.2: LINE DIAGRAM SHOWING AVERAGE GROWTH RATES OF AGRICULTURAL AND NON-AGRICULTURAL GDP (1990/91-2001/02)



During the 12-year period between 1990/91 and 2001/02 the Nepalese economy seems to have grown, in real terms, at 4.3 percent per annum on the average. The annual growth rate, however, shows sharp fluctuations ranging between (-). 5 percent to 7.8 percent (Table 2.2). In 1993/94 the growth rate peaked 7.8 percent. This high growth rate was not, however, maintained in the subsequent years. The major factor contributing to high growth rate in 1993/94 was satisfactory growth both in the agricultural as well as non-agricultural sectors. In 1993/94, the agricultural sector had grown by 7.8 percent and the non-agricultural sector by 7.5 percent respectively. In 1994/95 the negative growth rate in the agricultural sector and declined rate of growth in non-agricultural sector pulled down the overall rate of growth to 2.7 percent. Due to various internal and external reasons, the years after 1993/94 except 1999/00 could not appear as successful years from the perspective of peace, security and development.

### 2.3.2 Sectoral Composition of GDP

The sectoral composition of GDP is presented in the table 2.3 and figure 2.3 below

**Table 2.3: Sectoral Composition of GDP**

(1990/91-2000/01)

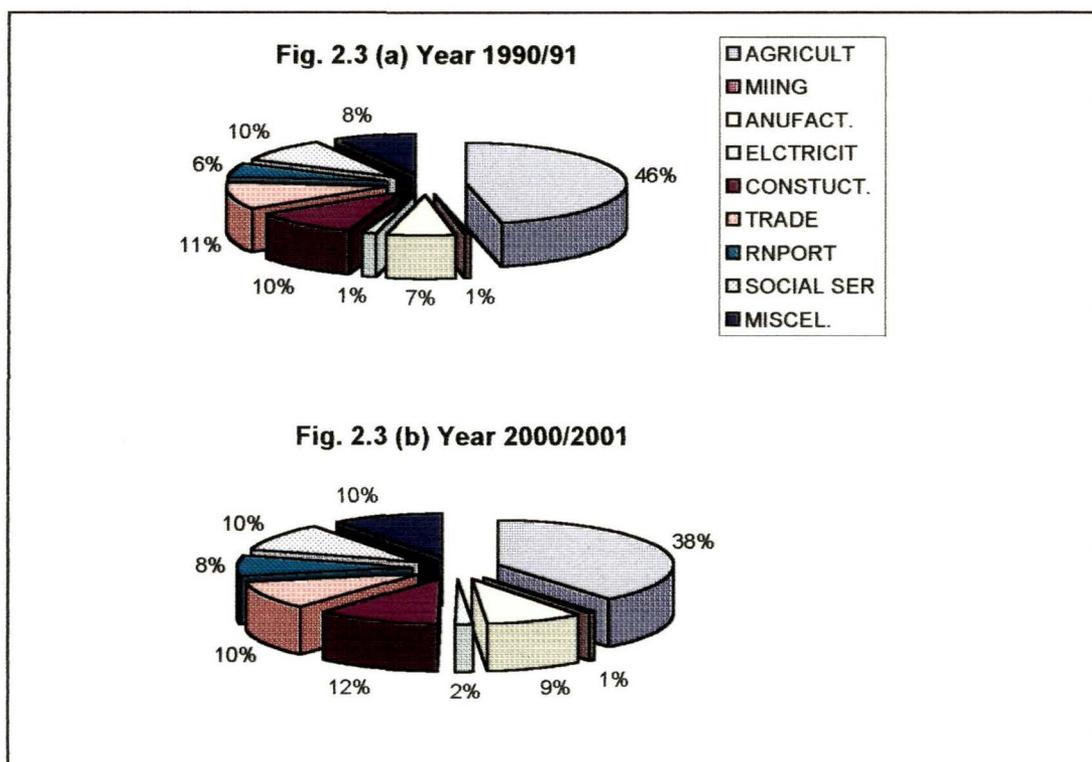
(At constant prices of 1994/95)

(In percent)

S.N.	Description	1990/91	2001/2002
1	Agriculture, Fisheries and Forestry	46.49	39.05
2	Mining and Quarrying	0.53	0.56
3	Manufacturing	6.96	8.94
4	Electricity, Gas and Water	1.42	1.61
5	Construction	10.45	11.62
6	Trade, Restaurant, and Hotel	10.69	10.14
7	Transport, Communication and Storage,	5.67	7.63
8	Finance and real state	9.52	10.20
9	Community and social service	8.27	10.25
	Total	100	100

Source: *Economic survey, 2002/2003, MOF, HMG, Nepal*

Figure 2.3 PIE CHARTS SHOWING SECTORAL COMPOSITION OF GDP



The above table 2.3 and figure 2.3 exhibit that the share of agriculture in the total GDP declined by 8.7 percent during the year 1990/91 to 2001/2002. Agriculture is still the leading sector in Nepalese economy. All other sectors' contribution has been increased to some extent.

### 2.3.3 The Industrial Sector

Industrial development is the key to rapid economic progress of a country. Industrialization not only provides opportunity for employment and produces other amenities of life, but it also helps accelerate the development of other sectors of the economy. Industry provides employment, relieves population pressure on land, raises living standards of the people, develops technological and managerial skills, and enables export development and import substitution.

The total contribution of the industrial sector to the economy remains negligible, estimated to be around 10 percent of GDP (MOF: 2001/2002). Although growth in the industry sector has been generally higher than in agriculture, its growth rate is also subject to wide year-to-year fluctuations. The industrial base is very narrow, and its

development is constrained by inadequate infrastructures, a small domestic market, high transport costs and a low domestic savings rate.

### 2.3.4 Tourism Industry

There is an unlimited potential of development of tourism industry in Nepal due to its natural beauties, geographical diversities and cultural and artistic heritages. Nepal has become the destination of tourists all over the world due to the existence of world's highest mountain Mt. Everest and other peaks, temple of Lord *Pashupatinath*, birthplace of Lord Buddha, a number of lakes and rivers and a number of natural and cultural values. Ample scope of study and observation of various cultural heritages also attract tourists. So tourism has been an industry of comparative advantage and it has contributed to growth in employment and income generation as well as to improve balance of payment of the country.

### 2.3.5 Income and Expenditure by Deciles

The income and expenditure by deciles group is presented in table 2.4 below:

**Table 2.4: Income and Expenditure by Deciles (1996)**

Deciles HHS	Average per capita income (Rs.)	% of APC	Average per capita expenditure (Rs.)	%of APE	Surplus/deficit % of income
i	1309	1.7	2152	3.2	-64.4
ii	2731	3.6	2987	4.4	-9.4
iii	3493	4.5	3608	5.0	-3.3
iv	4199	5.5	4178	6.4	0.0
v	4932	6.4	4777	7.0	3.1
vi	5865	7.6	5506	8.1	6.1
vii	6990	9.1	6483	9.6	7.2
viii	8723	11.3	7812	11.4	10.4
ix	11,774	15.3	10220	15.1	13.2
x	26873	34.9	20263	29.8	24.6
Average	7,690	-	6,799	-	11.6

Source: Nepal Living Standard Survey (NLSS), CBS, 1996

Note: - HHS = household size; APC = average per capita income; APE = average per capita expenditure

The table 2.4 exhibits that top 10 percent of Nepalese people are enjoying 21 times more income than the bottom (poor) 10 percent. On the expenditure side top deciles spent about nine times more than the bottom deciles. The income distribution pattern reveals the existence of acute inequality in Nepalese income distribution, as bottom 10 percent people are enjoying only 1.7 percent of total income, while top 10 percent are enjoying almost 35 percent of total income.

### 2.3.6 Average Annual Income by Selected Characteristics

The average annual income by selected characteristics is presented in table 2.5 below.

**Table 2.5: Average Annual Income by Selected Characteristics**

(1996)

(In Rs.)

Characteristics	Average per capita income
Poor	3,169
Non Poor	11,344
Marginal (land) Holder	6,673
Small Holder	6,297
Medium Holder	7,150
Large Holder	9,156
Rural	7,075
Urban	16,118
Mountains	5,538
Hills	8,433
Terai	7,322
Nepal	7,690

Source: Nepal Living Standard Survey, CBS, 1996

The table 2.5 clearly shows; who gets how much. Poor people's average income was only Rs.3, 169 per year (Rs. 8.70 per day) while non-poor people's average income per year was Rs.11, 344 (Rs. 165 per day). The table also shows the rural-urban differences in income distribution. Rural people's average annual income was Rs. 7,075 (Rs.19.40 per day) and that of urban people was Rs. 16,118 (Rs.44.20 per day).

### **2.3.7 Transport**

It plays an important role in the development of Transport is an important physical infrastructure. other sectors of the economy. Its development directly influences the development of agriculture, industry, commerce, education and health. This sector was accorded topmost priority from the initiation of economic planning. Hence, tremendous achievements were made in this sector. Despite this, 14 districts and 18 district headquarters of the country still do not have access to roads. In the remote areas, the means of transport are still traditional such as men, horses, and mules. The transport cost is high due to the lack of modern means of transport. It has become extremely difficult to transport the heavy constructional materials and machinery to these areas. The means of transport in Nepal are road, trolley bus (now not in operation), airways, ropeways and railway.

### **2.3.8 Communication Services**

For the transformation of information and knowledge, communication services could play the lead role. Communication is considered as an essential infrastructure for the overall development of an economy. In Nepal, varieties of communication media are in operation including highly powerful and modern high-tech electronic media (Fax, Telephone, E-mail, Internet etc.) to very traditional, but still important, postal services. The role-played by such communication media to general public in providing healthy, independent and impartial information and knowledge is valuable.

### **2.3.9 Foreign Trade**

India and China are the traditional trading partners of Nepal. Before 1950, Nepal's foreign trade was confined only to India. There was negligible trade transaction between Nepal and autonomous region of China, Tibet. Nepal's trade with overseas countries started only from 1956, with the launching of First Five Year Plan. Nepal pursued trade diversification policy since early 1960's, which got momentum from Fourth Five Year Plan. Nepal turned to open market economy and since then Nepal has adopted the policy of liberalization of foreign trade.

### **2.3.10 Growth Trends of Foreign Trade**

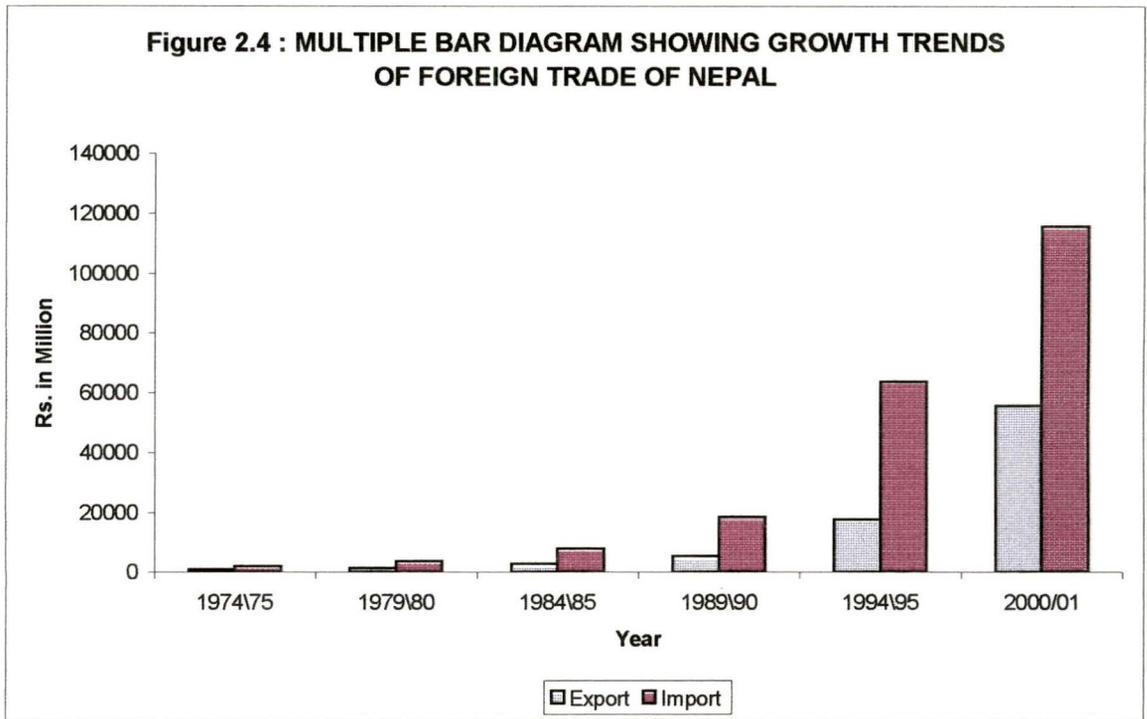
The growth trends of foreign trade of Nepal have been increasing year after year leaving a huge amount of trade deficit. Export and import both have rapid growth trend. The growth trends of foreign trade of Nepal are presented in the table 2.6 and figure 2.4 below:

**Table 2.6: Growth Trends of Foreign Trade of Nepal**

(Rs. in million)

Fiscal year	Total volume of trade	Total export	Total import	Trade balance
1974/75	2704.20	889.60	1814.60	-925.0
1979/80	4735.60	1166.30	3569.30	-2403.0
1984/85	10515.0	2746.40	7768.60	-5022.20
1989/90	23526.50	5169.90	18356.0	-13186.60
1994/95	81318.7	17,639.2	63,679.5	-46,040.3
2000/01	171341.3	55654.1	115687.2	-60033.10

Source: Economic Survey, 2002/2003, MOF, HMG, Nepal..



The table 2.6 and figure 2.4 show that the volume of trade is increasing every year. The volume of trade in the fiscal year 1974/75 was just Rs. 2704.20 million. The volume of trade in 2000/01 was Rs. 171341.3 million. The table shows that both exports and imports are in rising trend having wide gap of unfavourable trade balance.

### 2.3.11 Some Macro-Economic Indicators of the Nepalese Economy

The following table 2.7 exhibits some important macro- economic indicators of Nepal for the three years 1990/91, 1995/96 and 1999/2000.

**Table 2.7: Important Macro-Economic Indicators of Nepal**  
(1994/95 =100)

	1994/95	1999/00	2001/02
Consumption/GDP (%)	85.19	85.32	88.18
Investment/GDP (%)	25.20	23.38	24.59
Gross Domestic Savings/GDP (%)	14.81	14.68	11.82
Export /GDP (%)	24.22	23.85	16.07
Import/GDP (%)	34.61	32.55	28.84
Export/Import (ratio %)	0.70	0.73	0.56
Per Capita GDP (In Nrs)	10930	16752	17800
Per Capita GNP (In Nrs)	11170	17333	18577
Per Capita GDP (\$)	219	243	233
Per Capita GNP (\$)	224	251	244

Source: Statistical Year Book of Nepal, 2001, CBS

Table 2.7 exhibits that the percentage of consumption to total GDP is very high and it is increasing in recent years. The table also shows that the rate of investment is also very low in Nepal. In terms of Nepalese currency, there was significant increment in GDP and GNP. In terms of US\$ increase in GDP and GNP both remained very low. The difference in GDP/GNP growth rates based on Nepalese currency and US\$ was mainly due to increase in price level and increase in exchange rate.

### 2.4 Salient Features of Nepalese Economy

Based on the information given above, and additional information presented below, the basic characteristics of Nepalese economy can be outlined as follows.

#### Unfavourable Physical Factors

Nepal is a landlocked country. It is about 700 miles away from the nearest sea. It has inhibited the country's capacity to conduct overseas trade and pursue independent foreign trade policy. The topography of the country is such that about 83 percent of the land surface of Nepal consists of mountains and hills. This has hindered the development of transport facility. This has also hindered the development of irrigation, hydropower development, agricultural development, industry and trade. Hence, the natural structure of the country is not favourable to the rapid development of the country.

### Low Income Per Capita

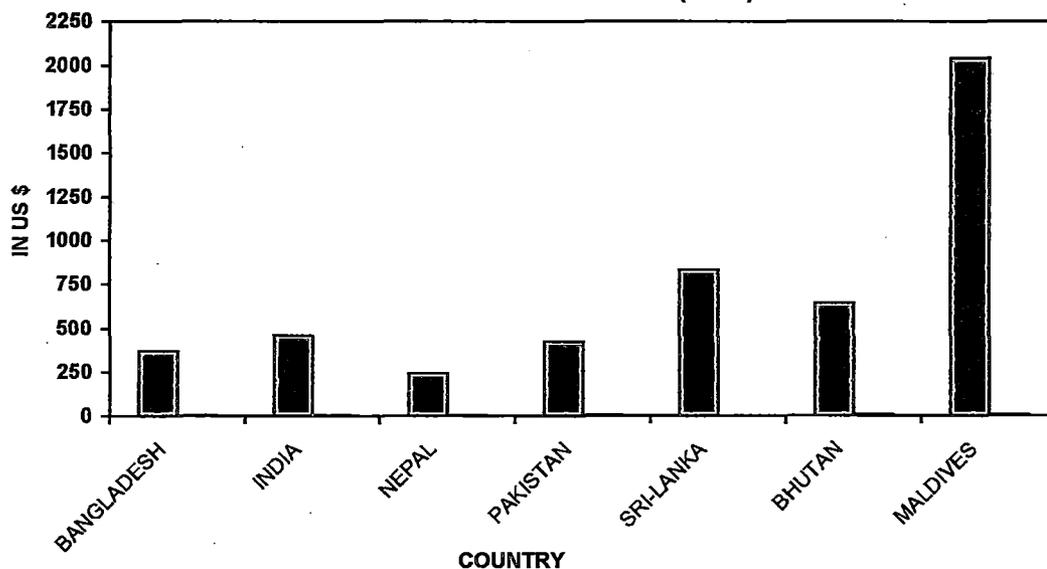
The basic problem of Nepalese economy is its low-income syndrome. Comparison of per capita GNI among SAARC member countries justifies the statement. The GNI per capita of SAARC member countries are presented in the table 2.8 and figure 2.5 below.

**Table 2.8: SAARC Membes' GNI Per Capita**  
(2001)

Country	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan	Maldives
Per capita GNI (\$)	370	460	244	420	830	640	2040
Growth rate (1997-2001)	5.2	4.5	5.9	3.4	2.5	7.0	7.0

Source: World Development Indicators, Database, April 2002

**Figure 2.5 : SIMPLE BAR DIAGRAM SHOWING GNI PER CAPITA IN SAARC COUNTRIES (2001)**



The table 2.8 and figure 2.5 clearly exhibits the lowest level of GNI per capita (\$244) of Nepal among the SAARC member countries.

### Dominance of Agricultural Sector

Agriculture has been the backbone of Nepalese economy. This sector provides employment to 80 percent of Nepalese people and its contribution in the national income is about 39 percent. The high employment (80 percent) but low share (39

percent) in GDP also indicates the low productivity of Nepalese agriculture. The table 2.9 reveals the facts about Nepalese agriculture.

**Table 2.9: Structure of SAARC Countries Economy-2001**

Country	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan	Maldives
Agriculture (%)	31	29	41.1	26	23	33.2	11.6
Industry (%) (Value-added)	18	29	9.5	24	25	NA	NA

*Source: World Development Indicators, Database, April 2002*

Nepalese agricultural sector contributed 41.1 percent in total value added in 2001 which was the highest among the SAARC member countries. On the opposite side, the value added from industrial sector was only 9.5 percent, which was lower than the case of India, Pakistan and Sri Lanka. This implies the low industrial base in the economy.

### Highly Unequal Income Distribution

Nepal's problem is not only its low-income status but also high inequality in income distribution. Data from CBS -1996 revealed that bottom 10 percent (poorest of the Poor) received only 3.2 percent of total national income. On the contrary, top 10 percent (richest 10 percent) enjoyed almost 35 percent of national income. The inequality in income distribution in Nepal is again high among the SAARC members. The distribution of income in the SAARC member countries is presented in the table 2.10 below.

**Table 2.10: Distribution of Income in the SAARC Members**

(1995)

Country	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Lowest 10%	4.1	3.7	3.2	3.4	3.8
Lowest 20%	9.4	8.5	7.6	8.4	8.9
Highest 20%	37.9	42.6	44.8	39.7	39.3
Highest 10%	23.7	28.4	29.8	25.2	25.2
Gini coefficient (%)	28.3	33.8	36.7	31.2	30.1

*Source: World Development Report - 1997*

*Note: Gini coefficient ranges from 0 to 1; 0 implies equal distribution and 1 implies extreme inequality.*

The extent of inequality in income/consumption is measured by Gini coefficient(GC). GC in the case of Nepal was 0.367(36%), which was highest among the SAARC member countries implying that income inequality is highest in Nepal. The difference between the income shares by top 10 percent to bottom 10 percent was also highest in Nepal ( $29.8 - 3.2 = 26.6$ ), which is another indicator of income inequality.

### Extreme Mass Poverty

Due to the low income, about 42 percent Nepalese people are living below poverty line (Ninth plan). According to World Bank standard, a person earning less than one dollar a day is poor. By this criterion, about 53 percent Nepalese people are living below poverty line. Table 2.11 and figure 2.6 reveal the extent of poverty in SAARC member countries based on World Bank Standard.

**Table 2.11: Extent of Poverty in SAARC Region (1995)**

(Percent of people Living Below Poverty line)

(In percent)

Country	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Poverty	35.6	35.0	42.0	34.0	25.0

Source: Statistical Year Book of Nepal 2003, CBS.

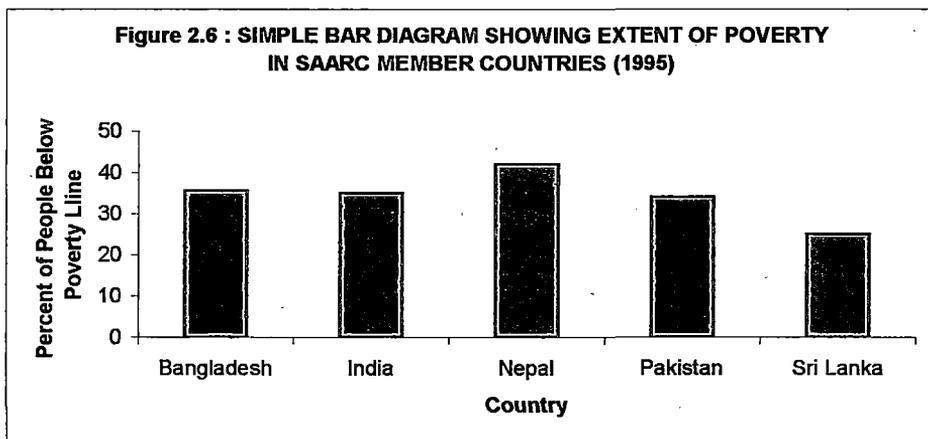


Table 2.11 and figure 2.5 exhibit that in Sri Lanka, people living with less than one US\$ a day was only 4 percent in 1995, and this extent was 53.1 percent in Nepal. This suggests that majority of Nepali are living below poverty line.

### Unfavourable Foreign Trade

Foreign trade is regarded as the engine of economic growth. This is rarely true in case of Nepal. The volume of exports is far below the volume of imports (Table 2.6 above). During the same period the percentage share of exports in the total trade had also changed. In 1974/75 the percentage share of exports in total trade was 33 percent, which decreased to 21.70 percent in 1994/95 and slightly increased in the fiscal year 1999/2000 (Table 2.12).

**Table 2.12: Volume of Foreign Trade in Percentage**

Fiscal Year	Export %	Import %	Deficit %
1974/75	32.89	67.11	34.22
1979/80	24.56	75.44	50.88
1984/85	26.11	73.89	47.78
1989/90	21.97	78.03	56.06
1994/95	21.70	78.30	56.6
1999/00	32.56	67.44	34.89
2000/01	32.48	67.52	35.04

*Source: Economic Survey 1989/90 and 2002/2003, HMG, Nepal.*

Consequently the percentage share of imports, which was 67.11 percent in 1974/75, vulnerably, increased to 78.30 percent in 1994/95 and slightly decreased to 67.44 percent in 1999/2000. This increasing share of imports in the total trade is responsible to increase the trade deficit by more than 49.7 times up to the fiscal year 1994/95 and it increased to 59.8 times in the fiscal year 1999/2000.

### Low Tax- Revenue and High Foreign Aid

Government tax revenue in Nepal is very low, and is always below 10 percent of GDP. Due to the low tax revenue, government budget deficit has been remained very high leading to excess borrowing from within and outside the country. Following table 2.13 jointly reflects Nepal's position, among SAARC countries, in tax revenue and foreign aid.

**Table 2.13: Government Tax Revenue and Foreign Aid as Percentage of GDP (1995)**

Country	India	Nepal	Pakistan	Sri Lanka
Tax revenue/GDP (%)	9.6	9.1	15.3	18.0
Foreign aid/GDP (%)	0.8	10.9	3.1	5.1

Source: *World Development Report, 1997*.

From the table 2.13 it is observed that, component of foreign aid was the highest (10.9 %) and share of tax revenue was the lowest (9.1%) in Nepal. Such type of adverse result is not observed in the case of other member countries.

Domestic resource mobilization in Nepal has not been satisfactory. The revenue as a percentage of GDP remained at 11.1 percentage in FY 1998/99. The same ratio was recorded in FY 1997/98. The increasing resource requirements for widening regular expenditure, repayment of debts, administrative overheads and other recurrent expenditure took away a proportion of the revenue consisting 82.5 percent in FY 1997/98 and 84.8 percent in FY 1998/99. Consequently, revenue surplus could not meet the development expenditure. This reveals the trend of increasing foreign aid dependency of Nepal.

### High Population Growth

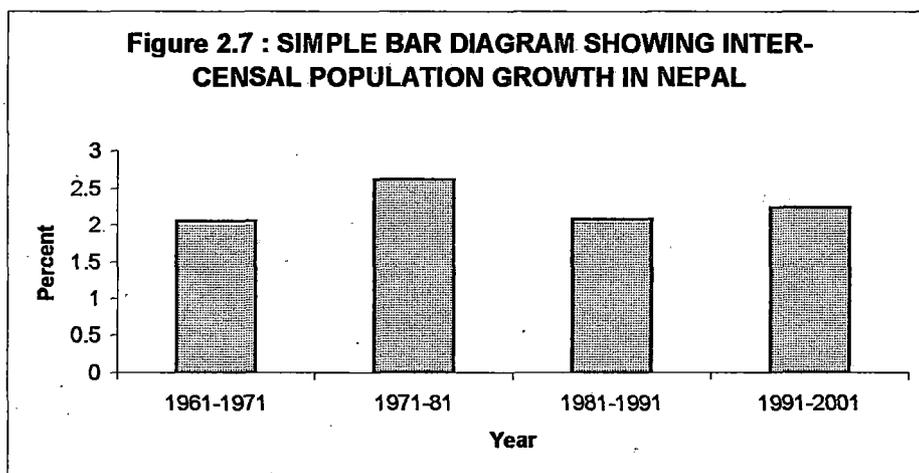
The annual population growth rate of Nepal is 2.24 percent (CBS: 2002), which is higher as compared to other developing countries. Inter-censal population growth rates range between 2.05 and 2.24 (Table 2.14 and figure 2.7). A declining mortality rate without a parallel decline in the fertility rate is a principal contributor to the high population growth in Nepal.

**Table 2.14: Inter-censal Population Growth Rates in Nepal**

(Percent Per annum)

1961-1971	1971-81	1981-1991	1991-2001
2.05	2.62	2.08	2.24

Source: *Statistical Year Book of Nepal, 2003, Central Bureau of Statistics*



The crude death rate is 11.5 per thousand and the crude birth rate is 35.4 per thousand. The average life expectancy has increased to 56 years. This has caused high population growth in Nepal.

### **Dualistic Economy**

Nepal has dualistic economy. This implies that Nepal on the one hand has market economy and subsistence economy on the other. The former can be found in urban areas and the latter in rural areas. The urban sector depends mostly on the modern sector whereas the rural sector depends mostly on agriculture. The urban sector enjoys the modern amenities whereas the rural sector is devoid of it.

### **2.5 Agricultural Development Under Different Plans of Nepal**

Ruttan and Hayami (1985) analysed the agricultural productivity growth of 45 countries, including both developed and developing countries, over the period 1960 to 1980 and concluded that failure to invest in agriculture in rural areas limited the capacity of the agricultural sector to respond to the potential growth associated with industrialization.

Morgan (1978) points out that the agricultural change cannot be understood by separating it from the general process of development. This is because through out most of the third world, the agriculture is a fundamental economic activity, which has to respond to a variety of external and internal forces merely to ensure survival.

Agricultural planning constitutes an important share of the national planning of a country In the case of Nepal where agriculture is heavily predominant, agricultural planning stands as a significant care-of the overall planning (Poudyal: 1983).

As agricultural activity in Nepal is not only a means of earning a livelihood but is also a way of life it is governed by a number of factors. There are so many economic factors as such institutional arrangements, human factors, and social structure, technical and organizational problems in order to formulate and operate the agricultural plan. The achievements in the agricultural sector of Nepal under different plans are explained below.

### **The First Five-Year Plan (1956-1961)**

The first five-year plan came into operation in 1956 and ended in June 1961. The main purpose of this plan was to establish an institutional base for development and to collect data to formulate realistic plans in future by which it is clear that the First Plan did not directly put emphasis on agricultural development. The plan emphasized the utilization of raw materials and natural resources for productive purpose.

The First Five Year Plan's total outlay was Rs.330 million. Out of the total outlay, only Rs.63.5 million or 19.24 percent of the total plan budget was allocated to develop agricultural sector. The implementation of the plan was constrained by a host of political, social and administrative factors. Yet it was a useful experiment in gaining planning experience (Shrestha and Agrawal: 1975). Thus, the total plan outlay could not materialize for agricultural development in actual practice.

Under the agricultural programmes, emphasis was laid on the multiplication and dissemination of improved variety of seeds, seedling, introduction of new plants and protection activities, agricultural extension, village development co-operative societies, cadastral survey and land reforms. But little was done towards bringing new technology for agricultural development. The distribution of seeds etc., neither contributed much to the improvement of agriculture nor the research activities be disseminated to the different parts of the country (Pant: 1975).

### **Second Three-Year Plan (1962/63-1964/65)**

The second plan came into operation in fiscal year 1962/63 and completed in 1964/65. The main purpose of this plan was to complete projects, which were started during the first five-year plan. The priorities of the two plans did not differ much. However, the second plan gave more emphasis on industries, data collection and organizational reform. The role of private sector in economic development was acknowledged. During the second plan period some progress was made in the field of agricultural development. Among them the agricultural extension services that

involved distribution of improved seeds, chemical fertilizers and plant protection facilities, had a positive impact on Nepalese agricultural development. In 1964/65 new varieties of paddy, wheat and maize were recommended for growing and farming. During the second plan period, emphasis was given to bring institutional changes in traditional agriculture in addition to attempting the implementation of land reform programmes initiated earlier. Land Reform Act of 1964 gave incentives to the cultivators for increasing agriculture production.

As a result of different type of activities, agricultural output increased in the plan period. However, it was not satisfactory due to the bad weather conditions in the second year of the plan period. In the first and third year, weather conditions were normal. In cash crop, the expansion of processing units and the establishment of new factories encouraged the production of cash crops.

The achievements in the plan were not satisfactory. There were many reasons for shortfall in the achievements of the plan. First, its financial output was estimated at current prices and did not make adequate allowances for prices. During the plan period, the over all price index increased by 24 percent by which it was difficult to calculate the plan target and its achievement. Second, number of projects was not practical and the administrative machinery was not yet well equipped for the formulation and efficient execution of development programmes. As a result production could not increase sufficiently. Again on the other side adequate attention was not given to manpower planning and the shortage of technical personnel proved to be hindrances for productive activity.

### **The Third Five -Year Plan (1965 -1970)**

In the third plan, second priority was given to agricultural development, which envisaged increasing the production of food grains by 15 percent or from 3271 thousand metric tons to 3276 thousand metric tons and that of cash crops by 73 percent or from 225 thousand metric tons to 389 thousand metric tons. To fulfil this production target, areas under irrigation were to be increased by 312 thousand hectares. The plan envisaged a total outlay of Rs 2500 million of which Rs 1740 million was to be spent in the government sector, Rs 240 million in *Panchayat* sector and Rs 520 million in the private sector.

In the third plan, it was recognized that for rapid rate of increase in production, it was necessary to use modern techniques. In accordance with the objectives of

modernizing agriculture, the third plan aimed at utilizing large quantities of chemical fertilizers. The chemical fertilizers amounting to 221 thousands metric tons were to be distributed to farmers and green manures and compost was to be supplied to 158 thousand hectares of land. Improved seeds were to be distributed to 800 thousand hectares of land and 14 thousand hectares of additional land was to be brought under cultivation. Ten thousand pieces of agricultural implements and an additional credit amounting to Rs 440 million was to be supplied to agriculturists. Agriculture Supply Corporation to distribute fertilizers, tools and other inputs and Agriculture Development Bank to provide credit to farmers was to be established. The number of co-operative societies was to be increased from 461 to 1584. The Land Act 1964 was to be extended over all the 75 districts (Shrestha and Agrawal: 1975).

According to progress report of the Third Five Year Plan, the area utilizing improved seeds was only 13 percent of the targeted area and the use of chemical fertilizer was about 17 percent of the target. These achievements were not sufficient for agricultural development, but it can be said that these achievements helped improve agricultural situation to some extent. The plan could not achieve the objective of increasing the food grain production by 15 percent and cash crops production by 73 percent. The Third Plan also created additional irrigation to the tune of 59090 hectares of land against the target of 148000 hectares of land which was only 39.93 percent of the target.

Although the third five-year plan had provided some facilities for agricultural development, like the first two plans, this one also suffered from the shortage of well-prepared projects. Difficulties in the timely procurement of construction materials, equipment and agricultural inputs, such as chemical fertilizers, improved seeds and credit to farmers continued to hamper its execution.

#### **The Fourth Five-Year Plan (1970-75)**

The fourth five-year plan came into operation in July 1970. The main objective of the fourth plan was to increase the output from the farm. The development of agriculture got the second topmost priority in the fourth plan period. To meet increased domestic demands for food grains and to have a larger surplus for exports, the fourth plan fixed a target of increasing food grain production by 16 percent and cash crop production by 40 percent during the plan period. The plan aimed at generating a growth rate of 4 percent per annum in the economy. The fourth plan allocated 33.0 percent of the total plan outlay for the development of agricultural sector.

The expenditure had been earmarked for overhead investment, research extension, training, investment in irrigation, water control, afforestation, land reclamation, measures for insects and diseases control, agricultural credits, land reform and land administration. In the plan period more than 33 percent of increase in production was expected from the use of chemical fertilizer. But the target of agricultural inputs except improved seeds could not be fulfilled by more than 50 percent of plan target. See table 2.15 for progress achieved during the fourth plan.

**Table 2.15: Review of Achievements during Fourth Five-Year Plan**

Particulars	Unit	Target of the Fourth Plan	Achievement	Percentage of the target
1. Area under Improved Seeds	ha	4,72,000.0	4,16,675.0	88.27
2. Use of chemical Fertilizer	m t.	91,031.0	5,10,20.0	56.04
3. Improved seeds	m t.	11,118.0	7,462.0	67.11
4. Insecticides and Pesticides	Rs.	1846946.80	8,68,065.0	47.00
5. Extension Irrigation	ha.	1,83,632.0	54424.0	3.67
6. Reclaimed Land	ha.	25,000.0	6,652.0	29.60
7. Agricultural Loan (Rs.)	(crore)	47.0	21.33	45.39

*Source: Compiled from Fifth Plan and unpublished report of Food and Agriculture Marketing Services Department, Kathmandu, Nepal*

In the fourth plan period it was estimated to irrigate about 1,83,632 hectares of cultivated land but during the four years of the plan period only 54424.0 hectares (29.63 %) of cultivated land could be irrigated. As a result of it, only 9.57 percent in food grain and 10.22 percent cash crop production increased at the end of the fourth plan (MOF: 1976). During the fourth plan period about 470 million of credit was provided to the agricultural sector. As a result of these credit facilities, agricultural production increased to some extent.

Again in the field of land reform, the Fourth Plan made some contribution during the plan period. Land reform programme was to be carried out mainly with the following objectives.

1. To effectively implement the land reform programmes and give more incentives to the actual tillers.

2. To adequately provide agricultural loan, agricultural research, extension and publicity and bring about a better co-ordination between the land reform and other related programmes.
3. To promote proper institutional organs to meet the above requirements of farmers.

Hence the progress of the Fourth Plan showed a big gap between the plan and performance. As the available information indicates, the progress, in major areas such as food grains, cash crops production and irrigation fell short of the planned targets by wide margins.

### **The Fifth Five-Year Plan (1975-80)**

The fifth plan accorded topmost priority to the agricultural sector. The objectives and policies of agricultural development were basically the same as in the fourth plan. In order to ensure that farmers fully co-operate in the drive to raise production the year 1975/76 was declared as the "Agriculture Year".

There was a campaign for encouraging farmers to use modern inputs and techniques, diversify cropping pattern and adopt multiple cropping patterns. Follow up programmes and measures were strongly emphasized to provide the needed services and facilities to the farmers. The targets and achievements of agricultural sector in the fifth plan are presented in the table 2.16 below.

**Table 2.16: Review of Achievements in the Agriculture Sector during Fifth Plan**

Particulars	Target	Achievement	Achievement in %
GDP growth rate	5 %	2.2 %	44
Agricultural Production (Annual growth rate)	3.5 %	1.1 %	31.4
Irrigation ( In '000' ha)	146	95.4	65.3
Improved seeds distribution (In '000' m.t.)	19.1	12.2	63.8
Chemical fertilizers distribution (In '000') m.t.	162.9	84.1	51.6
Agricultural Credit (In Crore)	142.31	97.86	68.7

*Source: Sixth Plan, National Planning Commission, Kathmandu, Nepal.*

The table 2.16 indicates that the physical achievements in the fifth plan were not encouraging.

### Sixth Five-Year Plan (1980/81-1984/85)

The Sixth plan placed the top priority to the agricultural sector with 35.0 percent of the total outlays. Other sectors were given low priorities as compared to the agriculture sector. The reasons for the highest priority given to agricultural sector with the long-term objectives were as under: -

1. To increase the production of food grains (cereals) fruits and live stock products in proportion to the needs of nutritious food for the growing population.
2. To make the supply of various raw materials to agro-based industries and to provide the employment opportunities.
3. To remove the inter-regional and zonal imbalance and to strengthen production.

The targets of production of cereals (food grains) and the cash crops were to achieve 2.8 percent and 3.8 percent during the Sixth Plan period. During the 6th plan the annual target for industrial production was 10 percent. The target and achievements in the agricultural sector and non-agricultural sector are presented in the table 2.17 below.

**Table 2.17: Targets and Achievements during the Sixth Plan Period**

(In percent)

Target/Achievement	Agricultural sector	Non-agricultural sector	Total GDP	Per capita income
Target	3.2	5.6	4.3	2.0
Achievement	4.7	4.0	4.4	1.7

Source: - 7th Plan, Page 7

There was 0.1 percent more increase in the total GDP than the target in the sixth plan. But the per capita income could not increase to the targeted level.

During the Sixth Plan period there was an increase in the production of cereals by 6.2 percent and the production of the cash crops by 4.3 percent. The overall increase in the main crops was by 5.9 percent. The achievements in the production of cereals over the target were made by 20.2 percent due to an extraordinary increase in production during the year 1983/84. The decline in the production of jute was due to fall in the price of jute in the international market which made the jute growers to receive the low price for their jute product. Yet the production of cash crops was above the target In comparison to the target of annual increase in the

production of cereals by 2.8 percent, except during the year 1982/83 and 1984/85; there was more increase in the production in cereals than the targets were made. There was an adverse effect on the production of cereals during the year 1982/83 due to low rain, which caused a decline in the production of cereals by 10.2 percent. Similarly there was an adverse effect in the production of cash crops in the year 1983/84 due to the late rain in the country.

It was estimated that the production of cash crops would exceed the target and would increase by 4.3 percent annually. But during the year of 1983/84 the production of cash crops declined by 3.7 percent. The main reason for the decline was the decrease in the sugarcane and jute production. There was an increase in the production of cash crops by 12.9 percent during the year 1984/85 (7th plan progress document).

During the sixth plan period additional irrigation facilities were extended to 140191 hectares (60 %) against the target of 233482 hectares and agricultural credit was disbursed amounting Rs. 174.08 crores (99.8 %) as against the target of Rs. 174.41 crores.

#### **The 7th Five-Year Plan (1985/86 - 1990/91)**

The average annual rate of growth of Gross Domestic Product during the 7th plan period is presented in the table 2.18 below.

**Table 2.18: Gross Domestic Product under 7th Plan**  
(1985/86 - 1990/91)  
(At 1984/85 constant prices)

Sector	Average growth of GDP in percentage
Agriculture sector	3.5
Non -agriculture sector	5.7
GDP	4.5

Source: - 7th Plan Progress, page 87.

The above table 2.18 shows that the seventh plan set a target of achieving 4.5 percent growth of gross domestic product by the end of the plan period. To attain the target the annual growth of the sector was set at 3.5 percent and that of the non-agricultural sector at 5.7 percent

In the context of the targeted objectives, the 7th Plan allocated the resources in order of priorities. The agricultural sector including Irrigation and the forest was given the top priority. The fundamental reason for assigning high priority to the agricultural sector was the important role, which this sector could play in accelerating the growth of national product.

The following table 2.19 shows the productivity of major food grains and cash crops during the seventh plan period.

**Table 2.19: Productivity of Some Major Food Grains and Cash Crops in the Seventh Plan**

(In m.t/ha.)

Crops	Target	Progress	Percentage increase
<b><u>Food Grains</u></b>	<b>2.122</b>	<b>1.826</b>	86.05
Paddy	2.687	2.366	88.05
Maize	1.618	1.599	98.83
Wheat	1.599	1.415	88.49
Millet	0.971	1.162	119.67
<b><u>Cash Crops</u></b>	<b>6.365</b>	<b>6.385</b>	100.3
Sugarcane	28.600	31.375	109.70
Oilseeds	0.740	0.638	86.22
Tobacco	0.820	0.867	105.73
Jute	N.A.	2.207	N.A.

Source: Progress Report of Seventh Plan.

Studying the productivity level except millet under food grains and sugarcane and tobacco under cash crops the productivity of other crops was not in accordance with the targets.

During the plan period the increase in total production in agriculture was not due to increase in the productivity but due to the increase in the area of cultivated land (Progress report of 7<sup>th</sup> plan). By analysing the statistics of the past 15 years it could be observed that in comparison to the area under food production in the year 1975/76 the cultivated land increased by 40.6 percent while the productivity

increased only by 7.3 percent. During the seventh plan 190337 additional irrigational facilities were extended to 190337 hectares (77.9 %) as against the target of 244411 hectares in the year 1990/91.

### The Eighth Plan (1992-1997)

After the restoration of multiparty democracy in 1990, there was another plan holiday of two years (1990-1992). Then in the year 1992, the eighth plan was started. It had the following three objectives;

- Sustainable Economic Growth
- Poverty Alleviation and
- Reduction of regional imbalances

The amount earmarked for the Eighth Plan increased by almost 3-fold compared to the previous plan. This was conceived not as expenditure but as investment. The total plan outlay of this plan was Rs 170,332 million. The outlay allocated to agricultural sector during the plan was Rs.4837.6 million which was 25.8 percent of the total outlay.

During the plan period the growth in the agricultural sector was at the rate of 3.0 percent and that of non-agricultural sector was 6.3 percent (Ninth plan). The productivity of some major food grains and cash crops during the Eighth Plan is presented in the table 2.20 below:

**Table 2.20: Productivity of Some Major Food Grains and Cash Crops During the Eighth Plan**

Crop	Target for 1997/98	Base year 1992/93	Productivity 1997/98	(m.t. per ha)	
				% Increase/ decrease in comparison to target	% Increase/ decrease in comparison to base Year
Food Grains	-	-	-	-	-
Paddy	2.846	2.28	2.46	-13.56	7.89
Maize	1.939	1.59	1.66	-14.39	4.40
Wheat	2.045	1.36	1.59	-22.25	16.91
Millet	1.140	1.15	1.11	-2.63	-3.48
Cash crops	-	-	-	-	-
Sugarcane	38.250	34.52	35.14	-8.13	-1.76
Tobacco	0.990	0.92	0.79	-20.20	-14.14
Jute	1.404	1.27	1.27	-9.54	0.0
Oilseeds	0.906	0.57	0.66	-0.27	15.79

Source: Ninth Plan Document, HMG, NPC

During the Eighth Plan agriculture sector grew by 3.0 percent against the plan target of 3.7 percent. The table 2.20 above shows that the plan failed to achieve the productivity targets set for food grains and cash crops although there was increase in the productivity of other crops except sugarcane, tobacco and jute. The productivity of food grains and cash crops showed poor performance in the agricultural sector.

### **Ninth Five-Year Plan (1997-2002)**

The strategy of the Ninth Plan was “integrated development of agriculture and forestry sectors and high, sustainable and poverty alleviation-oriented economic growth with a focus on those sectors” (NPC 1998; p. 73). The plan sought to achieve high economic growth through effective implementation of the agriculture Perspective Plan by increasing agricultural productivity by “guaranteeing the safety of land ownership, giving the landless access to land, extending land ownership, and alleviating poverty through the promotion of economic growth and employment by establishing, developing and expanding agro-based industries” (Ibid.).

### **Agriculture in the Ninth Plan**

The objectives in the agricultural sector in the Ninth Plan were as follows.

- i. Poverty alleviation through increased productivity of resources and inputs;
- ii. Prevention of adverse environmental impacts of external (purchased) natural resources through their balanced use;
- iii. Promotion of agro-based industries and industrialization through diversification and commercialisation of agriculture;
- iv. Enhancing women’s participatory role in agricultural development and develop their leadership in productive activities; and
- v. Improve the people’s nutritional level and food security through the Production of food and nutritive products.

The total development expenditure of the Ninth Plan was Rs.18958.0 crore. Of this total development expenditure highest 33.0 percent was allocated to social service, followed by agriculture, irrigation and forest, 27.05 percent, electricity 18.0 percent and transport and communication 17.54 percent. Likewise, 1.54 percent was allocated to trade and tourism, 0.84 percent to industry and 0.85 percent to miscellaneous.

### Achievements in the Ninth Plan in the Agricultural Sector

Crop production has proved to be inconsistent and erratic so far. Annual increase in production so far did not exceed 1.9 percent in paddy as the target was 6.21 percent, 3.8 percent in maize as the target was 4.04, 8.5 percent in wheat as the target was 4.25 percent, 2.1 percent in millet as the target was 0.8 percent. In cash crops, there has been an annual increase in production up to 14.8 percent as the target was 5.30 percent, 10.1 percent in oilseeds, 7.1 percent in jute and 16.7 percent in potato. The target to extend irrigation facilities was 349.4 thousand hectares but irrigation facilities was extended to only 72,112 hectares.

The ninth plan also failed to achieve the target of increasing the growth rate of GDP in the agricultural sector, which came out to be only 3.2 percent against the target of 4.0 percent.

### 2.6 Growth Performance of Agriculture Sector

Despite the increasing expenditure in agricultural sector the performance of agricultural sector is not satisfactory. The performance of agriculture in terms of average growth of GDP is presented in the table 2.21 below:

**Table 2.21: Average GDP Growth Under the Five-Year Plans of Nepal**  
(1965/66 –2002/03)

Periodic Plans	Agricultural Sector	Non-Agricultural Sector	Total GDP Growth	% Contribution of Agriculture to GDP
Third Plan	2.9	2.4	2.7	69.25
Fourth Plan	1.5	2.2	1.8	69.70
Fifth Plan	-1.1	9.0	2.3	58.76
Sixth Plan	5.1	2.1	4.0	59.20
Seventh Plan	5.7	2.9	4.6	47.68
Eighth Plan	3.0	6.3	5.1	40.48
Ninth Plan)	4.0	7.3	3.2	36.31

Source: Economic Surveys, Ministry of Finance, HMG/N and Future of Nepalese Economy, NEFAS, 1993

The GDP growth rates were largely influenced by the changes in agricultural production. The agricultural sector instead of playing the role of a leading sector remains even today a lagging sector. The poor performance of the agricultural sector is conspicuous by low productivity and low production. Wide fluctuations from plan to

plan indicate the decisive role of unpredictable weather in agricultural production. The average annual growth rates of agricultural production during the third and fourth plan periods were 2.9 percent and 1.5 percent respectively. The fifth plan was the victim of the worst monsoon, causing serious decline in agricultural production.

The relatively higher growth rates of GDP during the sixth, seventh, eighth and ninth plan periods were largely the result of better performance in the agricultural sector due to favourable weather. In the above table 2.21 we see that the average rates growth of agricultural sector was lower in most of the plan periods compared to the non-agricultural sector, which shows poor performance of this sector

## **2.7 Current Land Reform Measures in Nepal**

The current Land Reform Programme (LRP) of the country is based on Land Act 1964 and its amendments made so far. The Act has been brought into force as a comprehensive legislative measure abrogating all the previous Acts. It emphasizes the consideration of basic institutional requirements for land reforms and accelerating the pace of economic development. The Act aims at ensuring the cultivators a fair share of their production without any sort of exploitation. The program was implemented in three phases, viz, 16 districts in 1964, 25 districts in 1965 and then 34 districts in 1966.

In order to achieve the specific objectives of the programme the main provisions of the act are: Abolition of *zamindari* system, security of tenancy rights, acquisition of surplus land and its distribution, fixing of rent at not more than 50 percent of output and fixation of interest rate at not more than 10 percent per annum etc. A scheme of compulsory savings was also introduced for this purpose. (Regmi: 1978).

### **2.7.1 Performance of the Current Land Reform Measures in Nepal Acquisition of Land**

The land distribution pattern reflects a highly skewed concentration of land in the hands of a few people even after the implementation of the programme.

**Table 2.22: Land Distribution Pattern - Census 1991/92 and 2001/02**

(In Percent)

Size of the holding	Number of holdings 1991/92	Area of holdings 1991/92	Number of holdings 2001/02	Area of holdings 2001/02
Under 1ha	69.5	30.5	74.15	38.88
1-2	19.6	27.6	17.5	29.84
2-3	6.2	15.4	4.67	13.99
3-4	2.2	7.8	1.53	6.62
4-5	1.1	4.8	0.60	3.36
5-10	1.2	8.1	0.64	5.27
10 and over	0.3	5.8	0.12	2.04

Source: *National Sample Census of Agriculture, 1992 and National Census of Agriculture, 2001/02, CBS*

The table 2.22 above shows that 69.5 percent of the landholder held only 30.5 percent of the total land cultivated in the year 1991/92 and 74.15 percent of land holder held only 38.88 percent of the total cultivated in the kingdom. The average size of land holding of the majority of the people was less than one hectare in the year 1991/92 and the same was found in the year 2001/02. 19.6 percent of people held 27.6 percent of the total cultivated land with the size of 1-2 hectare in the year 1991/92 and 17.5 percent of people held 29.84 percent of total cultivated land with the size 1-2 hectare in the year 2001/02. Whereas only 1.2 percent of the families in the year 1991/92 and 0.64 percent of the families in the year 2001/02 with size 5-10 hectares held 8.1 percent and 5.27 percent respectively. The table shows that land distribution pattern has not significantly changed after the implementation of the land reform measures.

The act, initially implemented in 16 districts, covered the entire country by 1966. Landowners were informed well ahead of time when the act would be effective. Such prior information and phase-wise implementation of the act allowed ample time for the large landowners to redistribute surplus land above the ceiling among their near and distant relatives or conceal their actual possessions. In retrospect, it could be said that the state allowed this in order to protect the interests of the landed gentry, while at the same time trying to project a populist image of a regime concerned about the welfare of the majority poor mass comprising landless households, small holders and tenants who depended on the large landowners.

The objective to redistribute land among the landless and smallholder peasants appeared noble on the surface. However, due to the above-mentioned reasons, the state could identify and redistribute only 1.5 percent (29,124 hectares) of the total agricultural land. This appears to be an insignificant achievement in view of the fact that about one-fourth of the farmers at that time were pure or mixed tenants (Sijapati: 1992).

### **2.7.2 Security of Tenants**

Agriculture Census of 1961 showed that the tenant farmers were recorded at 40.4 percent and the area cultivated by them was 25 percent of the total agricultural land at that time. After implementation of LRP, by 1981, Agriculture Census 1981 recorded tenancy, which fell sharply to 8.2 percent, and land under tenancy, fell to 4.5 percent. Earlier the tenants were made legally eligible to claim one-fourth, which has now been amended to one-half share of the land they are tilling. Landowners through legal loopholes and other measures have been evicting the tenants.

### **2.7.3 Increase in Productivity**

Similarly, the programme failed to increase agricultural productivity in the absence of better innovations, initiatives and good governance. The productivity indices of food crops have almost constant with a slow growth in cash crops. Assuming 1974/75 as the base year, the average yield of major food crops like paddy, Wheat, barley and millet was 119.2 in 1999/2000, while that of major cash crops went up to 289.9 during the same period. Similarly the Compulsory Saving Scheme had to be postponed only after two years of its execution amidst misadministration and public protest.

## **2.8 Chapter Summary**

The main problem in economic development in Nepal is related to the agricultural sector. The major areas of policy concern, at least in the initial stage of economic development, such as level of income, investment and capital formation employment, income distribution, balance of payment, weigh, therefore, heavily on the performance of this sector.

Nepal's development plans have recognised progress in the agricultural sector as a strategic element in the development process. But the examination of the progress during different plan periods is not satisfactory. The targeted rates of growth were not met during most of the plan periods. The targeted rate of growth in agriculture depends on the performance of the individual farmer, which in turn,

depends on the methods and practices followed in farming and on the facilities provided by the community and the Government to the farmers.

The programme for increasing productivity implies that there is excess capacity or that there exists a gap between the realised and potential output in agriculture and that the use of better inputs and management practices make the gap between the actual and potential output narrower.

But the question here is how to change the traditional farming practice of the Nepalese farmers living in the vicious circle of poverty. The Nepalese marginal and small farmers have very small capacity to save as a result of low level of income. Farmers must spend additional sum of money on improved seeds, fertilizers and implements to increase production. This leads to the careful study of the demand for credit of farmers and the need of agricultural credit institutions as a means of making credit available to increase the rate of agricultural development.

This is not meant, however, to imply that provision of credit will solve the problem of agricultural development. Agricultural development depends along with the availability of capital or credit, on the nature and extent of the institutional and structural problems and access to modern technology and knowledge. If there are defects in the institutional arrangements, if structural impediments exist and if there is lack of knowledge, credit itself cannot solve the problem of agricultural development. Nevertheless, credit becomes an essential factor if an integrated approach to development is to succeed.