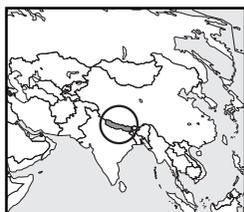


Private capital not responsible for poverty

SARBA RAJ KHADKA



Nepal's overriding development challenge is widespread poverty. According to a recent government report, 38% of the country's 23 million people are below the absolute poverty line of USD 0.21 per day. Inequitable land distribution, dependency on external resources with conditionalities that often negatively influence the economy, external debt burden, unsatisfactory mobilisation of domestic resources, and a trade liberalisation model which does not benefit the poor, are all at the base of this dramatic situation.

Human rights amid social strife

In response to nearly six years of armed insurgency by the Nepal Communist (Maoist) Party, the government imposed a state of emergency on 26 November 2001. The insurgents were declared a terrorist group in an ordinance named *The Terrorism and Disruptive Activities Control and Punishment Ordinance* by His Majesty the King. Under the state of emergency, virtually all fundamental rights are suspended. Both sides in this conflict have violated human rights and nearly 2,600 people have been killed.¹

All government security forces, including the military, have been mobilised to defeat the rebels. Due to the immense increase in the security expenditures, the government has decided to cut the development budget by 25%. Additionally, the government recently cut the Village Development Committee level grants by 50%.

Economic characteristics and poverty

Nepal is a land-locked, mountainous country with a *per capita* income of only USD 220.² About 90% of the population still lives in rural areas. Semi-feudal, subsistence agrarian systems, underemployment and low-productivity agriculture characterise the Nepali economic structure. Agriculture is the most important source of employment; 81% of the economically active population is employed in subsistence farming, which generates about 42 % of GDP.³ The unemployment and underemployment rate in Nepal is around 52%.

The agriculture GDP grew annually by 2.3% during the last decade, but *per capita* agriculture GDP did not increase at all during the period. The service sector expenditure has grown considerably within the last decade. Nepal's overriding development challenge is widespread poverty. According to a recent government report, 38% of the country's 23 million people are below the absolute poverty line (USD 0.21 per day in Nepal). The government had committed to lowering this figure to 32% by the end of 2002, but this does not seem likely.

The main causes of poverty in Nepal are lack of access to assets such as land; inequity in education, and lack of social security; lack of government investment on development, poor productivity, widespread corruption and external debt burden. In addition, there are resource shortages within local

governments, rising unemployment, unjust international trade relations, and lack of vibrant civil society movements, equal opportunity for all ethnic communities, and sensitivity to gender and child issues.

Inequality in land distribution

Since agriculture is the mainstay of the Nepalese economy, the majority of the people depend on land. Only 27% of the total land area is available for agricultural use.

Only 1.5% of families control 14% of total agricultural land; 70% of farm families hold 30.5% of farmland; 70% of households have less than one hectare and 33% have less than 0.5 ha; 15% households have no land. Consequently many people have limited access to productive land resources.

TABLE 1

| Population below the poverty line | | | |
|-----------------------------------|---------------------------------------|-------------|-------------|
| GEOGRAPHICAL REGIONS | POPULATION BELOW THE POVERTY LINE (%) | | |
| | TOTAL | POOR | VERY POOR |
| Himal | 56 | 23.3 | 26.7 |
| Hill | 41 | 21.3 | 19.7 |
| Plain or Terai | 42 | 28.7 | 13.3 |
| URBAN AND RURAL AREA | | | |
| Urban | 23 | 13.2 | 9.8 |
| Rural | 44 | 26.4 | 17.6 |
| National average | 42 | 24.9 | 17.1 |

Source: District Development Profile of Nepal, 2001. Informal Sector Research and Study Centre, Kathmandu, Nepal.

This inequitable land distribution and access to productive resources in the rural areas is a major cause of poverty, food insecurity and rural unemployment.

Women at the development crossroads

The Constitution promises equality for all, but there is still strong gender discrimination that isolates women from the mainstream of the development process. Discriminatory laws have denied women the right to proper reproductive health care and abortions. Approximately 200,000 women and girls are involved in prostitution. Illiteracy, poverty and conservative social practices have led to a lack of entitlement to property and other resources and poor income and employment opportunities. Gender disparity in income

1 The government has killed 1,683 and the Maoists 910 according to the *Human Rights Yearbook*, Informal Sector Service Centre, 2002.

2 *Nepal Human Development Report-1998*, Nepal South Asia Centre, Kathmandu, Nepal, 1998.

3 *Economic Survey - Fiscal Year 2000/2001*, His Majesty's Government, Ministry of Finance, 2001.

TABLE 2

| Land ownership in Nepal | | | | | | | | |
|---------------------------------|-------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|
| SIZE OF LAND HOLDING (HECTARES) | HIMAL OR HIGH MOUNTAINS | | HILLS | | PLAINS OR TERAI | | NATIONAL TOTAL | |
| | FARM FAMILY (%) | LAND OWNERSHIP (%) | FARM FAMILY (%) | LAND OWNERSHIP (%) | FARM FAMILY (%) | LAND OWNERSHIP (%) | FARM FAMILY (%) | LAND OWNERSHIP (%) |
| < 0.1 | 5.5 | 0.5 | 7.0 | 0.5 | 9.7 | 0.4 | 7.5 | 0.4 |
| 0.1 - 0.2 | 11.2 | 2.4 | 10.6 | 2.0 | 8.0 | 1.0 | 9.6 | 1.5 |
| 0.2 - 0.5 | 26.4 | 18.2 | 30.8 | 13.4 | 21.6 | 12.4 | 26.7 | 9.4 |
| 0.5 - 1.0 | 29.0 | 30.0 | 29.0 | 26.4 | 21.6 | 12.4 | 26.0 | 19.2 |
| 1.0 - 3.0 | 16.3 | 35.9 | 21.2 | 42.4 | 32.9 | 44.3 | 25.5 | 43.0 |
| 3.0 - 5.0 | 1.1 | 5.9 | 1.6 | 7.6 | 5.7 | 17.3 | 3.2 | 12.6 |
| > 5.0 | 0.5 | 7.1 | 0.5 | 7.7 | 2.8 | 19.4 | 1.5 | 13.9 |

Source: His Majesty's Government of Nepal, High Level Commission on Land Reform, 2002.

distribution is acute due to male-dominated households. The absence of property rights for women and lack of pay for domestic work has also affected women adversely. A recent woman's property rights bill (2001) failed to grant equal property rights. The average global Gender-Related Development Index (GDI) is 2.3 times higher than Nepal's while the GDI for the developed countries is more than three times higher.

Eighty-eight percent of women in rural areas and 55% in urban areas are involved in agriculture. They still have a negligible presence in policy and bureaucratic arenas; representation in the House of Representatives (Lower House of Parliament) is 5.8% and in the National Assembly (Upper House of Parliament) is 13.3%. Though more than 40,000 women have entered local governments, thanks to a provision that guarantees them 20% of the seats, not a single female mayor or vice mayor has been elected. Few women head Village Development Committees (VDCs) and not a single woman has been elected to the post of District Development Committee Chairperson. The female literacy rate is 23%. About 60% of mothers suffer from anaemia. The maternal mortality rate is 875 per 100,000 live births, the highest in the world, and 90% of mothers do not get medical help during delivery. Few women are in the civil service system and only 9.1% of women are household heads.

One positive development is the organisation of women into community groups whose savings are pooled to maximise their buying power. Women are slowly beginning to make decisions in their communities.

Domestic resources and international domination

Nepal's growth averaged 3.9% per year from the 1970s but the high population growth rate of 2.27% means the economy grew only by 1.63% *per capita* annually during the last 27 years. Gross domestic saving is very low, on average about 10% of the GDP during the last decade. The budgetary allocation for education increased from 9.5% in 1986 to 13.5% in 1997. For health, it went from 3% to 6%. Budgetary allocations for human priority sectors were approximately 3% of GNP.⁴

Although the budgetary allocation for the social sector has been increasing slowly every year, not all the expenditures have materialised. Several NGOs have injected financial resources into the social sector in such areas as rural infrastructure development, poverty alleviation, literacy and adult education, health education, health clinics, provision of family planning, maternity services, rehabilitation of sex-workers and street children, protection and promotion of human rights and the environment.

Since domestic resources are inadequate to meet the development challenges, the country has to depend largely on external resources. These external grants or loans inevitably come with conditions attached that often negatively influence the economic growth and well being of the majority of people in the country.

Trade is not a choice of the poor

New trade policies adopted in 1999-2000 favour export industries. Exports grew by 42.4% to USD 747.4 million in 1999-2000 compared with an 18.2% rise to USD 525 million in 1998-1999. Imports from India also rose by 27.4% in 1999-2000 over the previous year. The large-scale influx of products from

neighbouring countries (mainly India) has captured all markets. The trade deficit in 1998-1999 decreased by 15.7% over the preceding year, but the deficit in 1999-2000 increased 6.7% as compared with 1998-1999.

Progress in trade liberalisation does not benefit the poor and marginalised communities, who continue to struggle to make a living. Moreover, the small and medium-sized producers are facing crises of confidence as the government fails to promote trade of their produce.

External debt: blessing or curse?

Nepal's total external debt burden for 2001-2002 is estimated at USD 2.76 billion, more than twice the annual budget of USD 1.33 billion. The *per capita* debt burden is USD 119.

Domestic resource mobilisation has not been satisfactory. The revenue as a percentage of GDP remained at 11.1% in 1998-1999. The flow of external loans began in the early sixties to finance the National Industrial Development Corporation. In 1970-1971, the share of external loans in total aid began to increase significantly, expanding about 71 times from 1975-1976 through 1996-1997. During 1997-1998 it reached 62.2% of total aid flow. Multilateral loans now constitute 88.1% of the loans received. This is likely to increase in the future because of the declining trend in bilateral aid commitment in recent years.

Private capital not responsible for social justice

Economic decentralisation, openness and market-oriented private sector development have been promoted since the late eighties. The Industrial Policy of 1992, the Eighth Plan (1992-1997), and the Privatisation Act of 1997 were introduced to foster private sector reform and restructuring in areas such as banking and finance, aviation, power, tourism, forestry, information technology, cooperatives, and civil society. The private sector has been recognised recently as the major actor in socio-economic development. The nation's development framework has been designed to involve greater participation by the private sector in nation building through the encouragement of a competitive system of resource utilisation and allocation. The share of the private sector in non-agricultural GDP rose 57.3% in 1990-1991 to 69.7% in 1998-1999 while the share of the government in non-agricultural GDP declined from 42.7% in 1990-1991 to 30.3% in 1998-1999.⁵ These policies and programmes have failed to address the problems of the poor and marginalised, who are still excluded from the main development stream. ■

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4 Ministry of Finance, 1997.

5 *Statistical Yearbook of Nepal 2001*, Central Bureau of Statistics, National Planning Commission, Kathmandu, Nepal, 2001.