

5. ADB'S APPROACH TO POVERTY REDUCTION IN NEPAL

Given that the purpose of the conceptual framework presented in Chapter 2 is to provide a structure for formulating and assessing poverty reduction strategies, it is useful to briefly assess its relevance to, and usefulness in, the Nepal setting. The framework with appropriate modifications may also be used to describe, and in future to evolve, ADB's approach to poverty reduction for Nepal.

A. Relevance of the Conceptual Framework to the Nepal Context

To facilitate the discussion that follows, the reader may refer to Figure 2.1, which provides a diagrammatic summary of the conceptual framework presented in Chapter 2.

Among the basic institutions or rules that govern behavior in society, well-specified property rights and impartial enforcement of contracts are two vital factors in determining how smoothly and efficiently market-based economies operate. The implication for poverty reduction strategies is that if these two vital institutions are weak or absent, the impact of poverty reduction interventions will be reduced in like measure.

The implication of all of this is that the extent to which the above applies to the Nepal context will determine which interventions for strengthening these basic societal institutions should form a part of, or be emphasized in, poverty reduction strategies for Nepal. It is therefore necessary to briefly consider the degree to which the conceptual framework presented in Chapter 2 is useful in formulating an approach to poverty reduction for Nepal, and in prioritizing the interventions that comprise such an approach. This has clear implications for ADB's approach to poverty reduction in Nepal.

With regard to Nepal's nascent urban-based, nonagriculture sectors (manufacturing and services), the conceptual framework is generally applicable. These are the sectors that one would expect (or at least hope) to have the long-term capacity to efficiently absorb and use the potential labor force engaged in low-income subsistence farming. Since these sectors use capital and technology (the supply of which is ultimately limitless) to complement labor instead of land (which is both in fixed supply, and indispensable to agriculture), these sectors should be encouraged to expand in an efficient way, so as to increase their uptake of labor over the long term, as well as their contribution to overall GDP growth. Such efficient expansion requires both well-specified property rights and impartial enforcement of contracts, since both of the latter reduce the perceived level of risk of doing business in Nepal. Such a reduction would be helpful in that it would promote investment, both domestic and foreign, in these sectors.

However, when the conceptual framework is applied to Nepal's rural agriculture sector, the importance of societal institutions such as well-specified property rights and impartial enforcement of contracts pales considerably. Particularly with regard to rural subsistence agriculture such as that prevalent in the remote hill and mountain districts, the binding constraint on increasing both productivity and the rate of growth of agricultural output is far more likely the provision of physical and social infrastructure (e.g., basic health services, educational facilities, safe drinking water, irrigation facilities, microcredit, and transport infrastructure). This suggests that in the Nepal context, poverty reduction interventions that increase the level of access to basic services necessary for increasing agricultural productivity, or programs directly targeting the rural poor, are more likely to be the interventions most efficient in reducing poverty incidence. Two possible exceptions to this are (i) interventions that strengthen societal

institutions recently put into place by the Government for eradicating discrimination on the basis of gender, caste, ethnicity, or religion; and (ii) societal institutions for specifying property rights or the impartial enforcement of contracts within portions of the Terai (or elsewhere) where agricultural production is more of a commercial than subsistence nature.

The latter exceptions notwithstanding, the fact that nearly 88% of Nepal's population is rural and that 83% of the population derives its principal income from agriculture suggests that at least in the medium term, ADB's poverty reduction approach in Nepal would best complement and remain consistent with the Government's poverty reduction strategy if it included all the categories of interventions depicted in the boxes in Figure 2.1. At the same time, emphasis should be placed on interventions that will build and strengthen the institutions that promote pro-poor growth. Such interventions include support for legal, regulatory, and policy reforms that ensure equitable access to resources for the poor and disadvantaged, as well as their participation in decision making at all levels.

B. Strategic Concerns

In implementing ADB's country poverty reduction approach in Nepal, several concerns are key in ensuring a dual focus on reducing poverty incidence and narrowing income disparities. First, major emphasis in implementing the approach must be placed on improving the poor's access to resources, and in particular, those resources most vital to escaping poverty. Second, the removal of institutional constraints that currently bar the poor from accessing these resources, and thus render them powerless to help themselves, is essential. Third, strong economic growth is necessary. However, the growth process should be broad-based to improve equity. Institutions capable of distributing (and redistributing) resources not only in an efficient manner, but more importantly, on an equitable basis, will be essential in achieving equity-improving growth.

Formulating and implementing policies that lead to positive changes in both growth and income distribution simultaneously will be the key to achieving the above recommendations. This particularly relates to policies designed to specifically target the poor. In cases where this is not possible, at the very least, any policy that leads to inequality-generating growth should include mitigating pro-poor measures.

C. ADB's Approach to Poverty Reduction in Nepal

With effect from 1 January 2001, a country strategy and program (CSP) has been prepared for all developing member countries (DMCs) of ADB. The CSP reflects ADB's operational strategy. It is mandatory for the CSP preparation process to be initiated through a poverty analysis of each DMC. The poverty analysis is then discussed at a high-level forum comprising government, aid agency, private sector, academic, and civil society participants. The poverty analysis is revised based on discussions at the high-level forum, and forms the basis for preparing the CSP. The next CSP for Nepal will be due in 2003. However, a CSP update due annually has been prepared for Nepal and is based on this poverty analysis. ADB's approach to poverty reduction suggested by this poverty analysis derives from the Government's poverty reduction strategy. ADB's analysis and the Government's poverty reduction strategy provided the basis for the Poverty Reduction Partnership Agreement that was signed between the Government and ADB on 21 October 2001. ADB's CSP for Nepal for 2002–2004 includes three long-term goals:

- (i) reduction of poverty incidence (i.e., head count index),

- (ii) reduction in degree of social exclusion facing women and disadvantaged groups, and
- (iii) reduction in income disparities.

Within the context of the above goals, poverty reduction is to be achieved via the CSP's three pillars:

- (i) pro-poor economic growth (inclusive of the poor),
- (ii) human development, and
- (iii) good governance.

Cutting across all of these pillars is the theme of improving Nepal's institutions, which is necessary to support (i)-(iii) above.

Finally, based on comments received at the High-Level Forum (Appendix 2), ADB's 2001 CSP Update has identified the following sectors:

- (i) agriculture and rural development;
- (ii) transport;
- (iii) energy;
- (iv) finance;
- (v) education;
- (vi) water supply, sanitation and urban development; and
- (vii) environmental management.

These sectors were chosen to maximize the impact of ADB-assisted interventions and are the most vital in supporting the CSP's three pillars. Focusing on these sectors, as well as improvement in access to resources to increase agricultural productivity, will maximize the efficiency with which ADB's resources are used to reduce poverty in Nepal, and hence support the Government's poverty reduction strategy.