

## Corporate Taxation: An Agenda for Reform

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The main objectives of the fiscal policy are to generate revenue, to induce growth and to help achieve the distributive justice. These issues are more relevant in developing countries than in the developed ones. So the tax policy in developing countries should be so designed as to generate revenue as much as possible along with promoting growth and redressing the existing inequalities in income and wealth distribution. Direct taxes are more effective fiscal instruments for redressing inequalities in income and wealth distribution than for revenue generation and growth. But since the impact of the direct taxes on income distribution depends upon the magnitude of revenue that these taxes generate, these taxes are equally important for revenue generation also. But these taxes turn out to be so only when they are designed in line with the sound theoretical basis and as being practised elsewhere.

Looking from this angle, in the direct taxes, particularly the income tax structure of Nepal, one may find several shortcomings which can neither be justified theoretically nor it is as in practice elsewhere. The case in point is the income tax structure on company incomes.

Till FY 1985/86, the incomes of all sorts of companies and corporations used to be taxed at progressive rate structure. In fact, rate structure for company incomes was more progressive than the rate structure under personal income taxation. This was utterly ill-conceived tax system. However, in FY 1986/87 such an unusual practice was discontinued and they started being taxed at the flat rate of 40 percent but it was made applicable only to the public companies and corporations which are enlisted in Security Exchange Centre.<sup>1</sup> But still, the private companies and corporations which are not enlisted in the Security Exchange Centre continued to be taxed at progressive rate structure. The changes made in FY 1986/87 also made the dividends of the companies and corporations enlisted in the Security Exchange Centre which are supposed to pay corporate tax at 40 percent, liable to pay income tax which was hitherto tax free.<sup>2</sup> These are the changes in the right direction and can be theoretically also well justified. From this, one can say that the corporate tax system worth the name was introduced for the first time in Nepal in FY 1986/87.

So far so good. But the changes made in FY 1986/87 which introduced the real corporate tax system, have ignored the issue of encouraging people's participation in savings and investments altogether. It is on two counts. First, the incomes of the public companies and corporations through which the people's participation in savings and investments is

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said to be encouraged, are taxed twice, firstly, corporate tax on corporate income and secondly, income tax on dividend incomes, while the incomes of the private companies or the companies which are not enlisted in the security exchange centre and which have no role in augmenting people's participation are taxed only once.

Second, the public companies and corporations which are liable to pay corporate tax are also, in practice, in loss on account of their paying tax at flat rate while private companies which are not subject to corporate tax are in gain on account of their paying tax at progressive rates. It is because that tax liability calculated at flat rate works out higher than the tax liability calculated at progressive rates on the same amount of net income up to certain level.

The following example obviates this fact:

Net Income	Tax liability at progressive rate <sup>3</sup>	Tax liability at Flat Rate of 40%
	5,000 X 10% = 500	
	5,000 X 15% = 750	
	10,000 X 20% = 2,000	
	15,000 X 25% = 3,750	
	15,000 X 30% = 4,500	
	30,000 X 40% = 12,000	
	20,000 X 50% = 10,000	
Rs. 100,000	Rs. 33,500	Rs. 40,000

Above example clearly shows that the public companies and corporations which are made subject to pay corporate tax are supposed to pay Rs. 6,500 more in tax than the companies which are outside the corporate tax net. In addition to it, the shareholders of the corporate tax paying companies are also supposed to pay income tax on dividends after the distribution of the after tax profit of Rs. 60,000 as dividends at progressive rates as mentioned above while the non-corporate tax paying companies will pocket after tax profit of Rs. 66,500 as their disposable income and no other tax is to be paid on it.

So, it is amply clear that the public companies and corporations which are subject to corporate tax are being principally said having given favour for encouraging people's participation, but in practice they are in loss in terms of tax.

The fact that the public companies which are set-up by mobilising resources from a large number of the people by way of selling shares are to be encouraged by the government not only for growth but also for the distribution of the fruits of that growth, is well accepted and has been in practice elsewhere. Besides growth and distribution public companies have other important merits also compared with the private companies. For example, the transaction and accounts of the public companies are clearly maintained, balance sheets and profits and loss accounts ought to be prepared every year as per the relevant law. And they are to be regularly audited by the certified auditors. The board of directors which includes

the representatives of the shareholders should endorse these documents and the whole transaction of the company every year. So there exists almost no chance on the part of the company management to suppress and conceal the actual income of such companies. So, there hardly exists any chance for the company managements to avoid and evade neither corporate tax nor the income tax on dividends. So the corporate tax paying public companies and corporations are considered as the most useful and honest tax payers.

But the case of private companies is entirely different from this. Private companies are also known as the closely held companies. These companies are not set up from the people's money but are set up from the money of the group of like-minded people. So, such companies have nothing to do with the capital market. There is neither the board of directors to run the company nor the shareholders to control the functionings of the company. It does not benefit the relatively large number of people of limited means. And they are neither supposed to prepare the balance sheet and profits and loss accounts regularly nor these documents are to be audited and endorsed by any authority. So there exists ample scope in the private companies to suppress and conceal real income with a view to avoid and evade tax. It is on these grounds that the private companies elsewhere are made liable not only to the corporate tax of flat rate but the rate also is higher than for the public companies.<sup>4</sup>

But it is not understandable here in Nepal why the private companies are being taxed at progressive rates which is not justified both theoretically and practically. Whatever may be the reasons, the public companies which are most useful and important for us in the present stages of development are being treated unfavourably in terms of incentives. Better late than never. This is, therefore, high time for the government to rectify this mistake and come forward to make private companies also liable to corporate tax of flat rate. In that case, the income tax structure of Nepal will not only be in line with the theory and practice but will also serve the purpose of both growth and equity. And it will also generate more revenue than presently because the tax structure of flat rates provides more revenue than the tax structure of progressive rates as has been shown above.

#### FOOTNOTES

1. Budget Speech 1986/87, Ministry of Finance, HMG/Nepal.
2. Budget Speech 1986/87, *op. cit.*
3. Calculated on the basis of the rate structure effective till FY 1987/88.
4. Income Tax Act, 1961, Ministry of Finance, Government of India.

# The "Population Explosion" and Demographic Change in Nepal

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Nepal has adopted an official population related programme in 1965, when the Late King Mahendra stated, "In order to bring equilibrium between population growth and economic output of the country, my government has adopted a policy of family planning." And Third Plan (1965-1970) called for the creation of a family planning programme within the Ministry of Health. This was an acknowledgement of population growth as a problem in Nepal for the first time.

Indeed, Nepal is at the highest point at 2.66 percent in its population growth rate in 1981. The fundamental reason for this rapid increase in Nepalese population is the same factor that has accounted for the rapid increase in the world's population viz, decline in the death rate. As early as 1960s the death rate showed a distinct downward trend and continued to fall further to its present lowest figure of 14 per thousand.

Considering that the population of Nepal has now reached 16.62 million, and the annual surplus of births over deaths stands .347 million per year, there is no doubt that the 'population explosion' continues. The social problems caused by it, such as, migration (Hill-Terai and Rural-Urban) and the lag in literacy programme have become more acute. It is therefore, necessary to slowdown the population growth rapidly, in order to reduce the grave consequences of 'population explosion.'

## CAUSES AND COURSE OF POPULATION GROWTH

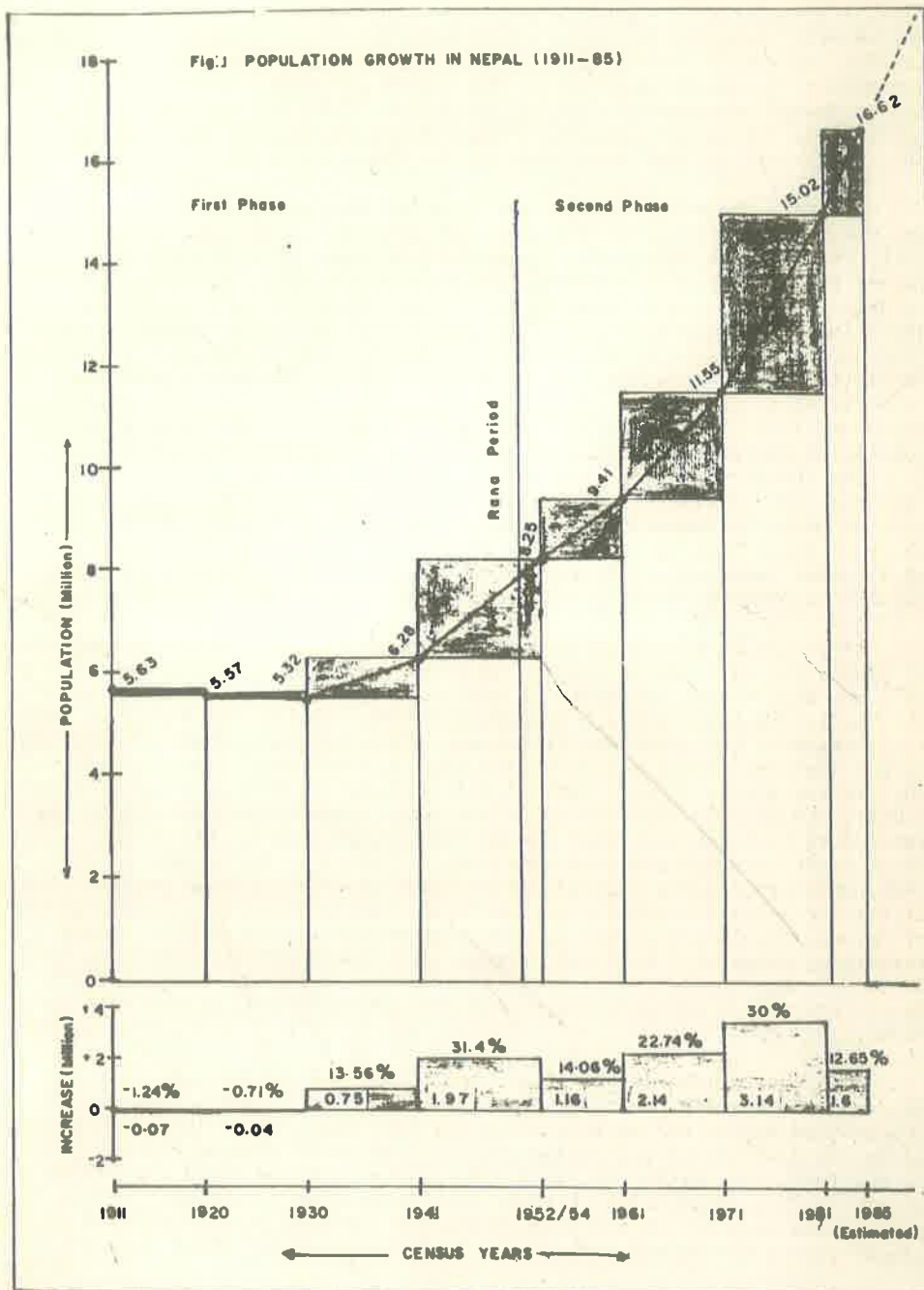
Since the first census (1911) the population of Nepal has risen from 5.64 million to 15.02 in 1981 and 16.62 in 1985. Nepal is, therefore, heavily populated in terms of cultivated land, 556 persons per sq. km., although crude density is only 112 persons per sq. km. in 1985. Nepal's relative population increase until 1961 is remarkably low for a developing country and the absolute increase from 1911 to 1930 is even negative. Until 1961, Nepal had a small size of population in terms of available land resources. This proves that population problem in Nepal is two decades old phenomenon.

Population development of Nepal since 1911 can be split into two phases. The first phase falls under Rana Regime. The Fig. No. 1 shows a declining course in the first two censuses, thereafter rising trends, indicating an altogether small size population increase in this phase. As demographic transition theory suggests, the high level of birth rate and death rate is decisive for this. But in our case, the values of

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both of these demographic indicators are not available in first phase, because four censuses (1911, 1920, 1930 and 1941) conducted during Rana Regime were 'head counts' only. Although figures of both of these demographic indicators are not available for the first phase of population development in Nepal, considering the health services facilities, educational status and general economic condition of the country during Rana period, one can easily guess very high values of both of these demographic indicators in line with those of the third world.

However, the other reasons for negative population increase during the first two censuses and insignificant population increase until 1941, as available information suggests that about 200,000 Nepalese joined the British-Indian Army in the first world war, influenza epidemics of 1918 which demanded many lives, Nepalese were beaten to death in the custody by Tibet, 8591 people were killed by earthquake of 1934, and recruitment of about 160,000 Nepalese in the second world war in British-Indian Army and it is reported that 24,000 Gurkha soldiers were killed in the second world war. Above all, during the two census period 1911-1920 and 1920-1930, they had the effect of bringing about a population decrease amounting to about 65 thousand and 41 thousand i.e. -1.24 percent in the first case and -0.71 percent in the second case (see Fig. 1). Similarly, during the periods 1911 to 1952/54 the population of Nepal increased by 2.62 million or by 46.53 percent in the first phase of population development in Nepal. An average annual growth rate of 41 years seems only 0.94 percent. These evidences again proves that population problem is two decades old phenomenon in Nepal.

After the Rana dictatorship was overthrown in 1951, the second phase of population development starts. A primary task of the government since 1951 has been to try to modernize the country, and it has been improving the "social network" through comprehensive measures in the fields of medicine, hygiene, nutrition and education. These were above all the setting up and improvement, of public health work such as the control of small-pox, better access to medicine and medical care in the major areas of the country and malaria eradication in the Terai region have reduced the death rate close to 62 percent over the period between 1954 to 1981 (Fig. 2), while birth rate has remained consistently high i.e. 50 in 1954 to 39 in 1981, which represents only 22 percent decline over the same period. The difference between fertility and mortality has produced an increasing rate of natural population growth. Again, improvements were made in female education, especially with the introduction of New Education Plan in 1971. These mutually complimentary measures resulted in distinctly regressive death rate, which proves decisive for the rising natural growth rate in Nepal.

Thus, during the second phase, the population growth came into its own and led to sudden increase in population (Fig. 1) which known as the "population explosion" on account of its very magnitude. This is expressed in the doubling of population from 8.25 to 16.62 million between 1952/54 and 1985, i.e. within 32 years. Nepal's relatively rapid population growth is thus identical to that of most developing countries. Still graver, however, is the absolute population increase of 8.37 million people during the second phase for a landlocked country where only 20.12

PHASES OF THE DEMOGRAPHIC TRANSITION

1st. Phase                      2nd Phase                      3rd Phase                      4th Phase

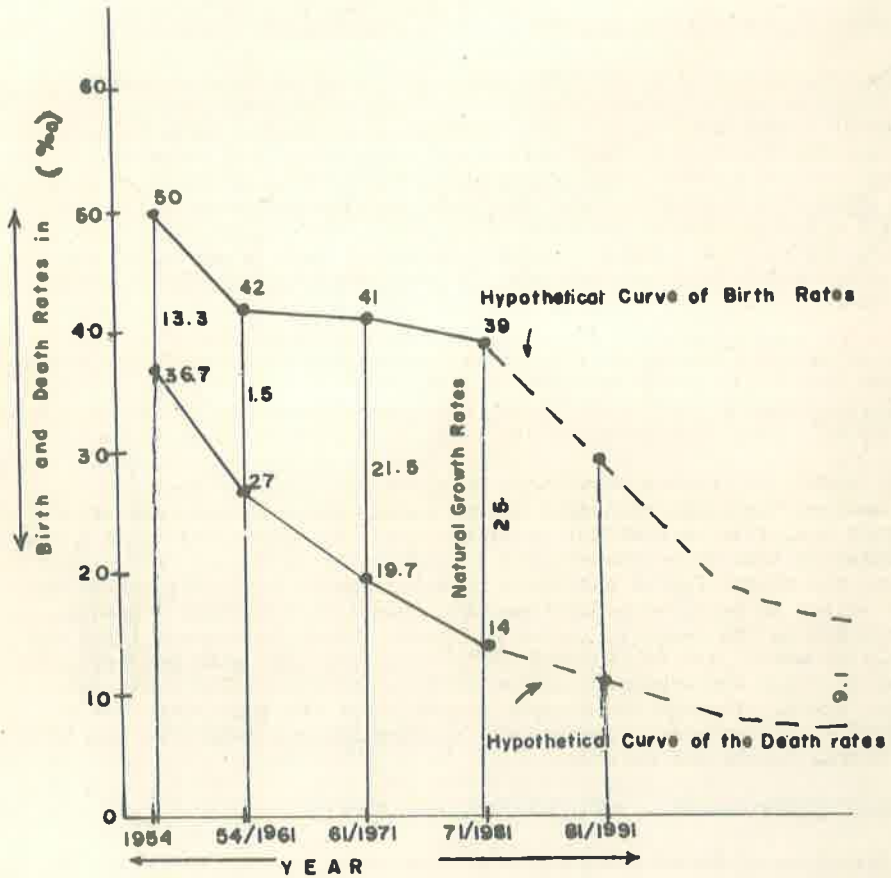


Fig:2 THE BIRTH, DEATH AND NATURAL GROWTH RATES IN NEPAL (1954-1981)



percent of land is cultivable. The resulting socio-economic consequences are that there has been more and more crowding on the arable land, much internal migration to newly available land in the Terai, intense competition for dwindling resources such as arable land and firewood, and more contact between previously isolated groups with resulting tensions. The government is facing pressures to fill many more roles than in the past.

In contrast to the birth and death rates, the balance of which produces the natural growth rate, in the case of Nepal, migration rate is without significance for the growth of population until now.

#### DEMOGRAPHIC TRANSFORMATION PROCESS

The development of birth rates and death rates in Nepal to date (Fig. 2) allows one to identify only two of the usual five phases of demographic transition. Until 1961 Nepal remained in the first phase, which was characterised by high values for natality and mortality; (although data of both of these demographic indicators are not available before 1954) this resulted in insignificant population growth until 1941 and small sized population increase until 1961. The second phase only set in during 1960s, it was characterised by a marked drop in mortality together with continuing high natality. Extending until now (1985), this phase manifested a rapid increase in population.

In 1990s the demographic transformation process would enter its third phase and this brings if optimistic assumptions are valid would be a noticeable decrease in the birth rate (i.e. from present level 39 to 29), accompanied by a further drop in mortality (i.e. from present level 14 to 11.7).

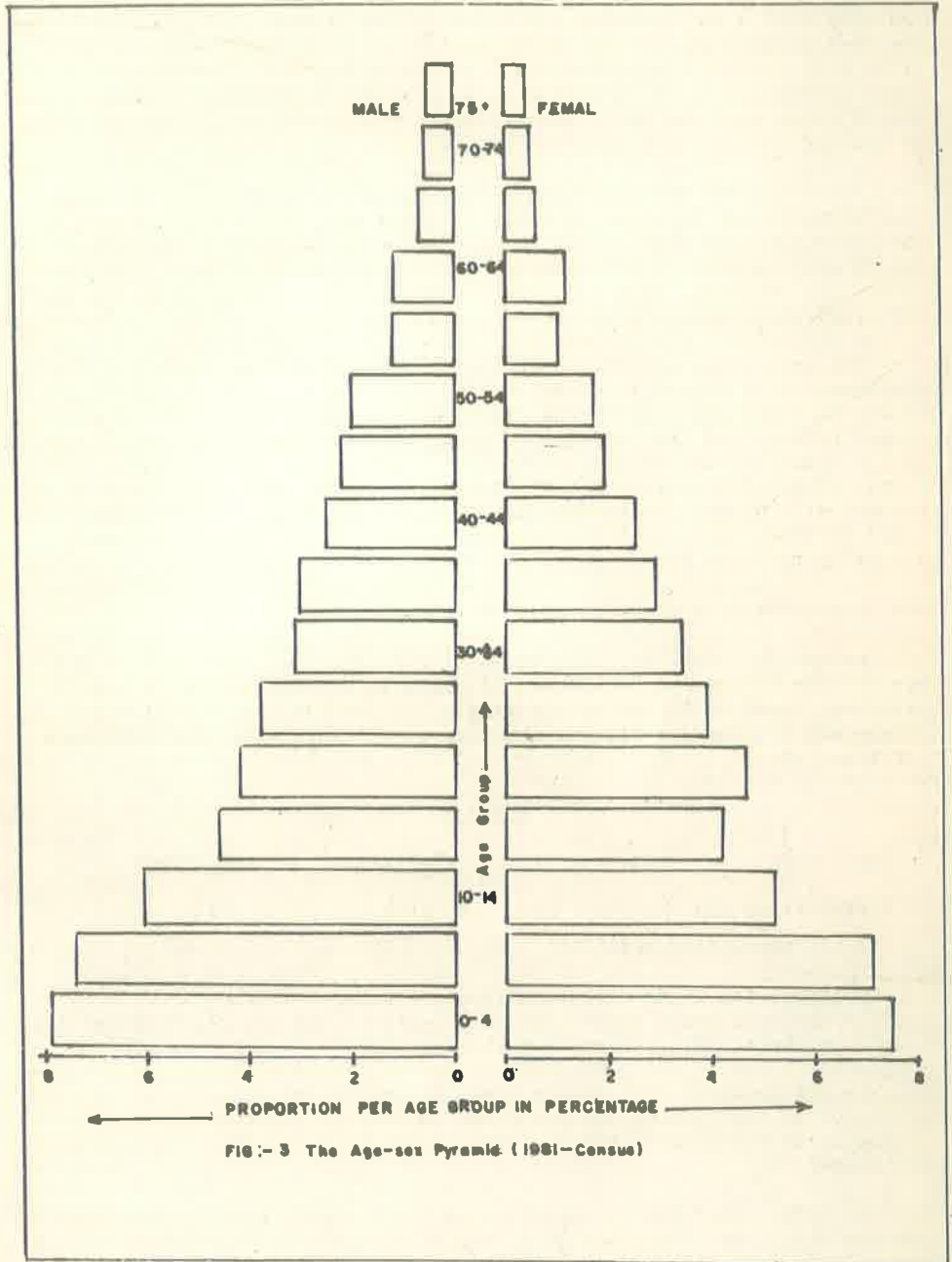
In respect of further population developments (Fig. 2) Nepal finds itself only at the fully effective second phase, in which the regressive death rate dominates in contrast to birth rate. Attaining the third phase of demographic transformation process is highly likely during 1990s. But attaining the phases fourth and fifth is at present a difficult matter to predict so far as Nepalese population development is concerned. Predictions concerning the temporal course of phases third, fourth and fifth are difficult to make. But it is hoped that Nepal - in line with the norm followed by other developing countries such as Sri Lanka, China and India, will pass quickly through the present second phase and enter what are in population - geographical, economic and socio-political terms the desirable phases third, fourth and fifth.

#### DEMOGRAPHIC CONSEQUENCES OF THE "POPULATION EXPLOSION"

##### An Age-structure of Excessively Youthful Character

In graphic representation (Fig. 3) the age-structure of the Nepalese population shows the form typical of developing countries - a pyramid,





indicative of a particularly great population dynamic. On the other hand, the flat pyramid proves the comparatively low life expectation at birth (1981 = 52 years). The broad base, on the other hand, demonstrates the large proportion of children and young adults (41.4% below 15 years), and the tapering apex the small proportion of old people (5.7% over 60 years of age and only 2% over 65 years of age).

How young the Nepalese population really is, is shown by the fact that every second Nepalese is under 20 years old. As a consequences of the large families the proportion of population capable of employment (15-59 yrs) is only 53 percent, and hence comparatively low. Thus the production potential dependent upon labour is more likely to be limited than the labour market is to be relieved.

The over-young age structure now poses insoluble problems for the government with regard to education and employment. The .347 million excess of birth per year of the 1980s implies the construction of additional schools and the training of additional teachers. For the education sector alone, in the absence of fertility reduction, the estimated additional costs of universal primary education in the year 2000 (1979/80 prices) will be Rs. 230 million according to World Bank Report 1982. Added to this, there will be the requirements of .29 million new work places in the year 2000.

#### The Persistently Large Literacy Deficit

According to the Nepalese definition of literacy (any persons who has had the ability to both read and write in any language with understanding), Nepal still has an alarmingly high proportion of illiterate people and a comparatively small number of literate ones (for 1985 data see Table 1).

Table 1

	<u>Literate</u>	<u>Illiterate</u>
Proportion (%)	28.9	71.1
Total population (million)	4.80	11.82

Although the 11.82 million illiterate persons include about 3.20 million children below school age (0-5 years of age group), subtracting them from the total (illiterate population) still leaves 8.62 million illiterate persons, i.e. about 52 percent of Nepalese population of school age are illiterate. This figure must, of course, be regarded as an average value of the country but one which in reality fluctuates considerably according to development region, zone, rural/urban as well as between men and women.

In 1981, there was an amplitude in the literacy rate by development regions which varied between 27.4 percent (in western development region) and a depressing 16.4 percent (in mid-western development). Similarly we find the Mechi zone has had the highest illiteracy rate (33 percent) and

Karnali the lowest 12.3 percent. The grounds for these are to be found in the regionally varying supply and upkeep of educational institute, as well as their provision with a technical infrastructure, which exerts a telling influence upon the accessibility of the schools.

A striking gradient also exist between urban and rural sectors, with the bigger and better supply of school in towns, greater awareness on the part of the urban community of the needs of education in the present day world for employment and other socio-economic advancement, exodus of the educated people from rural to urban areas and greater opportunities of education in towns. The literacy rate is higher (39%) in urban than in the rural areas (18.17%). Both urban and rural sectors have a distinctly higher literacy among men than women, i.e. urban male literacy rate is 56.83 percent as against urban female literacy rate of 21.28 percent and literacy rate of rural male is 27.91 percent and rural female literacy rate is 8.43 percent excluding the children below school age from the total population, in accordance with the superior role of men in Nepalese society.

Thus a comparison of two sexes reveals a particularly low literacy rate among women, amounting to no more than .84 million inhabitants or 11.5 percent in 1981 but 34.9 percent or 2.68 million inhabitants among the men. Although the overall level of education is low and unequal between sexes in Nepal, there seems to be an improvement in the level of literacy for both males and females, especially so since the introduction of New Education Plan in 1971. Free primary education, free distribution of textbook (upto class three) and awareness of the needs of education even among the general masses are three positive aspects of the plan. Thus not only percentage but also absolute values show an enormous increase in literacy, including greater literacy among girls. For example the total literacy rate in 1971 was 14.5 percent, and female literacy rate was only 3.7 percent. Thus before the introduction of New Education Plan school education had been available only for the children of well to do Nepalese, whilst remaining practically were out of opportunities of education.

In spite of the enormous successes in education, it cannot be denied that the number of illiterate, too, has continued to increase even if to a lesser extent. This is explained by the fact that the education short-fall in Nepal, at the time of Rana rule, was simply too large to be corrected in a period of 30 years. Added to this is the 'population explosion' in Nepal, which has wiped out the successes of literacy campaigns and caused a further increase in illiteracy. The persistently large deficit in literacy in Nepal is indicated by the comparison of the following figures in Table 2:

In order to achieve a noticeable reduction in the literacy deficit two complexes of factors will have to take effect:

1. Increased educational measures, with greater involvements of girls, together with greater incorporation of adult education programmes.

Table 2

	<u>Population (million)</u>	<u>Literacy rate (%)</u>	<u>Literates (million)</u>	<u>Illiterates (million)</u>
1952/54	8.25	5.3	.44	7.82
1961	9.41	8.9	.83	8.57
1971	11.55	14.3	1.65	9.90
1981	15.02	23.5	3.53	11.49
1985	16.62	28.8	4.80	11.82

Sources: CBS: Inter censal changes of some key census variables Nepal 1952/54 - 1981, pp. 13-55 and NPC Seventh Plan Draft 1985, pp. 697-99.

2. A more moderate population growth, i.e. an effective implementation of 'The National Population Strategy and Programme 1983.' In other words, an effectively practised policy of population planning.

#### Regional Population Distribution and Population Density

The 'population explosion' in Nepal led as well as to a rapid increase in average density of population (1952/54 = 56 persons/km<sup>2</sup> and 1981 = 102 persons/km<sup>2</sup>). At the same time, however, there was an intensification of the serious regional differences in population density. With 43.6 percent of the country's population and 23.11 percent of land area, Terai region had the highest population density - 193 persons/km<sup>2</sup>, the Mountain region with 8.7 percent of population and 35.2 percent of land area, had the lowest density - 25 persons/km<sup>2</sup>, owing to its rugged topography and the density of Hill region is about 117 persons/km due to uneven distribution of the population and resources among geographical regions of Nepal.

Again, it would be more appropriate to measure density in terms of cultivable land to appreciate truly the burden of 'population explosion' on limited land. While the density is measured in terms of population per/km<sup>2</sup> of cultivable land, the picture looks gloomy and the situation is reversed from what it was observed when the density was measured in terms of population per/km<sup>2</sup> of land. The density per unit of cultivated land area in 1981 was five times the density per unit of total land area, which is 499 persons/km<sup>2</sup>. The ratio of population to cultivated land in hills is highest (560 persons/km<sup>2</sup>) and in Terai region it is lowest (464 persons/km<sup>2</sup>). In mountains it is 494 persons/km<sup>2</sup>.

The more clear picture of the regional differences of population density is indicated by the comparison of following figures (Table 3):

It is observed from the figures presented in Table 3 that Middle Mountain has the highest population density (558 persons/km<sup>2</sup>), while High Himal has lowest (371 persons/km<sup>2</sup>) density.



**Table 3**  
Population Density per/km<sup>2</sup> of cultivated land by Development Region and  
 by Physiographic Division 1981

Physiographic Division	Nepal (Total)	Development Region				
		FWDR	MWDR	WDR	CDR	EDR
High Himal	371	515	364	357	548	434
High Mountain	501	471	446	556	560	543
Middle Mountain	558	509	491	642	710	402
Siwalik	461	433	371	509	498	542
Terai	449	363	359	357	546	451
Total	499	449	430	527	599	440

Source: HMG/Nepal and Govt. of Canada, Land Resource Mapping Project: Economic Report (Kathmandu, 1985), p. 24.

Among the development regions, the population density is highest in central development region (550 persons/km<sup>2</sup>), and the population density in the mid-western development region is found lowest (430 persons/km<sup>2</sup>).

The actual pressure of 'population explosion' on cultivated land in Nepal becomes even more clear if comparison is made between the density figures of two censuses. In 1952/54, there were only 3 persons per hectare of cultivated land and this has increased to 5 in 1981. It clearly shows that increasing number of population are being supported by the per hectare of land over the years. If 'population explosion' continues, land may no longer remain the viable support base for the people of Nepal.

The present growth rate of population in Mountain is estimated at 1.35 percent per annum, in the Hill areas at 1.66 percent, while for the Terai the estimated annual increase is about 4.20 percent, which shows an intensification of serious regional differences in rate of population growth, as shown in Table 4.

**Table 4**  
Regional Difference of Rate of Population Growth  
Annual Growth Rate (%)

Region	1952/54-1961	1961-1971	1971-1981
Mountain	-	-	1.35
Hill	-	-	1.66
Mountain and Hill	1.42	1.92	1.61
Terai	2.04	2.42	4.20
Nepal average	1.65	2.07	2.66

Source: CBS, Intercensal changes of some key census variables 1952/54 - 1981 (Kathmandu, 1985), p. 20.

The population growth rate of Terai is not only higher than that of Hill and Mountain but the growth rate of the former continued to increase while the growth rate of latter declined over the years, particularly during the period 1971-1981. The growth rate of the Hill and Mountain declined from 1.92 percent per annum during 1961-1971 to 1.61 during 1971-1981 while the growth rate of the Terai increased from 2.42 percent per annum during 1961-1971 to 4.20 during 1971-1981. This differences in growth rates are mainly due to:

1. The population pressure in Hill and Mountain, which has resulted in steady migration from the Hill and Mountain areas to the Terai, for example, during 1971-81, there was net transfer of 0.41 million people from the Mountain and Hill to the Terai. However, the rate of population migration has increased since mid sixties due to successful eradication of malaria in the Terai in general.
2. The fertility in the Terai is as high as in other regions of the country, while the mortality in Terai is lower compared to other regions of the country.
3. The net inflow of international migrants into Terai (i.e. .08 million during 1971-81).

These three factors has led to the unprecedented rate of population growth in Terai region particularly during intercensal period 1971-81.

#### Rural-Urban Population Shifts

Notwithstanding a long history of urban living Nepal is still one of the least urbanised nations in the world. The proof of this are:

1. The large number of people is living in rural areas (1981 = 14066.11 thousand), contrasting with very small number in urban areas (1981 = 956.72 thousand).
2. The large number of population (93%) derives their income from agriculture, contrasting with small number from 'non-agriculture sector.' Therefore 93 percent of the population of Nepal may be defined as rural.

There is a methodological problem in the study of rural-urban population in Nepal owing to paucity of data. There are so far only four scientific population censuses in the country. But data on urban population figures in these censuses are not comparable as different definitions of urban places have been adopted in the census report. The absolute number and annual growth rate of urban population shown in census report should be interpreted with caution, because they reflect not only natural increase, but also the effects of migration and reclassification of urban areas. The census does not provide information on migration to and from urban areas, nor do they provide the information on population added or lost owing to boundary changes. Nevertheless if increase in absolute numbers and the growth rates of urban population are any indication of rural ur-

ban population shifts, it appears that growth of urban components of the Nepalese population got its momentum since 1971, as shown in the Table 5.

**Table 5**  
Rural-urban components of Nepalese population (1952/54-81)

Census year	No. of urban places	Number (000')		Proportion (%)	
		Rural	Urban	Rural	Urban
1952/54	10	8020.73	235.89	97.1	2.9
1961	16	9076.77	336.22	96.4	3.6
1971	16	11093.39	461.93	96.0	4.0
1981	23	14066.11	956.72	93.7	6.3

Source: CBS, Intercensal changes of some key census variables Nepal 1952/54-81 (Kathmandu, 1985), pp. 22 and 66.

The growth of rural and urban components of the Nepalese population are both in accord as regards their continuous increase. Although in relation to the overall growth of the population, rural population always exceeds urban growth at a very high number, but the substantial percentage increase of the urban proportion of population is very striking. The evidence for this is found in the disproportionately very high urban growth rates - 75.5 percent (see Table 6) in contrast to 26.6 percent for the over all population during 1971-81. But urban population in Nepal is increasing without significant industrial development. High population growth rates and low income (especially in rural areas) are partly responsible for this. If the current rate of growth of urban population continues, the urban population of Nepal will be doubled in nine years.

The urban population growth in Nepal also indicated by the large increase in total number of urban areas from 10 in 1952/54 to 23 in 1981, receives emphatic documentation through the increase of urban population from 235.89 to 956.72 thousand (i.e. by 306 percent).

One of the principal cause of the growth of the urban population in the country is the rural to urban migration. The other important reason for the high population growth in the urban areas are the extension of the boundaries of the town panchayats to cover more of the surrounding areas, and incorporation of various settlements in new town panchayats. The development of transport, trade, and industry as well as the execution of various development works have promoted the growth of urban centres. The following measures of government have influenced the pattern and trend of urban development in the country:

1. The implementation of Rapti Valley Project in Chitwan valley in 1956, has opened up new settlements in the central Inner Terai.
2. The adoption of the policy of balanced regional development, according to which the country has been divided into five

development regions cutting across Mountain, Hill and Terai regions on a north south axis. Five growth poles in the Hills have been designated as centres of the development regions. Accordingly, the government has devoted considerably public investment on the provision of infrastructures, and social service in the five towns identified as regional development centers namely Dhankuta, Kathmandu, Pokhara, Birendra Nagar and Dipayal.

3. Resettlement schemes have encouraged large number of Hill people to migrate to the Terai areas and thus assisted in the development of large concentrations of population in several places.

Thus, during the decade 1971-1981 the great urban population growth was recorded, i.e. urban population has increased by 107 percent during the decade.

Table 6 shows the distribution and growth of urban population during 1971-81 (see Fig. 4 also). In order to show the growth of each area, we present data only for localities that were classified as urban in both 1971 and 1981 censuses. The data indicates eleven out of sixteen urban areas had population over 30,000 as of 1981, and only Kathmandu had a population over 235,000. Most of the urban localities in Nepal are clustered in the eastern, central and western development regions of the country. This pattern of urban centers may be directly related to better transportation facilities in those regions.

The three 'classical' cities in Kathmandu valley - Kathmandu, Lalitpur and Bhaktapur - represented 54 percent of the total urban population of Nepal in 1971 and 38 percent in 1981. Although significant role in the rapid urban population in Nepal has been played by these cities, the data suggests that the primacy of these cities has been declining over the years. The largest city outside Kathmandu valley is Biratnagar, with a population over 93,000 in 1981. Similarly the largest Hill city outside Kathmandu valley is Pokhara with about 47,000 population in 1981.

The annual growth rate shown in Table 6 shows that in general, growth rate is high in Terai towns (i.e. 6.18 percent average of all Terai urban areas) and low in the towns of Kathmandu valley and other Hill cities (i.e. 4.79 percent average of all Hill urban areas). Thus it appears that the Terai urban centers experienced higher growth rate during the decade than the Hill cities. The growth of population in Terai based towns is due to both rural to urban migration and migration from the neighbouring Hill districts or Hill Terai migration. Among the Terai town, Bhadrapur showed phenomenal growth from just over 7,000 inhabitants in 1971 to almost 28,000 in 1981, implying an annual growth rate of 13.92 percent. A large share of this increase can probably be the direct effect of the larger number of migrants in Jhapa district, because Jhapa district in the eastern Terai have the largest number of migrants and their distribution in urban area was high. Nepalgunj shows the lowest growth rate among the Terai urban areas (i.e. 3.75 percent).



**Table 6**  
Distribution and growth of urban population: Nepal, 1971-81

Urban areas	Census population		% distribution of total urban pop <sup>n</sup>		Annual growth rate (%)
	1971	1981	1971	1981	1971-81
1. Kathmandu	150,402	235,160	32.56	24.58	4.57
2. Biratnagar	45,100	93,544	9.76	9.77	7.57
3. Lalitpur	59,049	79,875	12.78	8.35	3.06
4. Bhaktapur	40,112	48,472	8.68	5.06	1.91
5. Pokhara	20,611	46,642	4.46	4.87	8.50
6. Janakpur	14,294	34,840	3.09	3.64	9.31
7. Nepalgunj	23,523	34,015	5.09	3.55	3.75
8. Butwal	12,815	22,583	2.77	2.36	5.82
9. Birgunj	12,999	43,642	2.81	4.56	12.87
10. Siddhardthanagar	17,272	31,119	3.74	3.25	6.06
11. Dharan	20,503	42,146	4.44	4.40	7.47
12. Hetauda	16,194	34,792	3.50	3.63	7.94
13. Bhadrapur	7,499	27,602	1.63	2.88	13.92
14. Rajbiraj	7,832	16,444	1.69	1.72	7.70
15. Ilam	7,299	9,773	1.58	1.02	2.96
16. Tansen	6,434	13,125	1.39	1.37	7.73
Total	461,938	813,774	100	85.05	5.82
All urban area	461,938	956,721	100	100	7.55

Source: The census population counts are from  
 CBS, Population Census 1971, Vol. V.  
 CBS, Population Census 1981, Vol. IX.

Note:

The table represents 85.05 percent of all population defined as urban in the 1981 census.

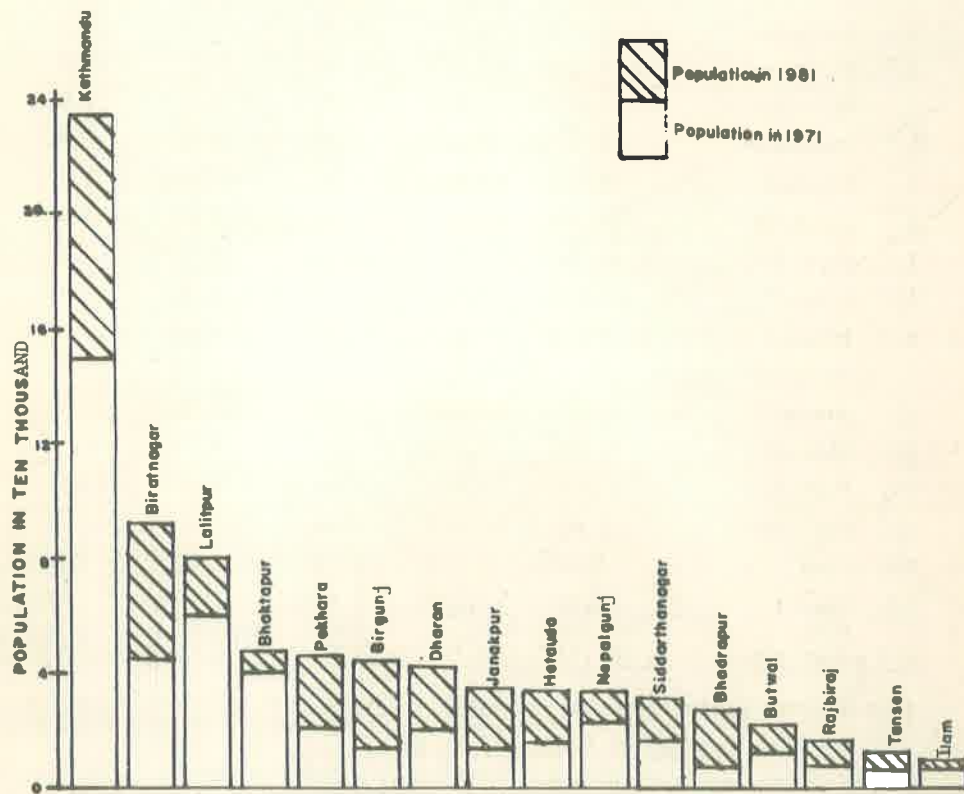


Fig. 4 URBAN POPULATION GROWTH OF NEPAL

In the Hills, Pokhara has the highest growth rate (8.5 percent), while Bhaktapur shows lowest one (1.91 percent). The three 'classical' cities in Kathmandu valley experience an average annual growth rate of 3.18 percent, which is significantly lower than the national average of 7.55 percent per annum during the decade 1971-81. While seven Terai urban areas - Bhadrapur, Birgunj, Jarakpur, Hetauda, Rajbiraj, Biratnagar and Dharan recorded an average 9.5 percent annual growth during 1971-81.

Again, in the period 1971-81, six urban areas in Hills showed a population growth from 283,907 to 433,047 inhabitants, that is a rise of 149,140 or of 54 percent, while 10 urban areas in Terai showed a population rise of 178,031 to 380,727 inhabitants, that is a rise of 114 percent, as against the national average of 107 percent during the decade 1971-81. The higher growth rates in Terai urban areas as compared to Hills have direct relationship with the larger number of Hill-Terai migration and immigration into Terai. A recent study on migration indicates 28.5 percent of the Terai population consist of internal migrants, and internal migrants accounted for 21.3 percent of the total population in urban areas and only 7.2 percent in rural areas. Similarly 6.9 percent of the total population of Terai are immigrants and their distribution is 48 percent in urban areas. Thus Hill to Terai migration has been playing significant role in the growth of urban population in Nepal's Terai. The wide regional disparity between Hill and Terai in resource and development is the principal cause of migration to Terai cities. While looking at the regional differences in the growth of urban population, it appears that 'population explosion' in Terai cities is greatly due to the agricultural potential, the building of transport network and initiation of several development activities. But growth of population in Hill towns is mainly due to the construction of new roads linking various parts of Terai to Hill towns.

The considerable migration from rural areas and the disproportionately large increase in the urban population of Terai can be explained by push pull factors. The rural areas continue to be characterised by increasing population pressure, lack of alternative economic opportunities, poor educational and health facilities, insufficient and negligible land and lack of employment facilities. These push factors have forced large number of Hill people to migrate elsewhere. The attraction of the urban areas is concentrated in hope for a job in non-agricultural sector, and linked with it the upward social mobility and such as other attractions of the cities are rapid growth of economic activities and urban facilities - education, health transport and marketing facilities. These pull factors are attracting increasing number of rural people into urban areas.

Thus although level of urbanization is low in Nepal, urban population is increasing over the years and further population development in Nepal are likely to follow a rural urban population shift typical of developing countries because more localities have been designated as urban since the 1981 census, i.e. there are now 33 urban localities (Nagar Panchayats). But most of the newly constituted town panchayats retain the characteristics of rural areas, and the urban facilities and services are lacking in these towns. We expect that a larger proportion of Nepal's population lives in urban area now than the 1981 census had recorded. Again its potential growth is very high due to:



1. Until early 1980s, virgin land in Terai have provided an outlet for the excess population in the Hill and Mountains, and rural to urban migration has been sustained by the availability of arable land in Terai. Now as the acquisition of land in Terai becoming more difficult, rural to urban migration can probably get its momentum even if employment prospects in urban areas are not bright.
2. In the process of urbanization in Nepal, especially in Terai region, uncontrolled immigration into the Kingdom has been contributing a lot. For example, the proportion of immigrants in urban areas of Kathmandu valley in relation to the total population of 1981 census was 2.7 percent. A survey report on migration shows that 6.9 percent of the total population of Terai to be immigrants. And the survey indicates increase of immigrants in the urban areas of Nepal's Terai. Of the total immigrants in Terai, their distribution is 48 percent in urban areas. If the present trend of unrestricted immigration continues, in the years to come, flow of Indian immigrants will be even greater in Nepal's urban areas.

But considering the present state of employment opportunities in urban areas, for most migrants the reality of Nepalese urban areas turns out to be the very opposite to their expectation with urban life: disappointment, unemployment, downward social mobility and destitution.

It is therefore necessary to improve the economic and social life of rural people, especially Hills people, by means of various rural development programmes - Integrated Rural Development Programme, Cooperative Programmes and Small Farmers Development Programme, which could help to increase in per capita living standards in rural areas, thereby Hill people would not be compelled to migrate elsewhere. Meanwhile, in order to reduce the grave consequences of 'urban population explosion', now taking place in Nepal, urban industrialization appropriate to Nepal's needs, based on labour intensive technique, must accelerate to provide jobs for expanding labour force in urban areas, that will come both from urban natural increase and from rural to urban migration.

If 'population explosion' continues, neither the neighbouring countries, nor Nepal's Terai can be expected to take increasing number of migrants from Hills and Mountains in the near future with already Terai areas filling up with new settlers both from Nepal's Hills and Mountains and from the densely populated Indian provinces lying immediately south to the Terai. The socio-economic problems caused by this are becoming more acute.

The final solution of the problem is to slow down population growth taking place in Nepal: by controlling the Indian immigrants into Kathmandu valley and in the Terai region, and by lowering the birth rate which is striking high at present (39 per thousand).



### Family Planning Versus Population Explosion

Some progress has occurred in recent years in the area of family planning in Nepal. The preliminary counts of 1983/84 sterilization programme shows a 50 percent increase over 1982/83 from 45,000 to 67,700. The recent successes in lowering the growth rate of population from 2.66 percent during 1971-81 to 2.57 percent during 1981-85 must be acknowledged. Nevertheless, continuing and increased measures are needed for reducing the surplus of births in order to avert the population explosion not only on demographic but also on various grounds. To put it in another way, more intensive and concentrated action is required to control population growth in Nepal.

Family planning versus 'population explosion' has been the motto of the national population policy in Nepal, since the introduction of Fifth Five Year Plan (1975-80). But the first practical birth control measures had already been introduced during the Third Five Year Plan (1965-70) and had met little success. Thus with the introduction of Fifth Five Year Plan family planning was stepped up, the sole aim was the lowering the birth rate, but there was no significant economic and social measures to accompany it.

During the Sixth Five Year Plan (1980-85) period, there was a great realization of the magnitude of the population problem and 'National Commission on Population' was reorganised as a separate institutional set up and was given all the responsibility for the formulation and coordination of population programmes and activities. In 1983, "National Population Strategy and Programme" was prepared with the ambitious targets of:

1. reduction of TFR to 2.5 by 2000 A.D.
2. to achieve 1.2 percent annual growth rate of population by 2000 A.D.
3. to achieve zero growth rate by 2030 A.D.

Financial compensation for sterilization and incentive programmes for families who limit their offspring are being started. Family planning programme in Nepal is being run in two ways:

1. Massive and sometimes blatant and incomprehensible publicity (watch words: "Two children are blessings of God" "just two are enough -----") made propaganda over the personal and societal advantages of a smaller number of children and led to the good sense of people to have smaller families.
2. Preventive measures and medical operative treatment (including the male/female sterilization) are offered by the government and non-government organization of family planning as family planning methods of their own choice. This offer are progressively extended throughout the country as a means of lowering birth rate. Recognizing the role of later marriages in reducing fertility, the minimum age of marriage was also suggested to fix legally at 20 years for women.

Although Nepal shows signs of a renewed political commitment to curb population growth through family planning and integration of population with development programmes, the intended targets remained unfulfilled both in Fifth Five Year and Sixth Five Year Plans, causing a great deal of frustration towards economic growth. The reasons for this were only 7 percent of couples practice contraception, access was most restricted and there was unmet need for contraception about 22 to 27 percent of eligible women. About half of the currently married women were unaware of modern contraceptive methods and an additional 15 percent who was aware do not know where a method can be obtained according to World Bank Report 1984. Besides, both social and economic indicators of fertility reduction are least developed in Nepal; for example only 12 percent of the female population are literate and only 3.27 percent are engaged in non-agricultural jobs. The social indicator that correlates most closely with declining birth rate is the education of women because the attainment of literacy itself brings an initial abrupt reduction on fertility. It declines further as women's average education level is progressively raised to primary school, secondary school and then college. Paralleling this, the economic indicator has important effect to reduce birth rate, i.e. women's participation in the paid workforce outside home.

Thus under the prevailing age structure and socio-economic indicators of the country, both the fertility reduction and thereby population growth rate reduction targets proposed by National Commission on Population, no doubt, seems much more ambitious. In spite of the gradual abolition of traditional behavioural norms by both the young married partners of urban as well as rural areas, this is to be attributed above all to the large and rapidly rising number of Nepalese of reproductive age - themselves a product of the 'population explosion' which required particularly comprehensive efforts by government and non-government organisation for successful nationwide realization of family planning.

In the near future thorough going successes are hardly to be expected either as the now predominantly young, if not comparatively speaking 'over young', Nepalese population will necessarily lead to an increase in groups of reproductive age which will result in a high overall growth of population in Nepal even if individual couples restrict themselves to a small number of children.

Thus the clearly visible failures of family planning programme in Nepal is signalled by relatively high birth rates, 39 per thousand at present. And Nepal reckons to have a birth rate of 23 per thousand by the year 2000 (average of pessimistic and optimistic projections) but in spite of then low natural rate of growth of only 1.2 percent the total population will reach to almost 24 million inhabitants. The 'population explosion' in Nepal will therefore only have been overcome as from phase fourth of the demographic transformation process. At present, Nepal finds itself only at the fully effective second phase in which the regressive death rate (14 per thousand) dominates in contrast to birth rate.

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