

# Constraints to Inclusiveness

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# Outline of Presentation

1. Inclusiveness of Economic Growth
2. Diagnostic of Inclusiveness (incl. economic, geographic and social exclusions)
3. Likely Constraints

# 1. Inclusiveness of Economic Growth

# Lack of Inclusiveness?

- Poverty reduction  
From 42% in 1995-96 to 31% in 2003-04
- Poverty reduction rates – not uniform
- Income growth – not uniform

# Lack of Inclusiveness?

- Increase in inequality  
Gini – from 34.2 to 41.4
- Further poverty reduction of 13 percentage points if inequality did not worsened
- Poverty dynamics - determinants

## 2. Diagnostic of Inclusiveness

# Why do We Observe Limited Inclusiveness?

- Limited productive employment opportunities?
- Unequal access to opportunities?
- Uneven opportunities?
- Uneven starting points?
- Inadequate social safety nets?

## 2. Diagnostic of Inclusiveness Limited Employment Opportunities

# Lack of Productive Employment

- Low unemployment, but high underemployment
- Disguised unemployment?
- High level of income inadequacy
- Increase in migration

## 2. Diagnostic of Inclusiveness

Unequal Access to Opportunities

# Unequal Access to Opportunities

- Differences in occupations by expenditure quintiles
  - Agriculture – still main occupation
  - Dependency of poor on agriculture
- Increasing wage differentials
- Increase in non-farm enterprises, but mainly for richer households
- Differences in migration destinations

# Unequal Access to Opportunities

- **Weak Human Capabilities**
  - Unequal access to education
  - Unequal access to health
  - Unequal access to other social services
- **Uneven Playing Field**
  - Unequal access to infrastructure
  - Unequal access to productive assets (credit, land)
- **Poor Geography**

# Unequal Access to Education

- Education – key role in moving out of poverty
- Improvement in primary school enrollment rates, but still low secondary enrollment rates
- Poor – likely to receive limited education

# Public Expenditure on Education

- Steady increase

From 9.1% to 15.8% of national budget from 1990 to 2003 (from 1.8% to 3.0% of GDP)

Comparable – India: 3.7%, Bangladesh: 2.4%

- Expenditure per student – still low

- Role of private schools, community management schools

- Demand side issues

# Unequal Access to Health

- Significant progress in health outcomes
  - e.g. reduction in infant and child mortality rates
  - increase in life expectancy at birth
- Improvement in access to health facilities
- Still disparity in access to and use of health care services
- Difficulty of securing health care professionals in remote areas

# Unequal Access to Water, Sanitation and Electricity

- Some improvement in access to water, sanitation and electricity
- Still disparity in accessibility

# Unequal Access to Infrastructure

- Improvement in road provision, particularly in rural areas
- In need of further improvements
- Disparity in access to various facilities among expenditure groups

# Unequal Access to Credit

- Limited access to financial services and recent deterioration
- Decline in loans from banks
- Main source of loans – relatives and friends
- Disparity in coverage

e.g. 0.35 hours in urban vs. 3.5 hours in rural to reach bank  
70,954 inhabitants per bank in Eastern vs. 100,654 in Far-western

# Why Limited Access and Use of Financial Services?

- Decline in outreach partly due to conflict
- Informal lenders preferred
- Government policy – failing to address the root causes of limited access
- Unproductive use of remittances

# Unequal Access to Land

- Land ownership – about 77% owns land
- Land area – unequal distribution
  - Gini – from 58.4 to 52.8
- Improvement in access to irrigation, but gains to richer households

# Poor Geography

- Remoteness
- Fafchamps and Shilpi (2008)
  - Isolation – associated with a significant reduction in subjective assessments of income and consumption adequacy
- Great room for improving connectivity

## 2. Diagnostic of Inclusiveness

### Social Exclusion

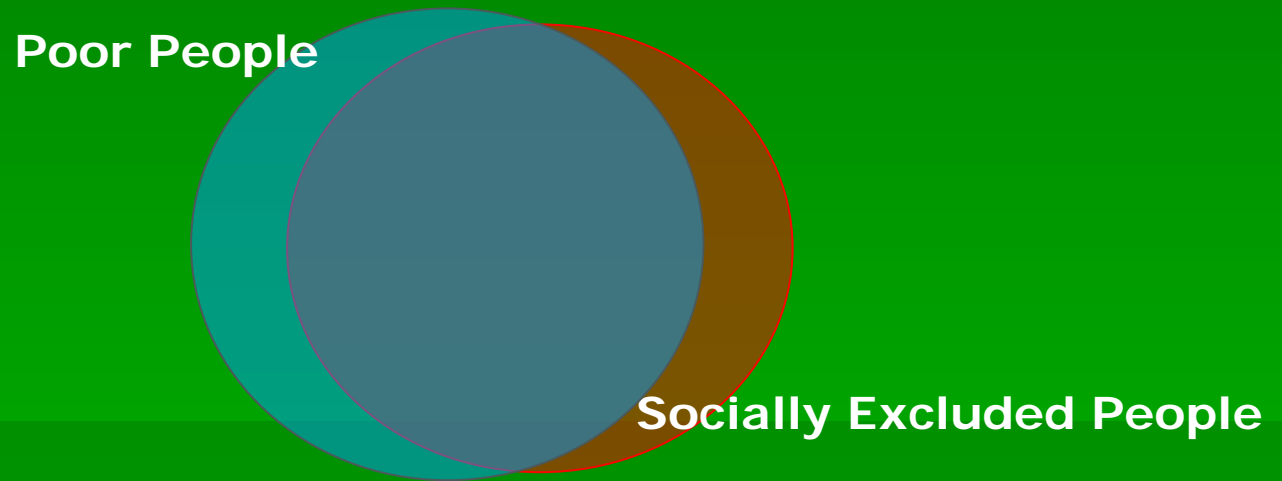
# Dimensions and Basis of Exclusion

Excluded groups	Economic status
Caste/ethnicity	Lower income and fewer opportunity-shaping human and physical assets
Gender	Lower initial human capital, unequal asset ownership and property rights. Restrictions on right to migrate for employment
Location	Few economies of scale, few markets, high costs due to poor connectivity
Income poverty	Low assets, less ability to manage income volatility, less access to credit, fewer opportunities

# Why does Social Exclusion Deserve Specific Attention in Nepal's Growth ?

It's a staggered start to the growth race.

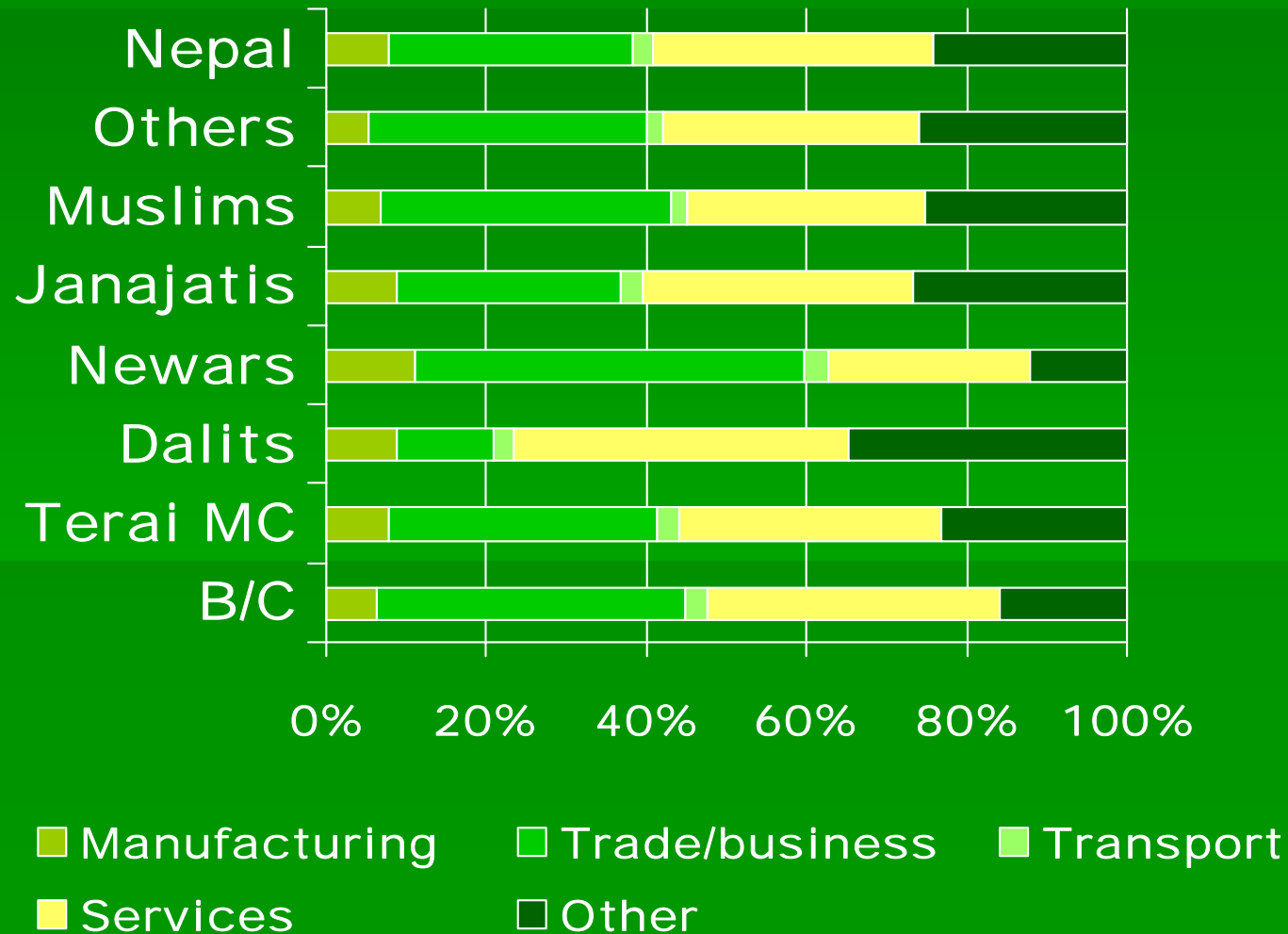
# The Overlap of Poverty and Social Exclusion



# Distribution of the Poor by Caste/Ethnicity (1995-96 and 2003-04: %)

	1995-96	2003-04	Change (%)
Brahmin/ Chhetri (all)	26.7	15.7	-41
Newar	2.5	3.4	35
Dalit (all)	10.6	20.9	3
Hill Janajati	19.7	27.8	41
Tarai Janajati	10.4	9.2	-12
Muslim	5.7	8.7	53
Others	21.4	22.3	4
Nepal	100.0	100.0	-

# Sector-wise Distribution of Households Operating Small-scale Non-agricultural Enterprises



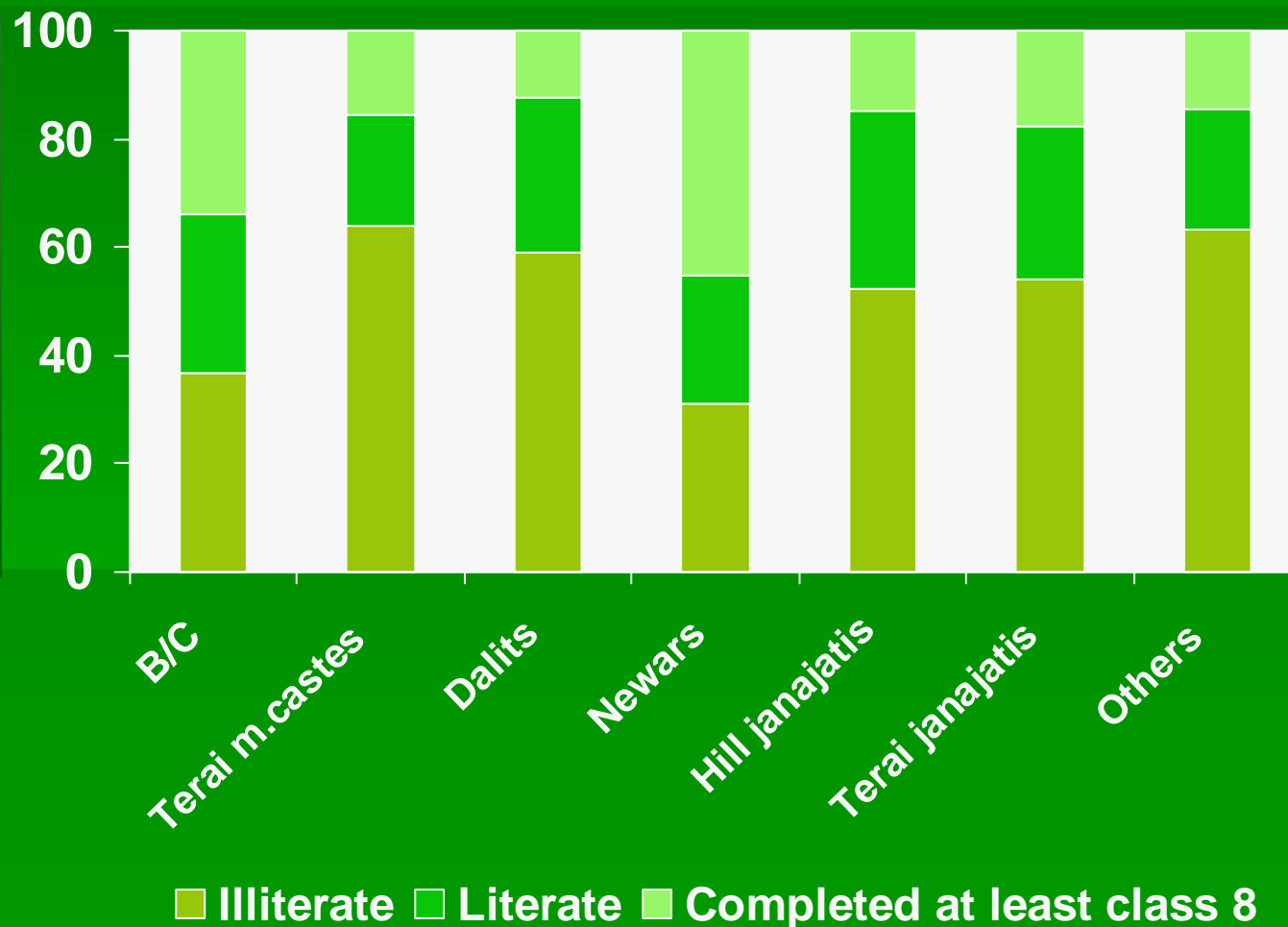
# Employment Sector by Caste/Ethnicity (2003-04: %)

	Agriculture	Manufacturing	Trade	Services	Agricultural wages	Professional wage employment	Unskilled wage employment
Brahmin/ Chhetri	78.9	1.6	3.8	3.3	1.5	4.4	6.6
Newar	45.7	8.5	14.1	6.4	1.9	7.8	15.6
Dalit	64.6	10.6	0.5	1.9	9.0	0.6	12.9
Hill Janajati	80.3	2.3	3.0	1.6	4.0	1.2	7.5
Tarai Janajati	77.2	0.8	2.7	1.7	7.8	2.0	7.9
Nepal	69.8	3.3	4.5	2.7	8.0	2.8	9.0

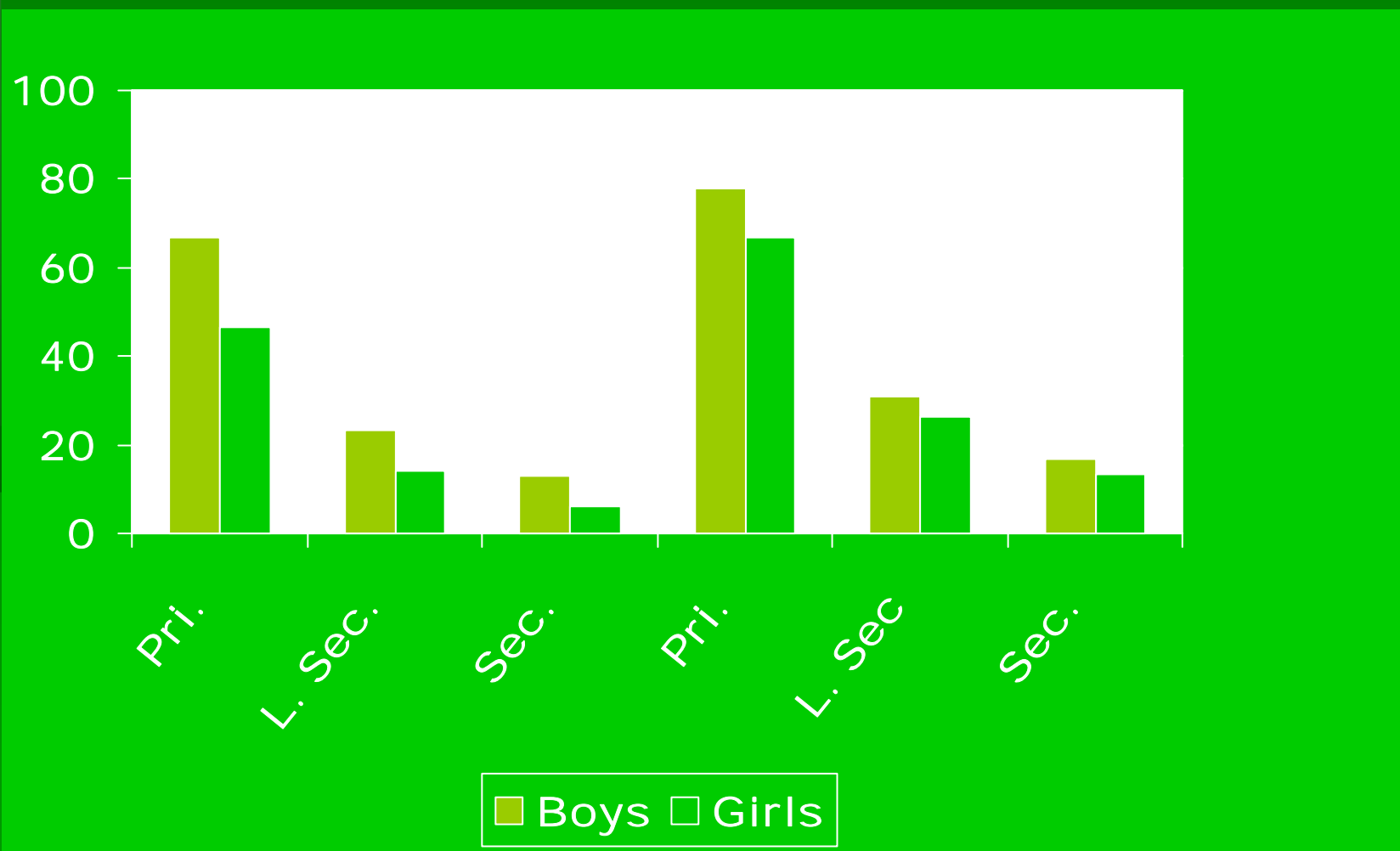
# Employment Patterns for the Poorest Two Quintiles by Gender (%)

	MEN		WOMEN	
	1995-96	2003-04	1995-96	2003-04
Self-employment agriculture	58.4	63.5	79.4	83.4
Self-employment manufacturing	3.0	4.0	1.6	0.8
Self-employment trade	4.0	1.8	1.4	0.8
Self-employment services	1.2	1.9	0.1	0.4
Wage employment agriculture	18.3	13.0	15.7	13.0
Wage employment skilled non-agriculture	0.5	0.8	0.1	0.0
Wage employment unskilled non-agriculture	14.6	15.0	1.6	1.6
Total	100.0	100.0	100.0	100.0

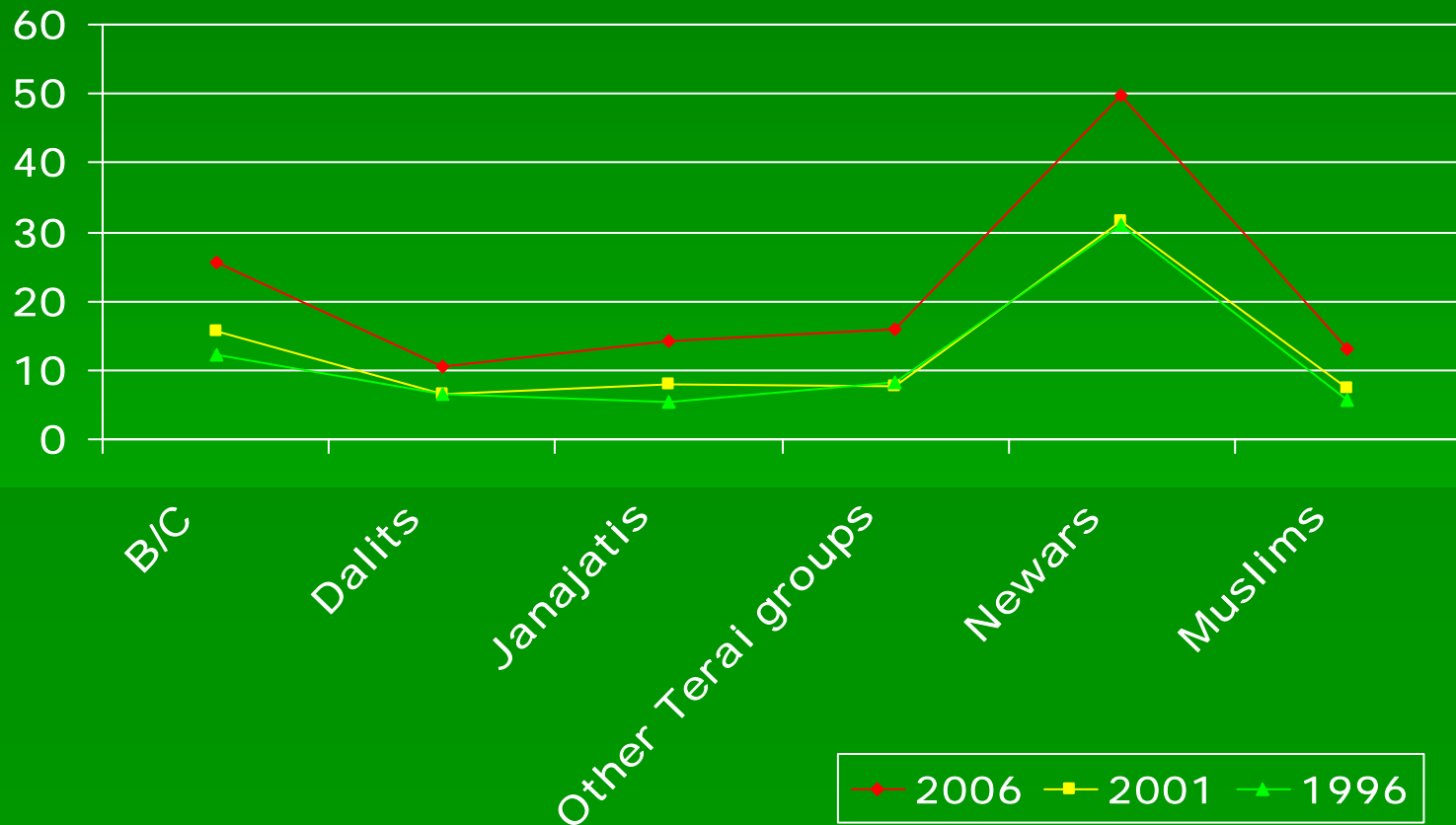
# Educational Attainment among Nepalese 15 and Older by Caste/Ethnicity (%)



# Net Primary and Secondary Enrollment Rates for Boys and Girls (%)



# Deliveries Attended by Doctors, Nurses, and ANMs by Caste/Ethnicity (%)



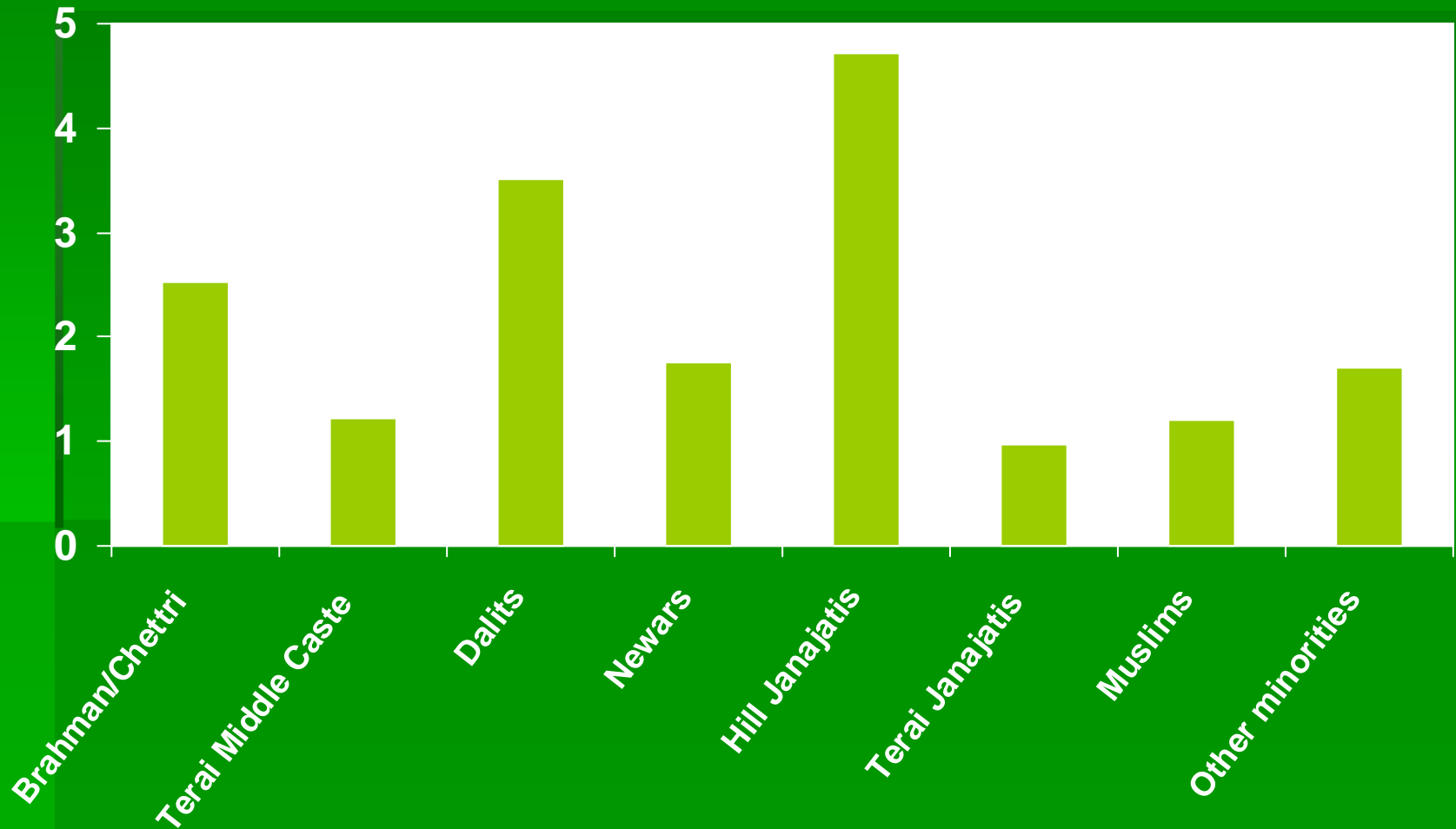
## Land Ownership in Rural Areas (%)

	Under 1 hectare & landless	More than 1 hectare
Brahman/Chhetri	76	25
Terai middle caste	58	41
Dalits	94	7
Newar	82	17
Hill Janajati	81	19
Terai Janajati	68	32
Muslims	82	17
Other minorities	85	15
Total	80	20

# Ownership of Land and Livestock in Rural Areas (2003-04: %)

	Land ownership				Livestock	
	Landless	<1 ha	1-2 Ha	>2 ha	Cows	Goats
Brahmin/ Chhetri (all)	6	69	19	6	70	70
Newar	11	71	14	3	51	62
Hill Janajati	8	73	14	5	64	65
Tarai Janajati	20	48	18	14	59	52
Muslim	37	45	12	5	36	41
Dalit (all)	14	80	5	2	58	50
Nepal	16	64	14	6	61	58

# Time to Reach Markets (2003-04: Mean Hours)



# Households Receiving Remittances

	Receiving any remittance (%)		Avg per capita remittance (in real 1995-96 rupees)	
	1995-96	2003-04	1995-96	2003-04
Brahmin/ Chhetri (all)	24	36	3,827	6,449
Newar	17	22	3,789	5,750
Dalit (all)	27	35	1,780	4,683
Hill Janajati	22	32	6,852	7,588
Tarai Janajati	14	23	1,138	2,577
Muslim	26	33	2,183	4,012
Nepal	23	32	3,427	5,713

## 2. Diagnostic of Inclusiveness

### Inadequate Social Safety Nets

# Inadequate social safety nets?

- Relatively low provision in comparison with other South Asian countries

# Social Protection Index

	SP Expenditure (% of GDP)	SP Coverage (%)	Distribution Effect of SP (%)	Impact of SP on Income (%)	SPI Ranking
Nepal	2.3	18	35	7	24
Asia	4.0	35	57	23	-
Bangladesh	5.3	24	53	24	17
Bhutan	1.4	17	30	12	26
India	4.0	33	100	26	10
Maldives	1.5	22	74	8	21
Pakistan	1.6	7	8	3	30
Sri Lanka	5.7	41	85	26	9

Source: ADB (2008)

# 3. Likely Constraints

# Constraints to Ensuring Inclusive Growth

The poor and excluded face:

- Limited productive employment opportunities (incl. stagnant agricultural sector)
- Weak human capabilities
- Limited access to productive assets
- Limited connectivity
- Inadequate service delivery
- Formal and informal barriers within institutions

# Informal Barriers

- Historical and structural exclusion
- Power, political and social relationships
- Informal incentives

# Initial Policy Recommendations

- Accelerate progress of poor and excluded (targeted programmes) for development of capabilities and asset accumulation
- Balance formal mechanisms with informal mechanism eg. School and membership in community groups/bank account/membership in savings and credit group
- Expand agriculture based economic opportunities
- Expand secondary education incentives
- Provide safety nets
- Improve service delivery institution's capacity to address inclusion issues