

C H A P T E R : I V

NATURE OF RURAL EMPLOYMENT AND SUBSIDIERY

OCCUPATION IN RURAL NEPAL

Nepal is a country where 93% of population lives in villages and where more than 91% of population is dependent on agriculture. The growth rate of rural population has been rapid from 11.1 million in 1971 census to 14.1 million in 1981 census. The population growth has been rapid but limited availability of agricultural land has not been able to provide employment to growing number of people. The following table provides data on estimated land/labour ratio in rural Nepal for 1980. It shows heavy dependency of rural labour force on agriculture. The cultivated land per person was 0.17 hectares and the cropped land per person 0.23 hectares. (1).

TABLE : 4.1 LAND/LABOUR RATIO IN RURAL NEPAL IN 1980. (2)

REGION	Rural Population in '000s	Rural labour force	Land/Person		Land/Worker	
			cultivated (hect.)	cropped (hect.)	cultivated (hect.)	cropped (hect.)
Terai	5900	2274	0.26	0.34	0.67	0.89
Hill	6599	3448	0.11	0.15	0.20	0.29
Mountain	1275	756	0.09	0.11	0.15	0.19
Nepal	13774	6478	0.17	0.23	0.36	0.49

The pressure on agriculture for employment has been increasing because job opportunities in non-agricultural sector have been limited or not been created to the requisite extent.

The growth rate in agriculture also has remained slow. The problem of unemployment has been pronounced in the rural area, especially in places, where the possibilities for increasing the area of cultivated land is limited. (3)

Rural industries provide employment opportunities outside the agricultural sector. Hence, the current employment scenario of Nepal, the development of rural industries has been imperative to create gainful employment opportunities and to increase rural productivity so that the income of rural population can increase for the sake of fulfilling their basic needs, This is also essential to check the migration of labour force from rural to urban areas which has been rapid in Nepal.4

TABLE : 4.2 EARNING AND NON-EARNING MEMBERS OF HOUSEHOLD AND DEPENDENCY RATIO, RURAL AND URBAN AREAS OF DEVELOPMENT REGIONS AND RURAL AREAS BY GEOGRAPHICAL REGION : NEPAL (1977)

REGION	Average number of persons in main occupation per household	Average number of non earning members per household	Percentage of earning member to total population	Percentage of earning members to total population.	Ratio of earning to non earning members	Ratio of dependency
Eastern (Rural	3.08	2.79	51.95	48.05	1.10	0.91
(Urban	2.12	3.62	36.97	63.03	0.59	1.71
Central (Rural	3.24	2.76	54.02	45.98	1.17	0.85
(Urban	2.21	4.07	35.20	64.80	0.54	1.85

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Western	(Rural	3.53	2.42	59.25	40.75	1.45	0.69
	(Urban	2.80	3.24	46.35	53.65	1.85	1.16
Far Western	(Rural	3.75	2.96	55.87	44.13	1.27	0.79
	(Urban	2.04	3.88	34.45	65.55	0.53	1.90
Nepal	(Rural	3.36	2.72	55.24	44.76	1.23	0.81
	(Urban	2.31	3.73	38.29	61.71	0.63	1.61
All Nepal		3.16	2.91	52.08	47.92	1.09	0.92
Rural Nepal	(Mountain	3.33	2.63	55.88	44.12	1.27	0.79
	(Hills	3.47	2.72	56.08	43.92	1.28	0.78
	(Terai	3.26	2.75	54.31	45.69	1.18	0.84

Source : A survey of employment, income distribution and consumption pattern N.P.C., H.M.G. Nepal 1977 page 50-51

The above table reveals that there is more dependency ratio in urban areas of all over Nepal. Highest dependency ratio is in far western urban area (1.90) followed by Central Urban area (1.85) Eastern Urban area (1.71) and western urban area (1.16) In whole Nepal the dependency ratio for urban is 1.61. And in terms of the geographically divided rural Nepal the highest dependency ratio is at terai (0.84) followed by mountain (0.79) and hills (0.78). Root cause of higher dependency ratio in all the urban areas of the country is migration. When the labour force comes from the rural area to meet their day to day requirement's earning to urban area. The employment percentage of these people becomes higher than

the permanent resident of urban area. The reason behind this fast migration from rural areas to urban areas. The is lack of employment opportunities at the village level. When we examine closely in rural areas itself, find that terai areas has highest dependency ratio. This is because the population which can migrate from their native place to these places where chances of employment or employment opportunities are higher. People from hill area do migrate to terai because of its well developing sectors, they get some or the other, full or partial employment which solves their main problem of unemployment. Although maximum time they are under employed. The cause of their under employment is firstly thir ill-literacy, unskillfulness and second mass migration leads to surplus labour hence either wages are reduced or people have to compromise with situation to support themselves as well as family which is at time depending on them. (5)

The above table shows that in Nepal country around 79.45 percent population (economically active) is engaged in farm production and allied works, rest is means 20.55% population is engaged in production, sales, clerical professional, technical and administration etc. When we see in rural Nepal we find that 85.88% population of rural area is in farm production and related work. And 14.12% population engaged in production, sales, clerical, professional,

TABLE : 4.3 EMPLOYMENT PATTERN OCCUPATIONAL DISTRIBUTION OF ECONOMICALLY ACTIVE POPULATION OF NEPAL : 1977 (IN PERCENTAGE)

Occupational group Area	Sex	Farmers & related workers	Production/ labour workers	Service workers	Sales workers	Clerical workers	Professional/ technical workers	Administ -ration workers	All workers
Rural Nepal	Male	79.50	6.36	2.76	1.65	8.91	0.75	0.07	100.00
	Female	93.32	4.12	1.18	0.78	0.94	0.11	-	100.00
	Total	85.88	5.32	2.03	1.25	5.02	0.46	0.04	100.00
Urban	Male	26.39	25.32	4.03	19.03	26.25	4.23	0.07	100.00
	Female	64.24	9.92	5.59	14.80	5.91	1.54	-	100.00
	Total	38.96	16.65	4.54	17.63	18.83	3.34	0.05	100.00
All Nepal	Male	70.73	8.61	2.97	4.52	11.47	1.33	0.07	100.00
	Female	90.34	4.71	1.63	2.22	0.87	0.26	0.26	100.00
	Total	79.45	6.88	2.37	3.50	6.91	0.85	0.04	100.00

Source : A survey of employment, income distribution and consumption pattern

in Nepal, N.P.C. HMG Nepal, page - 47

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technical and administration works. In urban Nepal these percentage are different some more. Only 38.96% in farm production and 61.04% in rest of the economic activities. This clearly indicates that there are very very less opportunities in rural areas for employment except in field or it can be said that, there are limited number of industries, education facilities, training institutes for technical and professional trainings. And in urban areas these facilities are in abundant. Which results skilled workers and side by side more employment opportunities. Because of limited opportunities for employment outside the agriculture the economic status of the rural population is very shabby. Maximum population is under the poverty line. (6).

Each are of the 1,45,755 below the poverty line poorest of the poor household of rural mantain region will require an average annual family income of Rs.1466 to come up to the poverty line income level. This will push up the family income of such poorest household of mountains from Rs.2856 per annum to Rs.4322 per annum. In case such households at the poverty line income level are to be brought to above the poverty line income level (of Rs.5745 - equivalent to meet the national average annual household consumption expenditure) the additional income required will be of Rs.1423 per annum. Thus an additional income of Rs.2889 per annum for each below the poverty line poorest of the poor household will have to be

3446/-

generated (at 1977 prices) to bring such households nearer to the income level necessary to meet the national average annual household consumption expenditure (at 1977 prices) or above the poverty line income level.

For each one of the 3,17,330 below the poverty line poorest of the poor household in rural terai, an additional income of Rs.1143/- will be required to lift them up to the poverty line income level. This will push up the family income level of each poorest of the family of terai from Rs.4195/- per annum to Rs.5338 per annum. In case such households are to be brought to above the poverty line income level (of Rs.5717 equivalent to meet the national average annual household consumption expenditure) the additional income requirement will be of the order of Rs.725/- per annum. As such an additional income of Rs.1522/- per annum for each below poverty line poorest of the poor household will be required (at 1977 prices) to bring such households nearer to the income level necessary to meet the national average annual household consumption expenditure (at 1977 price) or above the poverty line income level).

Table : Average annual actual family income of the household below poverty line and additional income required to bring such households to poverty line income

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level and to the National average annual family
income required to meet the National average annual
household consumption expenditure - 1977 (in Rs.)

PARTICULARS	RURAL NEPAL		NEPAL		ALL NEPAL	
	Mountain	Hills	Terai	Rural	Urban	----
Average annual family income of households below poverty line	2858	2938	4195	3333	3500	3417
Additional annual income required to bring such households at poverty line	1466	1258	1143	1290	712	1001
Additional annual income required to bring such households to National average family income necessary to meet the national average house hold consumption exp.	2889	2615	1522	2316	1437	1872
Additional annual family income required by households at poverty line to above poverty line (to national average family income (111-11, above)	1423	1357	379	1020	725	871

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Since over 97% of the households and population below poverty line lived in rural areas (8,38,007 house holds out of 860769 total households and 4.40 million population out of 4.50 million total population) the average operated area per below poverty line household and per family member in 1977 was estimated at 1.03 hectare and 0.15 hectare respectively. These poorest of the poor possessed 0.50 hectare operated area households in mountains, 0.72 hectare per household with the average family size, the per capita average operated area comes of the order 0.08 hectare, in mountain, 0.11 hect. in hills and 0.19 hect. in terai. In comparison the average operated area for the country as a whole in 1977 has estimated at 1.14 hectares per household and 0.18 hectare per capita. It was 0.56 hect household and 0.12 hectare per capita in hills and 1.63 hect per household and 0.27 hect per capita in terai, which seems little higher than the average per household and per family member operated area of the below poverty line household.

POVERTY LINE RURAL HOUSEHOLD : ALL NEPAL (RURAL)

Against 576 average annual working days for male and 582 for female, average utilised days per below poverty line household were estimated at 232 for male and 157 for female, leaving thereby 344 unutilised days for male and 425 unutilised days for female or 59.72% annual unemployed days for male

TABLE : AVERAGE ANNUAL WORKING DAYS AND EMPLOYMENT OF FAMILY LABOUR PER BELOW POVERTY LINE RURAL HOUSEHOLD AND PER RURAL WORKER : ALL NEPAL 1976-77 (7)

I. UNDER EMPLOYMENT PER RURAL HOUSE

TYPE	AVERAGE ANNUAL WORKING DAYS		AVERAGE ANNUAL UTILISED DAYS		AVERAGE ANNUAL UNUTILISED DAYS		PERCENTAGE OF UNDER EMPLOYED DAY	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
Below poverty line household	576	582	232	157	344	425	59.72	73.02
Over All Nepal	546	511	230	160	316	351	57.88	63.10

II UNDER EMPLOYMENT PER RURAL WORKER

TYPE	AVERAGE ANNUAL WORKING DAYS		AVERAGE ANNUAL UTILISED DAYS		AVERAGE ANNUAL UNUTILISED DAYS		PERCENTAGE OF UNDER EMPLOYED DAY	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
Below poverty line household	329	322	136	97	193	225	58.66	69.87
Over all Nepal	322	324	136	101	187	223	57.88	68.83

SOURCE : I OVER ALL NEPAL : NATIONAL PLANNING COMMISSION : A SURVEY OF EMPLOYMENT

IBID PP 63-69

and 73.02% annual unemployed days for female. This is higher than the under employment rate of an average Nepalese rural household with 57.88% male under employed days and 63.10% female under employed days, clearly, therefore under employment rate among poverty line household is higher by 1.84% for male and 9.92% for female.

UNDER EMPLOYMENT LEVEL OF FAMILY LABOUR PER BELOW
POVERTY LINE RURAL WORKER : ALL NEPAL (RURAL)

The under employment rate of family labour per below poverty line rural household. Out of 329 average annual working days per male worker and 322 per female worker, 136 working days per male and 97 working days per female were utilised, leaving thereby 193 male unutilised days and 225 female unutilised days per annum. This gives an average annual under employment rate of 58.66% per male and 69.87% per female, which is higher than the under employment rate of an average Nepalese. The difference between the two is around one percent (1%) and is, therefore, very nominal. However, low rate of employment per family male and female workers is partly responsible for the present level of income and caloric intake among the poorest of the poor.

2. Below poverty line household and worker : Authors own estimates based on average operated area and income levels of below poverty line farm households : The provide only broad

indicators of a probable situation of under employment prevailing among below poverty line rural household and rural workers.

During off season the under employed persons described in foregoing pose as surplus labour. However, in peak agricultural seasons, most of them are fully occupied. Therefore, to mollify the problems of under employment, employment generating activities that fully operated during the off season should be created. Failure to do this will lead to large scale seasonal migration which is not desirable. The potentialities of the hills mountains should be fully developed with a concomitant stress on the quality of life, land alone cannot support the even expanding population of the hills and the mountains crop. Livestock and horticulture should be integrated and supported activities on a long term basis be opened. (8)

The under developed economy suffers from one of the main obstacles to rapid industrial growth of the country. This is due to the fact that under such an economy capital remains shy, infra structural facilities are lacking, people's technical know how is limited, resources for provision of training are also not expanded. The economy of Nepal is no exception. Despite the formation of several development plans. Nepal has yet to make initial break through in its quest of

industrialisation the economy or bringing about structural changes.

The industrial policy 1981 of Nepal has given a modified definition of industries in Nepal as follows :-

- a. Cottage Industry : It denotes an industrial enterprise in which investment in machinery, equipment and tools does not exceed Rs.2.00 lacs in value and in which fixed assets do not exceed to Rs.5.00 lacs.
- b. Small Industry : It denotes an industrial enterprise in which investment in machinery, equipment and tools exceeds Rs.2.00 lacs involve and in which fixed assets do not exceed Rs.2.00 millions.
- c. Medium industry : It denotes an industrial enterprise in which investment in fixed assets exceeds Rs.10 million.

Foreign investment is not permitted in cottage and small scale industries as they have been exclusively reserved for the Nepalese investors. However, certain provisions are laid down in different industrial policy of Nepal in favour of private investment. (9)

The manufacturing industries which are mostly in the public sector, accounts for less than 3- 4 % of the GDP and the sector (registered firms only) employ about 65,000 persons

or 1% of the total labour force, while cottage and small scale industries which are in the private sector, contribute about 6% to the GDP and engages over are million persons though mostly on a part time basis. On the whole, only about 5% of the economically active population of Nepal are dependent on industrial activities as a source livelihood. (10).

Recent data about the employment opportunities provided by cottage industries in Nepal are not available. However, the census of cottage and small scale industries conducted by Central Bureau of Statistics in 1972/73 found that they employed a total of 1,040,510 persons. (11).

The 6th plan (1980-85) gave a figure of 1,215,000 persons employed for the year 1977/78. (12).

This shows an increase in employment of 16.8% over a five year period. Industry wise the employment provided by agro-based industries is 42% textile based 25% forest based 25%, metal based 4% and other 1%. However, most of the rural industries operated on a seasonal basis. Mostly for the 2 to 4 hours a day for 3 to 4 months a year. (13).

This has adversely affected their employment potential.

The technological used by most of the cottage industries in Nepal is very much primitive and old even the simple machinery that can be used for paper making is generally not used in Nepal (14).

Comprehensive data about the contribution of cottage industries to hold income in Nepal is not available. However, various samples studies provide an indication about it, The findings of selected studies have been the following :-

- 1. A study by Nepal Rastra Bank in Palpa and Rupandehia district found that cottage industries where contributing 1.1% of household income in Palpa and 3.5% in Rupandeki. In Rupandeki their contribution in household income of small former was 12.7% and for big farmers 7.9%. (15).
- 2. A study by agriculture projects services centre in Rapti Zone found that household income from trade and business including scale of cottage industry products was 14.3% of total household income. (16).
- 3. A base line survey of Rasuwa Nawahat found that the contribution of cottage industry to household non-agricultural income was 17.7% for small farmers and 11.5% for big farmers. (17).

4. An impact evaluation of Rasuwa - Nawahat integrated rural development project by centre for economic development and Administration found that the contribution of cottage industry to non-agricultural income in Nuwakot was 1.9% for all farmers about 12.66% for large farmers. (18).

The above studies indicate that the contribution of cottage industries to total household income has not been significant and especially in the case of small and marginal farmers, this contribution has been poor. (19)

The following table provides data about contribution of modern and cottage manufacturing industries to GDP of Nepal. It is clear that the contribution of modern industries to total GDP has been less than 3%. (2.7%) in 1981-82. The contribution of cottage industries to total industrial GDP range from a high of 34% in 1978-79 to a low of 31% in 1981-82. This indicates declining share of cottage industries in the GDP of Nepal.

TABLE : COMPARATIVE CONTRIBUTION OF MODERN AND COTTAGE INDUSTRIES TO GDP AT CURRENT PRICES (Rs. in Million) (20)

FISCAL YEAR	GDP	CONTRIBUTION OF MODERN INDUSTRY	CONTRIBUTION OF COTTAGE INDUSTRY	INDUSTRIAL G.D.P.	CONTRIBUTION OF COTTAGE INDUSTRY TO INDUSTRIAL G.D.P.
1976-77	17280	499(2.9)	237(1.37)	736(4.2)	(32.20)
1977-78	19732	531(2.7)	263(1.33)	794(4.2)	(33.12)
1978-79	22215	559(2.5)	289(1.30)	848(3.8)	(34.08)
1979-80	23351	618(2.4)	318(1.25)	936(3.6)	(33.97)
1980-81	27307	712(2.5)	337(1.19)	1049(3.7)	(32.18)
1981-82	30265	820(2.7)	369(1.20)	1189(3.0)	(31.03)

Note : Figures in brackets indicate percentage.

INDUSTRIAL DEVELOPMENT UNDER THE PLAN PERIOD

Being mainly an agricultural country industrialisation has a brief history in Nepal, though there was a good deal of evidence of industrial activities from time immemorial.

With the launching of planning in 1956, Nepal extended into planned process of industrialisation. Since then, the government of Nepal laid keen attention to the development of the industrial sector of the country.

The first plan period (1956-57) to 1960 - 61) did not contain any specific programme or target on the industrial front, though production increase and work to the unemployed constitute one of the primary goals, The plan also specified that a mixed economy system will be the basis philosophy for carrying out economic activities and enterprises in the country. During the five year period some major developments took place in building physical and institutional infrastructure for the future industrial development. During the plan period, a couple of rice and oil mills were established in the private sector, establishment of cement, sugar, cigarettes, textiles, paper iron and steel products was made. However, only timber cooperation in the public sector was set up. The sugar mill and distillery at Bheirahawa, and jute press and nylon button factory at Biratnagar, the match factory at Nepalganj and the Balaji Industrial estate at Kathmandu were started. In 1959, the Nepal Industrial Development Cooperation (NIDC) was constituted with the object of encouraging industrialisation through financial technical assistance to private entrepreneurs and industrialisations. The corporation grants loans upto 75% of the fixed assets of the project, which are deemed technically sound and economically viable. The industrial policy of Nepal was declared in 1957 which was replaced by a new policy under

of 1961 classified industries into large, medium and small categories according to the scale of operation and offered numerous incentives and concessions, such as, ten year tax holiday, bonus for earning foreign exchange, nominal custom duties on imports of machinery, spares parts and raw materials and protection.

Nepal's second three year plan (1962-63, 1964-65) launched programme for the imitation of industrial production in the public sector, establishment of industrial estate for promoting the development of small industries and provision of necessary financial and technical assistance to encourage the establishment of new industries in the private sector. For accomplishing these programmes (including townes) the plan set aside 17% of Rs.102 million if the total outlay of Rs.600 million. In the public sector, in 1965 the Birganj sugar mills (1000 tax daily capacity), the Janakpur cigarette factory (2,00,000 million sticks annual capacity) and in 1968 Birganj Agricultural tools and implements factory (capable of turning at 14,000 pieces a year) were started with sovied Aid. The Bansbari leather and shoe factory in Kathmandu (annual capacity of 21,000 pieces of tanned hides and 30,000 pairs of shoes and bricks and tiles factory at Harisiddi in Patan were established in 1965 with chinese assistance. It cost a

little under N.R. 10 million. The USA helped Nepal to set up a saw mill (1965) at Hatauda in the public sector (having 7,00,000 cu. ft. annual capacity). It costs N.R. 2.3 million. The HIMAL cement factor at Kathmandu was established funded partly by the German government. With Indian and American assistance three industrial estates were started at Patan, Balajin and Hetaurs, Sugar, textile, biscuit, strawboard and carpet industries were established in the private sector.

The third plan (1965-70) allocated 17.5% of the total outlay of Rs. 2,500 million industry, mining and tourism. It was the declared policy during the third plan period to encourage industries that would exploit most of the country's industrial and commercial raw materials and promote exports. The plan provided maximum facilities to the private sector industries and promised to establish five new industrial estate. One each at Dharan, Pokhra, Nepalganj, Chandragarhi and Krishna Nagar. However, industries such as cement, paper solvent extract, cotton textiles, paints and varnish and plywood, which would have used local raw materials, were not developed during the plan period. Instead, stainless steel and nylon synthetic textiles planted in the private sector, which were not planned even mentioned in the plan, but which used imported raw materials showed spectacular success and actually had the highest priority in the private sector, during the plan period. This was mainly

because of the high projects that could be made by exporting to India. Conversely, at the end of the third plan period, the 25 years old jute industry declining in Nepal's major exports and primary source of foreign exchange earnings, recorded an output even below that of the pre-plan period. The government has entered into a loan agreement with the Asian Development Bank to save the jute industry from this predicament.

In the fourth plan period of 1970-75, public sector was confined to improvement of existing public sector industries. It accorded high emphasis on developing import substituting industries. As regards establishment of new industries the plan expected private sector to take the lead and initiative. A number of industries like cement, ghee, plywood, feed, flower, beer, rice and oil mills went into operation in the private sector. Total investment in the private sector estimated to Rs.25.00 crores of which Rs.13.00 crores was to be made available by the private sector itself as against Rs.12.00 crores loan from the NIDC. In the public sector expansion programme included among other 50% increase in the capacity of Birganj sugar Mills to produce 15,000 metric tonnes annually, 50% increase in the capacity of Janakpur cigarette factory to produce 3,000 million sticks a year and doubling of the existing capacity of Harisiddhi brick and tiles factory and Bansbari shoe factory. It was

estimated that the expansion programmes alone may cost the Govt. Rs.5.00 crores out of total estimate expenditure of Rs.10.85 crores in the public sector. The industrial enterprises Act 1978 was submitted with a view to improving the tax and other reliefs so that the investors were adequately motivated to invest in industries without causing disproportionate revenue loss. As regards financial assistance, the NIDC was expected to expand its credit operation and investment in equity shares to the tune of Rs.120.1 million and Rs.13.1 million respectively during the plan period.

The fifth plan (1975-80) shifted its emphasis away from infra structure development to people oriented production and maximum utilisation of manpower. On the industrial front the sketched a detailed programme specifying objectives, priorities activities and policies. During the plan period, in the public sector Metanda Textile factory, Bhaktapur Agro - line and brick factories have been completed. The output of sugar and cigarettes are likely to go up substantially, increasing their capacity by 50% the Agricultural Tool factory will also undertake installation of new equipment to start producing centrifugal pumps for irrigation in the early stage of the plan, while leather and shoe factory will soon increase its daily production from 200 pairs to 600 pairs of shoes. Based on Kharidhunga magnesite deposits, 25,000 tonnes of sintered managanesite phosphate fertilizer will also be produced towards the end of the plan. In the private sector the plan envisaged Rs.40 to 50 crores to set

127 units, but the reality only biscuit, flour, solvent, insecticides, glass, catechu, re-rolling soap, auto-workshops and hotel and lodges have been established. Thus, the plan encouraged private sector by simplifying licensing providing various facilities and concessions. But proposed target of establishing some industries did not materialise for want of foreign assistance.

The sixth plan (1980-85) recognised that the progress in the field of industrial development was not satisfactory during the fifty plan period. As in the 4th plan, production targets were not fixed in most of the industries and hence nothing can be discerned about the target achievement gap. During the sixth plan also the performance of industrial sector is not satisfactory inspite of the enactment of the new industrial enterprises Act in 1981. However, in the sixth plan only those industries that call for the type of technology and level of investment which is not readily available or forthcoming from the private sector and yet the settling up of which is in the national interest will be set up in the public sector. Of the existing state run industries, those that are considered worthy of being transformed to private sector will be sold out. Separate arrangement will be made to make the public sector industries operate smoothly and efficiently that will also apply to industrial districts. Moreover, emphasis will be laid on the establishment of such industries

as are designed to promote foreign export through utilisation of locally available raw materials and to substitute the import commodities that are in heavy demand such as cottage textiles and building materials. In the interest of regional development, steps will be taken up to provide special facilities for industrial investment in those regions which endowed with transport and communication facilities and yet are lagging behind in industrialisation. The industrial output during the 7th plan period is estimated to grow at 12.7% annually.

It is found from the above statement that each plan devoted considerable attention in elaborating the objectives of industrialisation and contained specific programmes and targets. But in reality programmes and targets have never been matched. Excepting the just two plans because of initial knowledge of planning and political instability the next third, fourth and fifth plans have showed very disquieting achievements. A few modern industries that emerged and flourished. Over the years were the products of foreign aid and had no relation whatsoever with the plans. The disappointing and conflicting picture of the production trend of a major industries in Nepal is displayed in the table below, which reveals that the production of industries with high priority, i.e. goods of daily necessity and construction materials, increased only moderately, or even declined over the level of 1974-75. On the contrary, production of less desired goods such as liquor, stainless steel, utensiles and been increased significantly. The oldest and

established industries (e.g. jute goods industries) have failed to register a consistent increase in production. Almost all the public sector industries have been established under bilateral assistance. Capacity utilisation of these public sector industries (which accounts for 70% of value added) averaged to 66.5% by the end of the 6th plan (21).

The inadequacy of managerial talent and experience in business promotion and administration is responsible for failure of some early ventures in industrial field. However, the basic reasons for the failure of an sustaining the early efforts in industrial sector may be sought in a state of all pervasive backwardness of the economy itself. Secondly, the slow growth of industrialisation in Nepal in recent years is being the over emphasis on the trading connected with import/export, which bring higher profits to investor (much more than the return asan investment industry) and high revenue to the government. Over 60% of banking funds are invested in trading activities, rather than on setting up industries. Most of the consumer goods produced by local industries has to compete with the same variety of imported stuff. (22).

The major impedement to industrial sector of Nepal is the acute shortage of power and highcost of fuel both coal and petroleum. Present hydro-power generation does not meet the demand of existing industries.

The set back intressed in the industrial sector of Nepal is due to utter failure of support institution set up to promote industrial development, to provide assistance in time and in required manner. (25).

It is noted that private entrepreneurship in industrial enterprises have not grown adequately in Nepal. Only about 30% of value added accounts for this speher. Most of the private enterprises are interested in trading activities as stated earlier. Thus, private entrepreneurship and investment is scarce in Nepal. Under this circumstances, there is ample scope of India's private capital to enter in the industrial sector of Nepal and to help the industrialisation of the economy. (26).

TABLE : PRODUCTION OF MAJOR INDUSTRIES (1974-75 and 1979-80)

SL.NO.	GOODS	UNIT	1974-75	1979-80	Percentage change
1.	Jute goods	M.ton	12,265	15,573	+ 27.0
2.	Sugar	M.ton	11,926	14,159	+ 18.7
3.	Cigarette	Msticks	30,013	17,778	- 40.8
4.	Matches	000 gross	649	699	+ 7.7
5.	Liquor	000 litre	224	698	+211.6
6.	Soap	M.ton	891	1,147	+ 28.7
7.	Shoes	000 pr.	70	70	-
8.	Agril. tools	M.ton	300	207	- 31.0

9.	Stainless Steel	M. ton	156	450	+188.5
10.	Straw board	M. ton	1,022	964	- 5.6
11.	Fertiliser	M. ton	441	287	- 34.9
12.	Cotton Textiles	OOOmtrs	3,896*	3,499	- 10.4
13.	Cement	OOO ton	27*	29	7.4
14.	Brick and tiles	OOO pcs	25,575	30,900	20.8
15.	Beer	OOO Lts	688	1,310	90.4

* indicates 1975-76 production as data for 1974-75 not available.

Source : Economic Survey, ministry of finance H.M.G. Nepal

The large scale manufacturing industries in Nepal appear to be more biased towards capital than labour and thus failed to create employment on a major scale. This is reflected by the increase in average capital/labour ratio from Rs.6648.1 in 1972-73 to Rs.8609 : 1 in 1977-78. Despite a three fold increase in employment from the first census to the last census, the employment has not exceeded 50,000. In other words, over the census period the industrial sector has been able to absorb only about 3,500 people per annum, whereas the annual extract to the labour force exceeds 1,00,000 for the period. This is true because of heavy reliance on foreign aid for the establishment of manufacturing units in the country. Nepal has little to

say in the choice of production technique and has to accept or use the techniques and implements as desired by the donor countries irrespective of their suitability prevailing in the economy of Nepal. (25)

In spite of all these constraints, however, the industrial sector of Nepal is an integral part as well as dynamic sector of the economy with a high potential for making an increasing contribution to the governments objectives.

STRUCTURE OF ORGANISED INDUSTRY

The industrial sector in Nepal is primarily an extension of agricultural sector and consists mainly of cottage and other small scale plants, particularly the food processing mills. The planned efforts of two decades did not really prove effective in modernising and expanding the country's industrial sector and hence the structure of industries remains basically the same as it was two decades ago.

The data provides in the following table reveals that food processing and oil mills held a dominant position in the composition of industries in 1972 and that their share increased from 65% to 76% during the period between 1965-66 and 1972-73. During the 7 years period more than 3 thousand new food processing and oil mills were opened and these accounted for 89% of the total increase in manufacturing establishments. Other developmen

over the period were (a) a marked increase in bakery, yarn and textiles, saw mills, wooden furniture, printing press and miscellaneous industries. (b) some increases in metalled vessels metallic furniture, soaps and ice creams, (c) establishment of new units - 11 in carpet and 5 in footwear (d) a most significant decline in the case of bidi making (e) more or less stagnant or a declining situation in the rest of the enterprises.

A study by Nepal Rastra Bank in 1977 also reveals that the structure of industries in 1976 was very much similar to that observed in 1972-73. On the industries surveyed, rice and oil mills accounted for the largest position followed by construction materials and allied products and saw mills.

TABLE : COMPOSITION OF NEPALESE INDUSTRY

S.No.	Manufacturing units	<u>1965-66</u>		<u>1972-73</u>	
		<u>Number</u>	<u>% Share</u>	<u>Number</u>	<u>% Share</u>
1.	Cereal processing foil	819	64.8	1,860	76.5
2.	Bakery	7	0.5	25	1.0
3.	Sugar refinery	10	0.8	8	0.3
4.	Tea packing	3	0.2	6	0.2
5.	Bidi making	113	8.9	56	2.3
6.	Cigarettes	3	0.2	2	0.1

7.	Yarn & Textiles	11	0.9	32	1.3
8.	Jute processing	3	0.2	4	0.2
9.	Cap making	10	0.8	5	0.2
10.	Saw mills	17	1.3	31	1.3
11.	Wooden furniture and court materials	40	3.2	75	3.1
12.	Printing press	39	3.1	80	3.3
13.	Metallic furniture and causter matter	5	0.4	15	0.6
14.	Soap	6	0.5	11	0.5
15.	Matches	6	0.5	6	0.2
16.	Brick and tiles	80	6.3	83	3.4
17.	Metalic vesseis	3	6.2	15	0.6
18.	Repairs works	31	2.4	23	0.9
19.	Jewellery	5	0.4	7	0.3
20.	Ice and Ice - cream	5	0.4	10	0.4
21.	Foot wear	-	-	5	0.2
22.	Carpet	-	-	11	0.5
23.	Miscellaneous	38	3.0	64	2.6
<hr/>					
	ALL	1,264	99.0	2,434	100.00
<hr/>					

Source : Census of manufacturing establishment 1965-1972

It is estimated that about 50% of wheat is produced by the industrial sector is exported. Of this, the largest chunk about 95% consists of products from the food processing and oil mills, and these exports are virtually confined to

India. The next most important export products are made up of jute and jute goods while exports from other manufacturing industries are negligible. (26).

ROLE OF COTTAGE AND SMALL SCALE INDUSTRY

According to C.B.S. industrial survey of 1972-73 all industries employing less than 10 workers were regarded as cottage and small industries. The cottage and small scale development project, financed by IDA of world bank since 1982, has specialised that only those industries employing one worker per Rs.12,000 investment in fixed assets are eligible for loans under the project. The capital/labour ratio, therefore, has been used for defining cottage and small scale industries for financing purposes.

There are a great variety of rural industries in Nepal. The 1972-73 cottage and small scale survey by CBS has classified 61 different types of cottage and small scale industries. It has been estimated that agro-based constitutes 45% textiles 36% and forest based 10% of Nepals total cottage industries. (27)

Total employment in this sector is about 12. million (50% male and 50% female) thus, the largest industrial sub-sector in terms of employment. These industries, on the average employ 2 to 3 persons including 1 unpaid family labour in each. This has adversely affected thrie employment potential.

Cottage industries in Nepal have been playing an important role in export earnings. The data about cottage industry exports (including urban centres) of Nepal shows that 1974-75 the value of exports of cottage industries was Rs. 36.6 million which represented 21.7% of the total exports of the country. It went upto Rs. 162.7 million in 1982-83 which represented 56% of total exports. The major items of exports of cottage industry products are woolen carpets, handicrafts, textiles, woolen goods, paper and paper goods etc.

Though contribution of cottage and small scale industries to household income as well as to GDP have been insignificant and has not yet become available, alternative to agricultural providing employment, its share in the total exports of the country has been very significant and is likely to increase in the coming years for earning much needed foreign exchange (28)

TABLE : ROLE OF COTTAGE AND SMALL INDUSTRIES 1977-78

	All Industries	Medium & large industries	Cottage & small industries	Cottage and small Ind. as % of all Indust.
No. of Estd.	7,45,145	3,570	7,50,575	99.8
Persons Employed	12,71,340	56,340	12,15,000	95.6
Production (Mill)	3,288.14	2,575.14	313.00	21.7
Production Valued added (Mill)	698.26	479.50	218.76	31.3
Investment (Mill)	826.05	485.00	341.05	41.3

Source : The sixth plan, NPC Kathmandu 1981 page - 511

DEVELOPMENT OF COTTAGE AND SMALL SCALE INDUSTRIES
SINCE 1951 AND DURING THE PLAN PERIOD

After the political change in 1951, there was some administrative dislocations which affected the function of the department of cottage industry as well. Some notable changes however, took place after the signing of an agreement by HMG with the Ford foundation on April 28, 1954 under which financial as well as technical assistance was provided by the Ford foundation in Nepal for development of cottage village and small industries in the country.

In the meantime, the first plan 1956 of Nepal was launched. The plan had an objective of reviewing an expansion of small industries selected on the basis of merit and future prospects. It also aimed to open training-cum-production centre at different parts of the country, to make for loans on reasonable terms and to supply of implements on instalments basis. In order to materialise these objectives, a separate body called cottage village and small industries Training-cum-Extension Board was formed.

Some of the activities as done under the first plan could not produce any fruitful results owing to organisational difficulties and on the whole, it appears that the entire programmes would have made better impact on the economy had the initial efforts directed in a few selected lines of activities.

The main specific projects as undertaken under the first and second plan include the following :-

- (i) Upatyakanchal Ghareh illam Kendra (a training-cum-production centre).
- (ii) Rural training centres.
- (iii) Mobile units (mobile teams to propogate indigeneous crafts and to demonstrate the use of improved machanics)
- (iv) Asakaya Kalyan Kendra (orphanage training centre)
- (v) Jail Karkhana (a workshop at Kathmandu centre jail)
- (vi) Gharely Shilpa Kala Bikri Bhandar (an emporium on cottage industries and handicrafts at Kathmandu) and
- (vii) Research station (section to design new tools suitable to the conditions of Nepal-such as Mahendra Chakra etc.)

The third plan laid some pre-conceived objectives which were stated as :-

- (a) employment to seasonally unemployed persons;
- (b) local self-sufficiently in industrial goods
- (c) preservation of traditional art and handiercraft works;
- (d) development of foreign exchange earning type of village and handicraft industries;

- (e) Organisation of artisans an co-operative lines and;
- (f) expansion and further development of prospective village handicraft industries. in order to achieve these objectives over time, provisions were made in the plan for training, extension services, market facilities, research works and auxillary services.

The fourth plan document, however, admitted that the development of village, cottage and small industries remained stagnant during the third plan owing to mostly for want of funds from foreign sources in time. As such the fourth plan has changed in some ways the strategy of developing small industries in rural areas. It proposed that the existing cottage and village industries should be first made viable and functions with necessary services and development of new industries should be based on strict consideration of all economic aspects, including location, experience, availability of raw materials and market. Training should also be geared to the actual needs and possibilities of employing the trained people in opporprate vocations. To achieve these objectives various programmes have been undertaken. For example, the industrial and technical services programme include low interest loans and supply of machines and equipment on instalment payment basis for development of the existing as well as new industries to the extent of Rs.20.00 lacs.

During the fifth plan a central directorate three regional offices and 25 district officers were formed to provide technical support, loan survey design and mobile training facilities to the local people for establishment of small rural industries. The cottage and handicrafts emporium will set up its seven units at appropriate places to supply raw materials to rural industries and also to facilitate disposal of finished products. The main areas of activities in the plan include :-

- (i) small industries services;
- (ii) promotion of handicrafts
- (iii) technical training
- (iv) production planning
- (v) small scale industries centre in the jails and
- (vi) marketing programme,

In the above stated areas of activities, the priority will be accord to (a) cotton and woolen textiles (b) basket and had making (c) metal and wood crafts.

In the sixth plan, in the field of industry main priority was given to promotion of cottage and small scale industries. Separate arrangements will be made to make available in an integrated manner, all forms of financial, technical and marketing facilities, that the small industrialist lying in the town and villages, may stand in need to run their industries.

Special attention will be given to evolve new production methods in response to the changing tastes and demands of both the internal and external markets. All kinds of government control and interference will be freed from these industries excepting the security of the state and public health. All towns, foreign exchange and other fiscal regulation along with administrative rules will be amended. Producers will be free to fix the prices of their produce and to organise themselves producers, cooperatives. At the initial stage of growth small industries will be protected from foreign competition. Women will be encouraged to devote their skill and capabilities to the local cottage, village and small industries through the medium of industrial co-operatives. (29).

In nut shell, government of Nepal has taken some measures to encourage the growth of cottage industry by selecting 45 out of 75 districts for intensive development programmes with support from three different directions.

- (i) activities of the government through the department of cottage and village industry, cottage and village industry development board and cottage industry and handicraft emporium.
- (ii) programme of priority sector by monitoring the flow of credit to this sector through commercial banks and

directing the banks to invest 10% of their total deposits to this sector by engaging bank branches particularly for this purpose with credit guarantee system and;

- (iii) specified programme supported by world bank consisting of strengthening of managerial, marketing and other advisory services under their public agencies which will be responsible :
- (a) to assist in product adoption, product techniques and organisation;
 - (b) to improve links between exporters and importers;
 - (c) to improve training and extension services;
 - (d) to improve services of handicrafts;
 - (e) to monitor and evaluate the project and
 - (f) to prepare proposals for strategies and components for future projects.

With a view to making raw materials available on a regular basis at fair prices for the entrepreneurs, Nepal metal trading company and Nepal wool trading company have been constituted to look after the distribution aspect. (30).

Problems of cottage and small scale industries in Nepal

Nepal's cottage and small industries confronted with a number of problems which have seriously constrained their growth. The major problems are as follows :-

(1) Lack of effective implementation of government policies

Most of the policies formulated by the government of Nepal over the last 30 years was not implemented effectively because of lack of co-ordination and linkage among various agencies and institutions (both governmental and non-governmental) too much bureaucratization resulting in the complicated system and procedures, and frequently changes in government policies.

(ii) Growing competition from Imported goods.

The unrestricted imports of factory made cheap foreign goods (eg. overseas imports of stainless steel utensils and synthetic textile) as well as products of large industries of the country have provided stiff competition to the products of cottage industries effective protection in this respect is very insignificant.

(iii) Shortage of Raw materials

Massive deforestation has led to the virtual drying up of raw materials for forest based small industries. The unexploited mineral resources and old mines have largely blocked up the metal based industries. Even agro-based industries are facing problems of raw materials have been erratic and unreliable. Though the efforts of cottage industry and handicraft emporium have been praise worthy but not adequate.

(iv) Lack of quality consciousness and standardization

Quality and out of fashion of cottage industry product have adversely affected the exports of goods produced by cottage industries.

(v) Traditional Technology

The uneconomic primitive and traditional technologies, infuston of appropriate technology and the use of antiquated process and techniques have produced poor quality as well as high cost of production of Nepalese products.

(vi) Lack of power

The irregilar and shortage of power supply in rural areas have adversely affected the growth of cottage industries. A number of mini-hydle projects have been started in various areas to solve the problem to some extent.

(vii) Lack of Rural Infra-structure

Lack of comprehensive rural transportation network poor communication facilities and lack of maintenance facilities, etc. have constrained the development of rural industries in general, Research and development facilities are also lacking.

(viii) Lack of market

The most important problem regarding the growth of cottage industries in Nepal is that there are no effective appropriate institutions to market the output of these industries. Public sector marketing enterprises and co-operative societies are not playing a prominent role. Public sector purchase of their products, although mandatory, is not very significant. For example, the cottage industries operated by various small farmer development programme group have been facing serious marketing problems. However, cottage industries also have not diversified their products to satisfy consumer goods.

(ix) Lack of commercialization

Most of the output of rural industries is generally consumed by family members. Thus there has been a conspicuous lack of commercialization of cottage industries. Consequently, they have remained seasonal in character. The economies of scale have been missing.

(x) Lack of entrepreneurs

The open economy policy of Nepal has encouraged trading at the cost of industrialization. This has also shown the process of entrepreneurship, development in Nepal. There are no effective training programmes for entrepreneurs. Moreover, rural entrepreneurs of cottage industries have been failed to reap

the advantages of facilities and incentives provided for them under the different government policies.

(xi) Shortage of financial resources

Though various innovative schemes/institutions have been introduced to provide financial resources for rural industries, the benefits have mostly gone to big cottage industries in urban areas. As a result, most of the small industries in rural areas have been subject to exorbitant interest rates by local money lenders. The Nepal Rastra Bank has desired the commercial banks should provide finance to this small sector in interior villages, but the banks find it difficult to do so because of absence of reorientation of loan policies and shortage of new branches in rural areas owing to transportation and security aspect. Even the private sector has been shy of investment in cottage industries on a commercial scale. Thus the problems of effective domestic resources mobilization has hampered the growth of rural industries in general. (31).

The following table presents at a glance the public sector outlay for manufacturing industries and cottage industries in various plans of Nepal.

TABLE : PUBLIC SECTOR PLANNED OUTLAY FOR NEPALESE INDUSTRIES

Plan Period	Public sector outlay (Rs. in million)	Share of large scale industries Rs. in Million	Share of large scale industries Percent	Share of cottage industry sector Rs. in Million	Share of cottage industry sector Percent
1st plan	330	19.0	5.8	-	-
2nd plan	600	90.0	15.0	40.0	1.7
3rd plan	1740	125.0	7.2	15.0	0.8
4th plan	2550	108.5	4.3	22.7	0.9
5th plan	6170	483.5	7.8	58.3	0.9
6th plan	20490	1050.0	5.1	500.0	2.4

Source : Various plan documents N.P.C. Nepal.

The above table shows that the share of large scale industries as a whole in the development programme of Nepal is decreasing from 15% of total outlay during the second plan period to only 5.1% of the 6th plan. On the contrary, the resources allocation for the development of the cottage industries sector has been increasing from 0.8% of the total outlay in their third plan period to 2.4% in the 6th plan. This sector, thus, has gaining priority in the development policies of Nepal. (32).

SUMMARY

Nepal's industries-both large-scale manufacturing and small scale cottage industries are still in a nascent stage.

The structure of industries have not shown any significant change, on the contrary it has remained as it was two decades ago. The industrial production has also not offered any marked improvement in quality.

The manufacturing industries in Nepal which are mostly public sector enterprises account for less than 3 - 4% to the real G.D.P. and the sector employ only 1% of the total labour force. On the contrary, cottage and small scale industries which are mostly in the private sector contribute about 6% to the real G.D.P. and engage, over one million persons mostly on part time basis. On the whole, only 5% of the Nepal's economically active population is dependent on the industrial activities of Nepal as assured of livelihood.

The industrial sector of Nepal is primarily an extension of agricultural sector and consists mainly of small scale and cottage industries. Of the industries rice and oil mills accounted for the largest position followed by construction materials and allied products, stainless steel products textiles and saw mills. Though the contribution of small scale and cottage industries to the GDP of Nepal is insignificant, it still plays an important role in the economy of Nepal as this sector also provides a viable alternative to agriculture and ans earning much needed foreign exchange. This sector is exclusively reserved for the Napelese investors.

The resource allocation for the development of the cottage industries sector of Nepal has been increasing and gaining priority in the development policies, but the share of large scale industries as a whole in the development programmes of Nepal is decreasing.

From what we have discussed so far it is evident that the pace of industrial development in Nepal has been very sluggish. Each plan devoted considerable attention in modernizing the industrial base, but in reality the targets were not achieved. Though programme of industrialization had been undertaken since the establishment of udyog parishad in 1935, most of the industries that flourished in war time, had gone into liquidation. The first two plans in Nepal also showed very disquieting achievements perhaps due to instability in political situation and less experience of the planners. However, a few modern industries emerged and developed over the years were the products of foreign aid. For example the Janakpur cigarette factory, the Birganj sugar mills and the Agricultural Tools Factory of Birganj were the results of soviet aid, the Bansbari leather shoe factory of Kathmandu, the Marisiddhi Brick and tiles factory of patan, the brick factory of Bhatapur and the Metaunda Textile Mill were the products of Chinese assistance, the Himal Cement factory of Kathmandu was partly funded by the German government and the saw millot Hetaunda was set up with the help of USA. Three

industries estates at patan, Nepalganj and Dharan has been set up with India's assistance. India also helped to construct the industrial estates of Rajbiraj and Butwal and established some industries like ligh engineering, paper, jute, cement and textiles etc.

Industrialization is basically dependent on transport system in the country. During the initial plan period of Nepal tremendous development in transportation have been achieved, but an integrated transport system has not emerged. Shortage of capital and power, small size of Nepalese market, potentially, dificiency in technical know-how, administrative and co-ordinating inefficiency and above all land locked position of the country are the formidable problems on the process of industrialization still a large number of commodities are imparted chiefly from India and other foreign countries to meet the bare necessities of Nepalese life.

Regional bias is also found as to the location of industrial enterprises in Nepal. It is found that out 50 joing stock industrial enterprises incorporated as public limited companies between 1936 and 1963 as many as 45 selected their sites at the terai bordering of India. At present 80% of the organised industries are located in the terai. The terai region accounts for about 88% of total investment and about 99% of total

employment in the existing organised industries of Nepal. The same tendency of concentration are also observed in the case of small scale industries of Nepal. About 3/4th of the private firms registered licensed during 1944-63 are concentrated in the terai specially in rice mills and bidi factories.

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