Poverty, Growth and Economic Inclusion in Nepal

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Nepal: in Brief

- Country area: 147,181 sq km (one quarter the size of France, Kenya or Texas in USA) Water accounts for 21%

- Agro-Ecological Zones: Mountains 22.7%; Hills 50%; Tarai 27%

- Population: 23.2 million (2001), est. 29.5 million in 2008

- Households (hh): Estimated as 6.02 million hh in 2008; 76.6% = male headed
- Population density: est. 200 per sq km in 2008

- Social identity: 103 social groups: *Caste Groups* = 58.77% (53 hierarchical Hindu caste groups *Ethnic Groups* (Janajatis) = 36.38%

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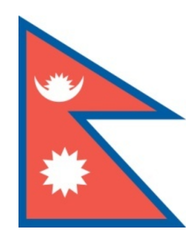
Nepal Economy in brief

- GDP: Per capita ranks 156 among 177 poorest nations.
- Rural/urban population: Urban = 14%, tripled since 1971 (4%).
- Conflict & displacement: 1996-2006: 12,407 conflict-related deaths including 2,000 non-combatants. Up to 200,000 people displaced **By mid-2008, 35,000 displaced registered**



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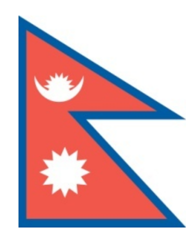
Agriculture dependency

- Pop dependent agriculture: 76% households; economically active population engaged in agriculture = 66% in 2001 down from 91% in 1981
- Agricultural employment: 81% of rural population with 63% self-employed in agriculture (2+ million mainly males work abroad)
- Agricultural contribution: Growth in sector: 1997-2002: 3.3% 2002-2007 2.67%. Contribution to GDP is 33% down from 40.5% in 1996



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Poverty and Inequality

- Poverty incidence: Nepal ranks 138 among 177 nations in HDI.
- Households below poverty line fell from 42% to 31% (1995-2004)
- Poverty distribution:
- B*y urban/rural*: most wealth in urban areas: 71.5% urban hh in highest quintile cf. 10.8% rural hh; 35% rural hh cf 10% urban hh in lowest quintile.
- By *region:* most wealth in Central Region, least in Mid-Western and Far-Western; highest incidents poverty, infant mortality, infrastructure, education and other indicators.
- By *class & caste*: agric wage labourers the poorest (55%) but self-employed farmers became less poor since 1995 (mainly from out-migration & remittances). Poverty highest among Dalits (46%) and ethnic groups (Janajatis) living in the Hills (44%) and Muslim minority in the Tarai (41%) cf. upper castes and Newars 28%.
- Inequality is rising by urban/rural, by region, and by caste. Decline in income distribution from 0.24 in 1984/85 to 0.41 in 2003/04. By family: the larger the family the poorer. By landholding: the smaller the plot or landless, the greater the poverty, 40% of those with no land or land under 1 ha are below poverty line, a more distinctive correlate that literacy or caste (except for Dalits)

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Asset inequity

- Equity:Land inequality Gini Coefficient based on 2001 Census Data:
  All Nepal = 0.544; By Urban = 0.642; Rural = 0.536.

- 75% holders operate < 40% land; 25% operate >60% land; 1% operate 7.3% of land (large holders), or 5% hold 35% of the land while 47% hold 15% land.

- Viable farm size: Minimum for subsistence = 0.5 ha . Holdings <0.5 ha:47.7% agricultural holdings = ‘marginal’ or functionally landless
- Increase holdings <0.5 ha from 40.1% (1996) to 44.8% (2004)

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- Rural landless: Absolute landless = no land at all or house/homestead of own = est. 10% hh (min. 481,938 hh)
- Arable landless: Arable landless at 24.4% includes some hh with homestead or urban house. By region – agricultural hh without cultivation land = 1.176 million hh. Mountains = 7.5%; Tarai = 30.8%; Hills = 20.6%
- 3 Districts most landless: Sunsari = 51.5%; Morang = 48%; Jhapa = 38.9% (all Tarai) (NPC 2001)
- 3 Districts least landless: Jajarkot = 2.2%; Rukum = 3.2% (Hills) Jumla = 2.6% (Mountains) (NPC 2001)

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- Landless by social group:

  High castes (Brahman/Chhetri) = 6%

  Middle class/castes in Tarai = 11%

  Newars = 11%

  Hill Janajatis = 8%

  Tarai Janajatis = 20%

  Tarai Dalits = 43.98% (Dalits as a whole own 1% of arable land)

  Hill Dalits = 15.32%

  Muslims = 37%. Other minorities = 34%

- Landless by gender: Around 10% households have some land in women's name and 6% houses but rising as data of MLR& M transactions in 2007/08 in 11 Kathmandu Valley Districts show 33.5% registered women as owners

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Current efforts and Way-ahead

- Despite a dip in the growth rate during the escalation of Nepal's conflict in the first half of this decade, poverty in the country declined. However, income inequality widened and remained high. Growth in the agricultural sector, which is a source of livelihood for two thirds of the population, was undermined by low public and private investment, un-remunerative prices, and poor access to credit.

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- The decade-long conflict had a negative impact on the government's fiscal position. There was a sharp rise in defence spending , which in turn led to an increase in recurrent expenditure. Although government expenditure on social services was maintained during the conflict, increased defence spending resulted in lower expenditure on economic services and infrastructure.

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- Accelerated tax reform has led to a tax system where indirect taxes (such as customs duties and value added taxes) increased faster than direct taxes. The falling share of direct taxes did not contribute to lowering inequality.

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- There was some improvement in wage employment, given that the income and consumption shares of the lowest quintile of the population, vis-à-vis the upper most quintile, improved between 1996 and 2004. However, during this period a marginal gain in non-agriculture wage employment was offset by a sharp drop in wage employment in the agricultural sector..

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- Remittances from Nepalese workers abroad have remained the second largest source of income after agriculture. These remittances helped maintain macroeconomic stability during the conflict and contributed to growth. However, even among overseas workers, those who were relatively better off in terms of resources, skill and information earned more than unskilled workers. Although remittances have helped to reduce poverty, such differences in earnings also contributed to widening inequality.

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- To meaningfully make a dent in poverty and inequality, policy intervention should primarily target the agricultural sector. Intervention should aim at structural change through land reform, as well as increased public investment in irrigation, rural roads and technology support to agriculture.

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- The paper cautions that the urgency of economic reform should not bypass the basic socioeconomic interest of the poor, deprived and disadvantaged. The state should pursue an inclusive growth strategy where a meaningful participation of the poor and disadvantaged is ensured. Targeted interventions leading to an increase in the income and employment of the poor and vulnerable are key factors in reducing inequality. Encouraging the private sector to generate employment is another important strategy.

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- Public policy should target enhancing the skills of poor migrant workers and also increase their access to finance. There should be a concerted effort to encourage and facilitate the migration of the poor to higher income destinations.

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- Easy and affordable access to finance, particularly in rural areas, can contribute significantly to alleviating poverty and can narrow the inequality gap. Given low income, underemployment, scattered settlements and a limited credit culture, private banks tend to avoid operating in rural areas. Taxes and other incentives should be offered to make rural banking more attractive.

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- Most important and urgent is the access to assets which can ameliorate the vulnerability of the poor, and generate employment and income. In the face of poor socio-economic indicators, for the rural poor a meaningful asset invariably implies cultivable land. Thus, in order to seriously address the challenges of inequality, the first step ought to be land reform.

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