Rockbottom economic status

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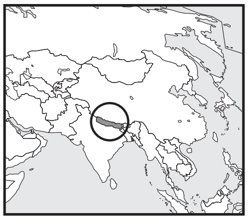

Economic liberalisation began in 1992. The foreign investment policy endevoured to attract foreign private investment but undermined the national interest. Nepalese entrepreneurs with limited resources and technical capacity were unable to compete with foreign private investors and hence were negatively affected. Privatisation of education and health has created two distinct classes and has benefited the higher income groups, in a country where approximately 42% of the population live below the poverty line.

Nepal now stands near the bottom of any international economic index. With a per capita income of USD 220 per annum, Nepal is the 12th poorest country in the world and the poorest in South Asia. It is ranked 142 out of 173 countries in the UN Human Development Report, 2002. Despite per capita growth rates averaging 2.2% per annum in the last two decades, poverty reduction has been slow. A 1995-96 household survey found that approximately 42% of the population lived below the poverty line.

The principal development objective of the government, as emphasised in the Ninth Five-Year Plan (1997-2002) and in the Poverty Reduction Strategy Paper (Tenth Five-Year Plan, 2002-2007), is to reduce the number of people living in absolute poverty. The Ninth Plan aimed at reducing the poverty rate from 42% to 32% by 2002 and as a long-term plan had set the objective of reducing absolute poverty to 10% by 2017. However, the Mid-Term Review of the Ninth Plan put the national poverty rate at 38%. Eighty percent of Nepal's population lives in rural areas, and rural and urban poverty rates are 41.4% and 23.9%, respectively, which shows that economic development is urban centered.

Low income, lack of employment opportunities (particularly in rural areas), poor public services, inefficient use of public resources and corruption have all contributed to low and unequal development. Under the authoritarian Panchyat regime (1960-1990), the people understandably did not resist any government policies. However, it is troubling that this situation has continued even after multi-party democracy was re-instated in 1990.

Beginning of liberal economic policies

Industrialisation in Nepal has historically been state-led. During the 1960s and 1970s, state-owned enterprises (SOEs) were formed to promote import substitution policies and create employment. Although the Bretton Woods Institutions imposed structural adjustment policies in the 1980s, economic liberalisation actually began in 1992. The Industrial Enterprise Act and the Transfer of Technology Act primarily promoted competition and private investment. Major reform measures included privatisation of public enterprises and entry of the private sector into health, education, imports and distribution of chemical fertilizers, infrastructure development and aviation services. Other reforms included deregulation of industrial licensing, rationalisation of tax measures and gradual reduction of subsidies. The 1992 foreign investment policy set provisions for attracting foreign private investment but undermined the national interest. Nepalese entrepreneurs with limited resources and technical capacity were unable to compete with foreign private investors and hence were frustrated by the induction of this regulation. Moreover, foreign private investors have taken any available opportunity that might otherwise have been enjoyed by the national investors.

The first elected government launched the privatisation programme in 1992 to improve efficiency of public resource allocation, increase private investment, and refocus government resources on the most critical areas of development. The Privatisation Act 2050 (1994) led to the privatisation of 17 enterprises during the Eighth and Ninth Plan Period (1992-2002).

Thus far, privatisation has been extremely discouraging. Out of 17 enterprises privatised, four have already closed down, including Nepal Jute Development Corporation and Tobacco Development Corporation. Other privatised enterprises, such as the paper mill, textile and brick factories, are barely surviving. In the case of Bansbari Leather Shoe Factory, national pride has suffered due to the hopeless circumstances of this enterprise. Machines have reportedly been transferred to India under the pretext of transferring industry, and Indian employees have displaced Nepalese employees. Still, the government argues that employment has increased, which certainly incenses national sentiment.

Nepal Bank Limited (NBL), the oldest bank in the country, which was privatised in 1997, is also in a critical situation. According to its staff, the performance of NBL before privatisation was sound despite cut-throat competition. The bank used to earn a good profit from its transactions and covered 30-35% of the total banking transactions in the country before privatisation, which has decreased to almost 23% at present. Corruption is said to have begun on a massive scale after privatisation, jeopardising the existence of the bank itself.[1] To the dismay of planners, there is not even one success story of a public enterprise improving after privatisation.

Although such basic services as water, sanitation, communication and health care have not yet been privatised, they are in the process. (Some other basic services, such as housing and transport, have never been under government control.) The participation of the private sector in telecommunications is limited to radio paging, FM Radio, print media, television and the Internet. Private sector operators have been issued licences to provide electricity and telephone services, and private TV transmission also began recently.

Privatisation of education: creation of two distinct classes

Before 1951, communities and individuals funded most schools. For the next 20 years, three types of schools existed: government-financed, government-aided and privately-financed. In 1971, the National Education System Plan was introduced and outlined clear-cut guidelines of financial support for education, to be shared between the government and the people. The government decided to pay teachers' wages while the schools' facilities were left to the communities to maintain. During the 1980s, the number of schools increased rapidly as did the amount of private expenditure in schools. This prompted the government to reduce the amount of support it provided to schools and increased the number of private education enterprises. Nepal now has more than 35,000 schools, 23% of which are privately owned.

1 K.C. Rajkumar. «Time to Rethink Privatisation», *The Rising Nepal*, 24 March 2000.

Since the 7th amendment of the Education Act in 2001, school education is no longer free. The previous democratic government had declared education free up to the secondary level, but decided to allow public schools to raise monthly fees from grade six onwards. The popular slogan of «Compulsory primary education» is far from being realised, and compulsory secondary education is an even more distant dream.

The Nepalese people were not given access to basic education until the mid 20th century. Even with massive investment in the education sector since 1951, the present literacy rate is only 53.7%,[2] far behind that of other developing countries in the region. Moreover, because of poverty, traditional beliefs and lack of awareness, many girls are excluded from education. In 1999, for every 100 boys enrolled in primary schools, only 78 girls were enrolled. In lower secondary and secondary levels, girl-boy enrolment ratios were 71% and 65%, respectively.[3]

Since the Nepal Communist Party (Maoist) launched the «people's war» more than six years ago, the poor quality of public education and profitability of private education have made schools a target of violence, including the abduction and murder of teachers, extortion, recruitment of students to join their militant force, or vandalism of school property. Several schools in remote villages have closed, and teachers have fled in fear of their lives. Rebels have so far killed nearly sixty teachers and physically abused hundred of others for failing to provide them with «donations» or for disobeying their orders.[4]

Undoubtedly, hundreds of thousands of children in private schools have gained a higher degree of education than they would have in government schools. However, the beneficiaries of privatised education have largely been the school owners, their relatives and a handful of children, mostly from better-off families. Privatisation in education has strengthened regional, social and economic inequality and exclusion by leaving out poor, marginalised and rural people who lack the income to send their children to private schools. As a result, private schools have not been established in the remote rural areas, where the people with the lowest literacy rates live.

Most urban residents, senior public servants, policy makers and senior politicians, all groups with a voice, no longer depend on public schools and do not consider them a priority. Mainstream development policies ignore villages because rural people have minimal political representation. This distinction in the quality of education has created two groups: those educated in private schools who have more opportunity for good jobs and those from the public schools who are considered less competent.

Although education receives the largest allocation of government expenditure,[5] resource utilisation is not efficient. The quality of public schools, the only ones available for poor people, is consistently low, and access for the poor is also constrained by several socio-economic factors. Dropout, repetition and failure rates are high in public schools. Less than 18% of primary school children complete primary grades on time, while secondary schools perform almost as badly. Low quality public education has also been linked to the increasing alienation between the local school system and the community, the high level of absenteeism and unprofessional conduct among school teachers, ineffective school monitoring, and a faulty student evaluation system. Approximately 60% of primary school teachers are still untrained.[6]

Health privatisation: benefiting the middle and upper income groups

The private sector is providing more health services, which has created more healthcare options. However, in a country where 90% of the population is still deprived of health care, the government has neglected this basic service. Like many other sectors, public health is in chaos. In several paying clinics, polyclinics and private hospitals medical services are provided at very high prices. Health benefits from the private sector's investments are largely limited to the middle and upper income groups residing in urban areas.

The rural poor, the majority of the population, have not benefited from privatised health services. If they have any access to health care at all, they get it only in government hospitals, where services are either free or provided at minimum cost. However, the quality of the public health institutions is largely sub-standard, due to the absence of health personnel and medical supplies. The hospitals and health centres in rural areas almost entirely lack doctors and nurses. The average ratio of doctors to people is four per 100,000.[7] The continuing violence has further disrupted whatever health services do exist in remote areas. Health workers have deserted most of the health centres. In the absence of adequate health services, more people are reported dying of treatable illnesses every day.

The second long term health plan (1997-2017) has been prepared in light of investment and priorities, morbidity rates and the proper utilisation of resources. Despite significant budget increases for health and education, the per capita expenditure in these sectors is lower than in most other developing countries. Almost 30% of the public expenditure in health is allocated to sectors other than primary health care. To improve these basic services, the government has to allocate resources to the primary health needs of the people and ensure that adequate services are provided to all people, rich and poor.

Conclusion

Because of a changed global economic environment and pressure from Bretton Woods Institutions (and obviously the WTO), Nepal has been compelled to embark upon the path of globalisation, liberalisation and privatisation. Since 1992, the role of the private sector in the national economy has increased. The government also promoted the development of the private sector and decided to privatise the SOEs in phases. Even after privatisation, the anticipated progress of the SOEs has not been achieved. Rather, unemployment has sharply increased, the investment of national capital has gone up, tax collection is minimal and the revenue generated from the privatised units is invariably spent without explanation.

Currently, privatisation of drinking water services is also under discussion. Privatisation would result in much higher monthly rates, which are now reasonable.

The politicisation and commercialisation of education, health, communication and other public sectors have prevented ordinary rural people from having access to basic services. Financial irregularities, institutionalised corruption and mismanagement plague the development projects and programmes implemented in the name of the poor. There are no regular and effective monitoring mechanisms to make these agencies accountable at any level.

If privatisation (excluding the basic services sectors–health, education, drinking water, etc.) is conducted successfully, some potential economic benefits are possible by increasing investment in both new and existing private enterprises and eliminating the drawbacks of public enterprises. Through the effective management of the production and distribution system, which must include poor, marginalised and vulnerable communities, privatisation could help foster further investment and increase employment, production, income, and government revenue, which would ultimately contribute to achieving the nation's most fundamental goal—poverty reduction. ■

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2 Central Bureau of Statistics, National Planning Commission. *Statistical Pocket Book*. 2002.

3 United Nations Country Team of Nepal. *Progress Report (2002), Millennium Development Goals*, United Nations House, 2002.

4 «Spotlight». *The National News Magazine*, 19 April 2002.

5 More than 40% of the education sector's budget goes to secondary and tertiary education.

6 National Planning Commission, HMG/N. «Concept Paper on PRSP/10th Plan», 2002, Singhadurbar, Kathmandu, Nepal.

7 United Nations Development Programme (UNDP). *Human Development Report 2002, Deepening Democracy in a Fragmented World*, 2002.