

An Agricultural Perspective on Poverty Reduction in Nepal

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Abstract

This paper highlights the role of agriculture, which is confined in the rural areas of the country, in poverty reduction in Nepal. The resultant effect of underdeveloped agriculture is discerned in prevalent malnutrition and acute food shortages contributing to ongoing poverty particularly in the Far-western Development Region of the country. The only remedy lies in agricultural commercialization that would help raise agricultural productivity, which ultimately could reduce the incidence of poverty. In this context, private sector's participation becomes inevitable.

Introduction

Nepal is one of the poorest mountainous and land-locked country countries in the world. It is struggling for its development whereby it could raise the living standard of lives of more than 24 million people currently. The very source of its development is based in agriculture and natural resources, which are mainly forest-based products (including timber and herbs). The contribution of agriculture is about 40 per cent in gross domestic product (GDP) whereas manufacturing sector contributes some 10 per cent in GDP. India is its giant southern neighbour and major trading partner. It has a major balance of trade deficit with India though. It depends heavily on India for overland access to the sea. Foreign exchange is largely generated by remittances from Nepalese working abroad, exports of carpets & garments, tourism and foreign aid. A meager foreign direct investment in Nepal mostly comes from India.

Pivotal Role of Agriculture

Agriculture in Nepal faces a tremendous challenge of feeding more than 23.2 million people and at the same time is instrumental to their prosperity. Unfortunately, it has remained basically subsistence oriented with lower productivity in Nepal. Rapid population growth (2.24%) leading to encroachment of the marginal lands in the hills and mountains for

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agricultural use and conversion of prime agricultural land to other non-agricultural uses in the plains have started signalling grave environmental consequences.

With 81 percent of population (labour force) engaged in agriculture, about 85 percent people living in rural areas and low GDP per capita (US\$ 240)(WB, 2005), the agriculture sector occupies a pivotal place for any attempt to increasing income, alleviating poverty and uplifting living standards of Nepalese people. It is imperative that agriculture sector, where 80 per cent of farmers still rely on rainwater rather than on irrigation, therefore, is to be given priority from the overall development perspective by rapidly transforming into a modern commercialised sector with sustainable high productivity.

It is against this backdrop that the Agriculture Perspective Plan (APP) has accorded high priority for agricultural development in Nepal as the core of strategy for the development of the economy.

The main problem in agricultural development is the problem of landlessness itself. Moreover, Nepalese agriculture is permeated with the problem of sub-division and fragmentation of landholdings. Such small unit of land does not generate higher return. Nonetheless, poverty in Nepal is linked predominantly to a shortage of productive land. It is primarily a function of severe population pressure on limited land resources.

Land ownership is highly skewed. In general, the absolute poor, particularly in the Hills, own less than 0.5 ha (above 50%), and about 30 per cent in the Terai holds less than 0.3 hectare. On the average, poor rural family owing lands just under 0.5 ha produces grains sufficient to feed the family for less than six months a year. It is a truth that up to half of this crop is owed to the landlord as a repayment for consumption loans procured to meet social obligations. Malnutrition is common in such families. The family is only sustained on its land by off-farm labour, which provides up to half of total family income. The principal source of off-farm income is manual labour in the form of pottering and labouring of some of the family members, who have migrated elsewhere in Nepal or in India.

The major remedies for Nepal's poverty are provision of land ownership to the rural poor, to raising the land productivity in the rural areas since majority of the rural farmers are small and marginal farmers, and creating employment opportunities outside agriculture sector. The land reform programme can be a right step towards this direction. Acquisition of land over and above the ceiling and distribution of such lands to the land-less and marginal farmers can tremendously aid in reducing the disparity in landholding and thus help achieve the target of increased land productivity particularly in the rural areas. This would to certain extent ease out the problem of social instability, which is the resultant outcome of Maoist insurgency.

Development in agricultural sector helps increase the real wage of the agricultural labourers. This rise in real wage in the agricultural sector raises the demand for goods and services in the non-agricultural sector. Moreover, the saving propensity is likely to rise in the agricultural sector. In this way, this increased saving propensity can become valuable source of capital accumulation in the agricultural sector as has been conceived by the APP, 1995. In this way, growth in agricultural sector, that has to play a role of leading sector,

creates environment for increased level of employment both in agricultural and non-agricultural sectors vis-à-vis rise in population. What is to be noted is that the level of wage is largely responsible in raising the status of the labourers in the economy. It is basically dependent upon the ongoing wage rate as such. In spite of the fixation of minimum wage in agriculture sector as well, it has hardly been executed so far debarring socio-economic justice to the agricultural labour (Chapagain, 1999).

Socio-economic development of agricultural labour is a must in the context of increased productivity and production that minimises the problem of poverty. Any aspects of agricultural development cannot overlook this aspect of labour, which is the prime source of growth. Agricultural labourers are characterised by daily wage earners, contract labour, bonded labour and general labour who are involved in any way to earn their livelihood at any fixed rate of wage. Although labour productivity is taken as a factor that influences wage rate, a decent work environment even in agricultural sector can help insure labour productivity.

It is obvious that agriculture is overwhelmingly a small sector activity in Nepal. In most instances, family members themselves carry out farming. Agricultural labour is used only when the family labour becomes short of the needed labour. It is generally the big farmers who hire labour since their landholdings are of bigger size. Some of the big and medium farmers used to keep labours under contract for a fixed time period. In addition, these farmers used to lease their lands to others under various terms and conditions and sometimes on 'fifty - fifty' produce-sharing basis. The official statistics of agricultural labour is lacking in Nepal.

The state of the agricultural labour is in deprivation in Nepal despite the implementation of the Labour Act, which specifies for the provision of the minimum wage and social security schemes. Because of the seasonal nature of agriculture, agricultural labour unorganised as they are, have to remain unemployed for long, which was discerned in mass poverty and indebtedness.

The rate of growth of employment opportunities in this sector is lower than non-agricultural sector rightly reflected in the negative state of elasticity of employment (-3.14 %) indicating the relatively low manpower absorption capacity of the sector. Basically 99.42 per cent employed in agriculture is unskilled. Of the 8 million labourers in the beginning of the 9th Plan, almost 90 per cent or 7.2 million are in informal sector, basically the agricultural sector in rural areas. This sector has 47 per cent labourer underemployed. The Plan objective has been to reduce the proportion of such underemployed labourers to 35 per cent by the end of the Plan, while it aims at reducing the percentage of unemployment from 4.9 per cent to 4 per cent (N P C, 2002). The mid-term evaluation of the Plan shows that the realised objectives felt short of the target.

Conceptualisation of Poverty

A wide variation in poverty incidence across geographical regions is discernible. The I-PRSP estimates that 44 per cent of the rural households and 23 per cent of the urban households lie below poverty level. Moreover, the incidence of poverty is more prone in

the hill and mountain regions than in the Terai. The situation of ultra poor is alarming. The percentage of the ultra poor is 26.7, 19.7 and 28.7 in the mountain, hill and the Terai respectively NPC (1997). This situation clearly reflects the miserable condition of large section of people in the country. At present, the estimated elasticity of poverty reduction is said to be 0.3 per cent (for every 1 per cent rise in GDP, poverty declines by 0.3 percent). From this, it seems that the realisation of the 10th Plan target of reducing poverty to 32 per cent by the end of the Plan is to running after the mirage. All these scenario presents a set of challenges, which are not insurmountable. It has to be realised that rural livelihoods are key to poverty reduction.

Poverty, in many ways, is related with productivity and employment of labour that raises living standard and that widens access to income, which on the other hand, is associated with the principle of decent work. Decent work incorporates achieving fundamental principles of right to work, creation of greater employment and income opportunities for women and men, extending social protection, and promoting social dialogue.

Majority of Nepalese is annoyed to find Nepal entrapped in economic backwardness and poverty. More than four decades of development efforts have failed to create prosperous environment and thus millions of people remained poverty-ridden. Despite enormous amount of aid flow to Nepal, the prosperity and prospects for the common people still remains elusive. Majority of them is yet circumvented out of probable safety nets.

This situation perpetuated most probably because of the ineffectiveness of the development efforts of the past that excluded the ordinary people from the development main stream that finds its deep root in agricultural development. Agriculture, the foundation of the economy, has remained underdeveloped but majority is eking their living out of it.

Since poverty is basically prevalent in rural sector, which is no other than agricultural sector, improvement in living standard of the mass has not become possible. This sector has not yet changed from subsistence status to industrial one and profitable ventures so that productive employment and income are generated that would benefit the poor mass that ultimately would take care of poverty.

Poverty, which is multidimensional and complex, is not just the result of income but also those of access to education, health, safe drinking water, sanitation facilities and other services since availability of such social services not only directly determines the standard of living but also influences the income and earning capacity of individuals.

Development of agriculture helps cure the ills of poverty by creating self-sufficiency in food supply, promoting export, and augmenting supply of raw materials essential for agro-based industry. In this way, progress in raising real income of the general mass eases out the burden of poverty.

The burden of poverty is spread unevenly among the regions in the country. At the time of the inception of 9th Plan (1997-2002), the incidence of poverty has been estimated at 42 per cent. However, using a different definition of 'US dollar a day' gives total population living below poverty line as 53.1 per cent. It is heartening that the mid-term evaluation of the 9th Plan has put the percentage of people below poverty level at 38 per cent.

The Agricultural Perspective Plan (APP) shows the incidence of poverty as 34 per cent in the Terai, and 64 per cent in the hills and mountain. A wide variation in poverty incidence across geographical regions has been reflected in I-PRSP document prepared by NPC (2001). It has estimated that 44 per cent of the rural households and 23 per cent of the urban households lie below poverty level. However, the incidence of poverty by ecological zone does not vary much between the hill and Terai zones but it is higher in the Mountain zone. If the poverty incidence is looked at from development region wise, it shows that households in the eastern and central development regions are less poor than other regions. Moreover, the rural poor in the remote western part of the country are generally poorer than other rural areas.

Table 1 Population below Poverty line in Nepal

Description	Population Below Poverty line (per cent)		
	Total	Poor	Ultra Poor
A According to Geographical Region			
Mountain	56.0	29.3	26.7
Hill	41.0	21.3	19.7
Terai	13.3	42.0	28.7
B Urban and Rural Area			
Urban	23.0	13.2	9.8
Rural	44.0	26.4	17.6
C National Average	42.0	24.9	17.1

Source: NPC, 1997

Since 88 per cent of Nepal's population live in rural areas, the key to alleviating poverty lies in improving agricultural performance. Reaching to the goal of poverty alleviation, thus, agriculture and forestry play a major role. The decision-making process of millions of farmers of the rural areas influences the utilisation of natural resources in the development of agriculture and forestry and their sustainability. The demand in the current situation is for sustainability of such resources to reconcile resource utilisation process with the natural regeneration process. This calls for transformation of subsistence agriculture into the commercial line by incorporating very sensitive issues of resource utilisation and farming of the uplands owing to the saturation of cultivable flat lands in the country. This can drive overall agricultural system towards beneficial and commercialisation that would enhance the capacity of the farmers to plan formulation, implementation and monitoring process. The process would further add to the capacity building of the farmers with respect to increased productivity and production, which ultimately would be manifested in the reduced level of poverty.

These measures are tied up with socio-economic and political processes that interact with and reinforce each other whereby they could ease out the deprivation that the poor people face everyday. Promotion of economic opportunity, empowerment, particularly of women- farmers and enhancement of socio-economic security unleash forces that attack rural poverty. The lag in agricultural growth is largely responsible for the existing higher poverty incidence and severity of it is in the rural areas. The government's action of removal of capital cost subsidy for ground water irrigation and price subsidy for chemical fertiliser has driven the rural poor from frying pan into the fire. Majority of the farmers lost their position to afford these inputs and thus such action might inhibit the realisation of the targets of the APP.

Agricultural Sector Policy

Many of the reasons for continued poverty are attributed to problems in the agricultural sector discerned in the reduced productive potential of per capita food production which fell from 92 per cent of the requirements in 1976 to between 80-85 per cent at present. Further, the natural resource base has been undermined by human and livestock pressures which resulted into extensive degradation of the country's forest and pasture land, particularly in the Hills (World Bank, 1989).

Past agricultural policies had aimed at accelerating agricultural development. The main concerns of the policy used to be the concerted efforts to expand infrastructure and provision of key inputs provided through donor financed projects. Such programmes had met with limited success mainly because of poor project design, weak implementation, institutional weakness and inefficiency of public sector agencies involved.

The policy emphasises on intensive cropping and crops diversification. Moreover, programmes such as agricultural research, market, training, loan disbursement, improved seeds, improved animals, veterinary medicine, improved technology, fertiliser, improved seeds and sample production, support programmes and women farmer development programmes were incorporated.

Keeping in view the important contribution of women farmers in the development of agriculture, programmes were initiated by effectively involving women in agriculture. The situational analysis of progress in production target, supply target of inputs and other service and support programmes, found that the supply of inputs, other services and support programmes were inadequate. Since the productivity target remained below expectation, the target set for crops was affected in attaining the rate of production growth. The comprehensive analysis of the state of physical progress showed that food production was below expectation. In comparison to the set target of agricultural productivity, all crops remained below the target in the last year of the Plan period.

Over the last three decades, Nepal's economy is growing up at an average pace of 4 per cent marginally exceeding the population growth of 2.5 per cent. The slow growth in agriculture is the result of the high incidence of poverty and severity in the rural areas. Although there

was gradual progress in different sectors of the economy, the progress is less than expected in the direction of poverty and unemployment. Poverty has been the overriding concern of the planned efforts of the government for economic development. High dependence on agriculture that has only about 53 per cent value added of the national average and lower than expected growth in this sector in the 1990s adversely affected the goal of poverty reduction in the country. Thus, it is realised that mere growth is not sufficient for poverty reduction, it has to be growth with equity or pro-poor growth, for the poor to participate in the country's development process. Notwithstanding, the main thrust of the 9th Plan remained poverty reduction with increased GDP growth. This has been carried forward in the 10th Plan as well (NPC, 2002).

These Plans have adopted the strategy of APP, and have emphasised the role of green revolution based on improved technology, adequate utilisation of available infrastructure, comparative advantage, large-scale public participation and women involvement and programme implementation based on the selected priority. The 9th Plan as well as the 10th Plan has focused towards the achievement of the target set by the APP in the area of production, food security, employment and income growth.

Programmatic Issues on Poverty Reduction

The Ninth Plan had embodied 20 years long-term vision in course of setting targets. It had targeted to reduce the level of poverty from 42 per cent to 10 per cent at the end of 12th plan. To gradually raise the living standard of the people below the poverty line by reducing the pressure of poverty.

For achieving the long-term objective, the Ninth Plan had aimed to reduce the level of poverty from the 42 per cent to 32 per cent at the end of period. Agricultural Perspective Plan (APP) has been taken as the base of poverty alleviation approach. For creation of employment, emphasis has been laid on industry, tourism, construction and transport, services. Emphasis on infrastructure preparation is given for self-employment promotion. Programmes that are related to increasing agricultural intensity, diversification, commercialisation and livestock raising are launched with high priority.

Irrigation, supply of improved seeds, sapling, fingerlings, credit, fertiliser and others have been promoted. Various agricultural roads have been constructed for market assessment of agricultural production. Community forestry programmes have been promoted for supplying the every need. Emphasis on high growth rate for reducing the poverty has been given. Various programmes to support the rural areas and backward community have been initiated in different parts of the country.

Various efforts for reducing fertility have been launched. Emphasis is given for educational attainment. Government expenditure on health, education, primary health care, vaccine and nutrition is increased. The approaches to distribute the benefit of development to the backward people have been launched. Credit to the small farm-holders has been distributed for self-employment and earning activities. Social mobilisation for strengthening the ability of the disadvantaged groups has been launched.

Various programmes to general poor and special programmes to ultra poor have been launched in the country. Special Area Development Programmes have been launched through the participation of government and non-government institutions. Women empowerment activities have been launched.

Vision Ahead

Increased agricultural productivity is sought by the involvement of private sector in terms of investment directed towards the creation of agricultural infrastructure. It would be advantageous if the public investment is streamlined along the APP investment plan.

Agricultural policy should be directed towards the development of livestock, horticulture and specific crops that are suitable in various topographical settings. Market centres will have to be developed in the hills. Due consideration has to be given to launching a package programme that incorporates fertiliser, irrigation, technology, rural electricity etc. Attempts should be made where by the producers would directly interact with the actual consumers that on the other hand would eliminate the parasitic chain of the middlemen in the marketing of agricultural produce.

On the whole, the three pronged strategy of broad based growth, social sector development and target programmes for the backward and vulnerable groups and safety net being enunciated in the current Plan should be the focal point of the agricultural growth strategy. There is every possibility that poverty would give way to prosperity particularly in the agricultural sector and in general in the overall economy. For this to happen, there is a need for timely provision of inputs in terms of improved seeds, fertiliser and irrigation at a price affordable by the farming community. Contribution to poverty alleviation is possible by increasing productivity of resources and inputs and by generating opportunities of employment through speeding up of the growth of the agriculture sector.

1. It is important to minimise the impact on environment by amalgamating the utilisation of external production inputs and natural resource in agriculture sector
2. Further strengthening the foundation of agro-based industry and industrialisation through diversification and commercialisation of agriculture is essential. Accordingly, there is a need to developing leadership of women in the production programmes by involving them in the agriculture development and by increasing their participation in income generating activities.
3. Since poverty is tied up with food security it is imperative to improve the situation of the production of the food grains and nutritious food in order to promote food security. This has to be achieved with the launching of special area and various targeted programmes to uplift the living standard of ultra-poor household, which is without any means of income. Most importantly, the backward, deprived and weak communities are to be socially and economically empowered by developing physical, social and economic infrastructure.

4. In this regard, mention has to be made about the operation of subsidies particularly in fertiliser and irrigation.

Moreover, the following points should get due consideration.

- Commercialisation of agriculture with intensive farming by shifting from cereal to high value and cash crops should be emphasised.
- Promotion of agro-based industries in the potential pockets of the country with technological innovations ought to be sought.
- Extension of wage employment frontiers by encouraging co-operative activities among the workers even in agricultural sector with effective implementation of new land reform system should be promoted.
- There is a need for the development of a sound wage system that would effectively implement the minimum wage by incorporating dearness allowance that guarantees at least US\$ 1.00 per day for the common labour.
- Labour intensive infrastructure development programmes should be developed for the generation of income generating opportunities.
- Natural resources in the form of forest, minerals and water resources will have to be harnessed that could create new employment venue to the growing labour force.
- There is a need to mobilise VDCs and municipalities to monitor the implementation of labour law by registering informal sector workers in these institutions. Such vigilance would help implement minimum wages and permanency provision of labour even in agricultural sector with the extension of both volume and circumference of micro-credit and Poverty Reduction Fund as has been conceived in the 10th Plan.
- Above all, poor must be put at the centre as has been suggested by the world Bank (2004).

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