

1. CURRENT SITUATION

A. Introduction

This report presents the poverty situation and recent trends in Nepal and outlines the responses of both the Government and the Asian Development Bank (ADB) to address poverty. The main findings of this report are that (i) there is widespread poverty with a 42% poverty incidence; (ii) large disparities exist across geographical regions, and between excluded and less excluded groups; and (iii) there has been no significant decline in poverty incidence from 1981 to 2001. ADB's approach to poverty reduction in Nepal needs to have a dual focus—to reduce poverty incidence and to narrow income disparities. Based on the findings of this report and discussions at the High-Level Forum on Poverty held on 26 February 2001 in Kathmandu, seven sectors were identified where ADB's poverty reduction efforts in Nepal could be more sharply focused: (i) agriculture and rural development; (ii) transport; (iii) energy; (iv) finance; (v) education; (vi) water supply, sanitation, and urban development; and (vii) environmental management.

B. Definition and Quantitative Measures of Poverty

The term poverty refers not only to material deprivation but also to low achievements in education and health, vulnerability and exposure to risk, and lack of voice and empowerment. All these elements combine to severely restrict the capability of an individual to escape poverty. This report attempts to address all of these dimensions.

Poverty is generally measured based on three indicators, each of which measures a specific aspect of poverty. These are (i) the head count index, which measures the incidence (or prevalence) of poverty; (ii) poverty gap index, which measures the intensity, and (iii) the squared poverty gap index, which measures the severity.

The head count index is the most commonly cited indicator of the prevalence of poverty. It measures the percentage of the total population with incomes falling below the officially-defined poverty line. The poverty line is usually calculated as the current market price of a basket of foods that satisfies minimum nutritional requirements, plus essential nonfood items. For Nepal, the poverty line is currently Nepalese rupees (NRs)4,404 per person per year.³

Since the head count index focuses solely on the percentage of the total population that falls below the officially defined poverty line, it gives no information whatsoever as to the intensity of poverty, which is the degree (i.e., by how much) household incomes would have to rise on average for the poor to reach or rise above the poverty line. This latter aspect of poverty is measured by the poverty gap index. For purposes of comparability, the poverty gap index is expressed as a percentage of the poverty-line money income. A larger value for the poverty gap index thus indicates more

³ This is based on a food consumption basket of 2,124 calories and an allowance for nonfood items of about two thirds of the cost of the basket (CBS 1996).

intense poverty than a lower value, since it means that household income would have to rise by a greater percentage of poverty-line income for the average household to no longer be considered poor.

Finally, the severity of poverty is measured by the squared poverty gap index. Since this measure weighs households that fall further below the absolute poverty line more heavily than households with incomes nearer to the poverty line, it takes into account the distribution of the varying poverty gaps of individual households, as reported in survey results. Again, a higher value indicates more severe poverty than a lower value.

C. Characteristics of Poverty

Until recently, calculating the head count, poverty gap, and squared poverty gap indexes for Nepal was difficult due to scarcity of data. However, recent initiatives by the Government have improved poverty-related data substantially. The most notable example of this is the Nepal Living Standards Survey (NLSS) conducted in 1995/96 by the Central Bureau of Statistics (CBS) of the National Planning Commission (NPC), which collected household consumption expenditure data in all of Nepal's geographic regions (CBS 1996 and 1997).⁴ Along with other data, the NLSS results have been used to generate statistical measures of poverty for Nepal disaggregated by geographic area, gender, and other variables (ICIMOD 1997). The results of these efforts empirically verify that poverty in Nepal is widespread.

Table 1.1 shows the head count, poverty gap, and squared poverty gap indexes for Nepal as a whole, for the country's three ecological zones, and for the urban vs. the rural sector. At the national level, poverty incidence is estimated at 42%, poverty intensity at 12%, and poverty severity at 0.05%. However, the values for rural areas are almost double those for urban areas, indicating that poverty is much more prevalent, intense, and severe in the rural setting. The results for the rural sector versus the urban sector are particularly striking, given that rural dwellers account for nearly 88% of Nepal's total population.

Comparing poverty incidence, intensity, and severity by ecological zone, poverty is found to be more prevalent, intense, and severe in the Mountain zone than elsewhere, although this mountain zone is more thinly populated than the other two zones. While poverty incidence is more or less the same in the Hills and the Terai, it is less intense and severe in the Terai than in the Hills.

⁴ Data collection for the survey took place between June 1995 and June 1996. The sample comprised 3,388 households.

Table 1.1: Quantitative Indicators of Poverty
(poverty line = NRs4,404)
(%)

Area	Head Count Index	Poverty Gap Index	Squared Poverty Gap Index
Ecological Zone			
Mountains	56 (0.059)	18.5 (0.027)	0.082 (0.015)
Hills	41 (0.031)	13.6 (0.014)	0.061 (0.008)
Terai	42 (0.025)	9.9 (0.009)	0.034 (0.004)
Sector			
Urban	23 (0.058)	7.0 (0.025)	0.028 (0.012)
Rural	44 (0.020)	12.5 (0.008)	0.051 (0.004)
National Average	42 (0.019)	12.1 (0.008)	0.050 (0.004)

Note: Figures in parentheses are standard errors adjusted for stratification and clustering in the sample.
Source: NPC 1998. *The Ninth Plan (1997-2002)*. Kathmandu.

Although not reflected in Table 1.1, the results of the NLSS survey indicate that poverty incidence also varies widely across the five development regions, with the remote western regions showing the highest proportion of the population living in poverty, and the eastern and central development regions showing the lowest proportion.

As with most large-scale surveys in Nepal, the NLSS survey collected information at the household level rather than at the individual level. This makes quantification of gender disparities in poverty incidence difficult. However, using the NLSS data, it is possible to analyze the size distribution of males and females in poor households, and the poverty incidence of female-headed households. While the NLSS survey results do not indicate that there are more females than males in poor households, they indicate that female-headed households in general, and widow-headed households in particular, are much more likely to be poor if there is no adult male present.

It is important to recall that the above results are based on the current official poverty line of NRs4,404 per year. The question thus naturally arises as to how sensitive these results are to changes in the poverty line used as the base for calculating the estimates. While no formal sensitivity analysis in this regard has been performed, setting the poverty line at US\$1 per day per person, a level often used for making international comparisons, yields a poverty incidence figure of 53.1% for Nepal (UNDP 1999). Thus at least in order-of-magnitude terms, irrespective of the definition used, roughly half of Nepal's population could be considered to live in poverty at present.

D. Human Development Indexes

While the estimates presented thus far provide an initial glimpse into the prevalence, intensity, and severity of poverty in Nepal, these data simply circumscribe the overall parameters of the problem. To fulfill its goal of poverty reduction, the Government's program must translate such descriptions of shortfalls in the ability of households to meet their basic consumption needs into policy prescriptions that assist poor households in lifting their incomes beyond present levels. This will ultimately require, by one means or another, increasing these households' access to resources in

the broadest sense, which in this context includes economic resources (such as land and capital), human development resources (such as education and health), and social resources (such as political influence).

The human development index (HDI) of the United Nations Development Programme (UNDP) provides a starting point for understanding what must be done to increase the access of poor households to resources in the sense referred to above, since it implicitly defines poverty in terms of deprivation in the level of access to these resources. Nepal's current overall HDI ranking (based on 1999 data) is 129, a ranking lower than all its South Asian neighbors except Bangladesh. This level is consistent with other socioeconomic indicators for Nepal.⁵ For example, almost two thirds of the adult population cannot read or write, only 71% of the total population has access to safe drinking water, the country has the highest infant mortality rate (75 per thousand) in South Asia, and about half of all children below 5 years of age are underweight.

As in the case of income poverty, large disparities appear in social indicators when comparing the various geographic regions and socioeconomic groups (IFAD 1999). For example, rural dwellers are twice as likely to be illiterate than urban dwellers, and illiteracy rates are the highest among the lower caste and disadvantaged groups. Other indicators such as access to health, education, and safe drinking water tend to be significantly lower in rural areas, with the levels of these indicators being lowest in the remote areas (mainly the western, mid-western and far-western Hill and Mountain districts), and for the disadvantaged groups (NESAC 1998). Analysis of the correlation between district-level HDIs (NESAC 1998) and other social indicators at the district level (ICIMOD 1997) indicates that access to land and physical accessibility are the most powerful variables in explaining differences in district-level HDIs.

As one would expect, low levels for the human development indicators correlate closely with low levels of income. The data in Table 1.2 confirm empirically that the lowest-income quintiles score the lowest in literacy, health, and access to health care. A natural consequence of this is higher fertility rates for the lowest-income quintiles—no doubt due to the lower level of awareness of family planning options—which exacerbates their poverty in terms of income, education, and health.

**Table 1.2: Literacy and Selected Health-Related Indicators
by Income Quintile
(%)**

Quintile Group (percentile)	Literacy Rates for 6 Years and Older	Population Reporting Chronic Illness	Households Not Seeking Health Care for Health Problems	Mean Number of Children Ever Born Per Woman	Awareness and Use of Family Planning Methods	
					Know Any Method	Currently Using
Bottom 20	19.95	4.88	50.43	3.12	47.22	8.33
20–40	27.80	6.31	38.46	2.88	47.67	10.31
40–60	32.95	6.15	32.83	2.75	58.21	14.96

⁵ Various socioeconomic indicators for Nepal have improved since they were first calculated roughly 4 decades ago. However, as the values for these indicators were initially very low, this growth occurred from a small base. In most cases, Nepal's current situation is characterized by low levels of socioeconomic indicators, even by South Asian standards.

60–80	46.16	6.83	29.61	2.36	65.15	16.38
Top 20	59.26	8.11	25.45	2.07	79.50	23.53
Average	37.82	6.45	34.38	2.61	59.66	14.78

Source: CBS. 1996. *Nepal Living Standards Survey Report 1996*. Kathmandu.

In sum, two conclusions can be drawn from the data presented thus far. First, the high incidence of income-poverty in Nepal is accompanied by capability-poverty, which may be defined as lack of access to the resources necessary for raising one's own income. Second, in relative terms, people become more capability-poor the lower on the income scale one descends (NESAC 1998). The implication of these conclusions for poverty reduction is obvious: the centerpiece of any poverty reduction program must be that of improving the access of poor households to resources.

E. Social Exclusion

Because available data indicate that disadvantaged groups figure prominently in the incidence of both income- and capability-poverty, it is appropriate that the Government's poverty reduction program address the factors that drive such inequalities. A useful tool for analyzing these factors is social exclusion analysis.

Social exclusion is said to occur when a group is excluded "from rights or entitlements as a citizen, where rights include the social right to a certain standard of living and to participation in society" (HDR 1997). In the context of this report, social exclusion analysis entails examining the factors responsible for the exclusion of certain groups from access to the resources necessary for full participation in the economic development process. This constitutes a starting point for building into the Government's poverty reduction program the lessening of inequalities in the access to such resources, particularly for those groups for which lack thereof is the most severe. Appendix 1 contains a brief description of the current status of groups affected by social exclusion in Nepal on the basis of caste or ethnicity.

In Nepal, social exclusion is primarily driven by institutions and processes that uphold or exacerbate income- and capability-poverty on the basis of gender, ethnicity, and caste. Gender-based exclusion in Nepal has been quantitatively measured via two indexes: the gender development index (GDI) and the gender empowerment measure (GEM), the values for both indicating that gender-based exclusion in the country is pervasive and deep (NESAC 1998). In Nepal, exclusion-led discrimination against women occurs on numerous fronts, including physical survival, health and educational opportunities, ownership of assets, mobility, and overall cultural status.

Social exclusion on the basis of ethnicity is most apparent in the form of poverty incidence, which is higher among ethnic minorities such as the Limbus, Tamangs, Magars, Tharus, Mushahars, and indigenous groups such as the Chepangs and Raute, than for the population as a whole (NESAC 1998). In contrast, poverty incidence is lowest among the Newars (who mainly inhabit the Kathmandu valley and other urban areas).

Caste-based social exclusion manifests itself as disparities in both poverty incidence and human development indicators. Poverty incidence is significantly lower among Brahmins (the highest-caste group) than for the lower-caste groups, the latter being deprived of opportunities in all dimensions of life (cultural, social, political, and economic). Disparities in human development indicators between lower- and upper-caste

groups are widespread. Examples include literacy rates (18% for the lowest caste compared with 47% for the upper caste groups), life expectancy (51 years compared to 57 years), infant mortality rates per thousand live births (118 compared to 85), and rates of absolute poverty (nearly 15 times higher for lower-caste groups than the national average). For women belonging to the lowest-caste groups the situation is even more disturbing; for example, a literacy rate of only 7%, and equally low scores on other social indicators.

Finally, though they make up as much as 14% of the total population (CBS 1996), the entire Dalit community, which comprises lower occupational castes such as Kami (blacksmiths), Damai (tailors), and Sarki (shoemakers), is discriminated against due to their being branded as “untouchables”, with Dalit women being even more disadvantaged because of their low status within their own community.⁶ For example, nearly the entire population of Dalit women is estimated to live below the official poverty line. For such individuals, access to resources necessary for escaping poverty is limited indeed.

F. Changes in Poverty Incidence and Income Distribution Over Time

Several large-scale surveys of poverty incidence in Nepal have been conducted over the past 25 years. These include

- (i) a household-level survey on employment, income distribution, and consumption patterns conducted by NPC during 1976/77 (NPC 1983);
- (ii) a multi-purpose household budget survey conducted by Nepal Rastra Bank during 1984/85 (NRB 1988);
- (iii) the Nepal Rural Credit Survey, which covered only rural areas, conducted during calendar year 1991; and
- (iv) the NLSS survey referred earlier in this chapter, conducted in 1995/96.

The results of the above surveys broadly reflect the disparities in poverty incidence and human development indicators among geographic areas, ecological zones, and rural vs. urban sectors described earlier in this chapter.

Because the methodologies, welfare criteria, and poverty-line incomes used to calculate the estimates from the above surveys differ widely, directly comparing the estimated levels of poverty incidence that resulted from them is fraught with difficulties. In order to gain some perspective on how poverty incidence has changed over time in Nepal, the World Bank (1999) applied the definitions of poverty line, income, and consumption used in the earlier surveys to the NLSS data. The results of this exercise are summarized in Table 1.3, which compares the estimates of poverty incidence from both the 1976/77 and 1984/85 surveys with those of the NLSS survey performed in 1995/96. This provides at least an order-of-magnitude estimate of how poverty incidence in Nepal has changed over the past 25 years.

⁶ “Dalit” literally means people immersed in a swamp.

Table 1.3: Changes in Poverty Incidence Over Time

	Percent of Population Below Poverty Line		
	Rural	Urban	Nepal
Comparing 1976/77 and 1995/96^a			
1976/77 survey	33.0	22.0	33.0
1995/96 survey	44.0	23.0	42.0
Comparing 1984/85 and 1995/96			
1984/85 survey			
Terai	35.4	24.1	34.5
Hills	52.7	14.5	50.0
Mountains	44.1	-	44.1
Total Nepal	43.1	19.2	41.4
1995/96 survey			
Terai	37.3	28.1	36.7
Hills	52.7	14.5	50.0
Mountains	62.4	-	62.4
Total Nepal	46.6	17.8	44.6

^a The results shown for the 1995/96 survey reflect the definitions originally used when the 1995/96 survey was performed, not the definitions used for the 1976/77 survey, as per the adjustments referred to in the text. This results in a more conservative estimate of the growth in the percentage of the population below the poverty line. As a result, the comparison shown for 1976/77 with 1995/96 should be considered the lower-bound estimates for growth in poverty incidence.

Source: World Bank. 1999. *Poverty in Nepal at the Turn of Twenty-First Century*, Vols. I and II. Washington, D.C.

Comparing poverty incidence in 1976/77 and 1995/96, the most striking result is that nationally, poverty incidence appears to have increased substantially from 33% in 1977 to 42% in 1995/96. Comparing the results of the 1995/96 and 1984/85 surveys, poverty incidence appears to have risen, but at a slower pace relative to that for the 1976/1977 and 1995/96 comparison.

Even when any remaining concerns over comparability of the above results are taken into account, there is little doubt that (i) poverty incidence has increased over the past 25 years in Nepal, and that (ii) this increase is for the most part a rural phenomenon, with the Hills and Mountains consistently showing the highest incidence of poverty among the three ecological zones. In addition, the results of the 1984/85, 1991/92, and 1995/96 surveys indicate that poverty incidence was consistently highest in the mid- and far-western development regions.

Finally, a worsening trend in Nepal's income distribution is discernible when the results of the 1984/85 and 1995/96 surveys are compared. As Table 1.4 shows, the share in total income of the bottom 40% of the population decreased for both rural and urban dwellers in all ecological zones, while the share in total income of the wealthiest 10% of the population increased, indicating that income distribution in Nepal became more skewed over the period between the 1984/85 and the 1995/96 surveys. The changes that occurred in the estimated household and per capita Gini coefficients for Nepal's rural and urban sectors, as well as for the country as a whole, are consistent with the worsening trend in income distribution that appears in the results shown in Table 1.4.

Table 1.4: Share of Income by Income Percentage Group and Ecological Zone

Income Group	All Nepal	Rural			Urban	
		Terai	Hills	Mountains	Terai	Hills
MPHBS 1984/85						
Bottom 40	23	24	23	33	27	24
Middle 50	54	53	56	54	52	56
Top 10	23	23	21	13	21	20
NLSS 1995/96						
Bottom 40	11	15	7	-	18	2
Middle 50	37	48	37	-	53	27
Top 10	52	37	56	-	29	71

Source: Nepal South Asia Centre. 1998. *Nepal: Human Development Report*. Kathmandu.

Collectively, the major features of Nepal's current situation with respect to poverty may be summarized as follows. First, while the country's current overall level of poverty incidence is 42%, this aggregate statistic hides wide disparities in poverty incidence, intensity, and severity that appear when comparisons are made on the basis of virtually all relevant parameters, such as geographic region, ecological zone, rural vs. urban divide, gender, caste, or ethnicity. Second, relative to the overall population, women, lower-caste groups, marginalized ethnic minorities, and some groups of landless persons face poverty that is particularly resistant to "traditional" poverty reduction interventions, since it is driven by social exclusion reinforced by long-standing customs. Third, poverty in Nepal is intimately intertwined with lack of access to the very resources necessary for escaping it. This is reflected in Nepal's current low ranking with regard to human development indicators, even when other South Asian countries are used as comparators. Fourth, poverty in Nepal is on the rise. This is borne out by even order-of-magnitude comparisons of data and information currently available on changes in poverty incidence over time. Finally, in combination with other factors, the country's relatively rapid annual population growth rate of 2.27% has increased the absolute number of persons falling below the official poverty line by a factor of 2 over the past 2 decades. Lowering the population growth rate will thus be important in combating poverty in Nepal. All of these findings indicate that unless these trends are reversed, the poverty situation will worsen, with the absolute number of poor households increasing substantially over the coming 25 years.