

EXECUTIVE SUMMARY

This study seeks to build a better understanding of the nature of poverty in Nepal and to provide an affordable set of strategic options for ADB in helping the Government reduce poverty.

Despite significant improvements in economic and social indicators over the past 2 decades, the study shows that poverty is still widespread in Nepal. While Nepal was one of the countries in Asia that recorded a significant improvement in the human development index (HDI)¹ over the decade, the level of indicators is low, even by South Asian standards. The level of absolute poverty is among the highest in Asia: more than 9 million people, accounting for about 40% of the population, are estimated to live below the national poverty line, which is set at about NRs4,400 (\$77) per capita per annum and based on calorie intake, housing, and various nonfood standards.

The study shows that inequalities across geographic regions and ecological zones and the rural-urban divide remain wide as do those across gender, ethnic, and caste lines. Poverty in Nepal is much more prevalent, intense, and severe in rural areas where poverty incidence (44%) is almost double that of urban areas (23%). The incidence of poverty in the mid- and far-western development regions and in the mountain districts greatly exceeds the national average. The study indicates that poverty incidence has increased over the past 2 decades in Nepal—a period in which Nepal received substantial development assistance. The increase is for the most part a rural phenomenon, with the hill and mountain districts consistently showing the highest incidence among three ecological zones.² Income distribution seems to have worsened. The share in the national income of the bottom 40% of the population declined from 23% in 1985 to 11% in 1996, while the share in the national income of the wealthiest 10% of the population increased from 23% in 1985 to 52% in 1996.

In Nepal, social exclusion is primarily driven by institutions and processes that uphold or exacerbate income- and capacity-poverty on the basis of gender, ethnicity, and caste. Gender-based exclusion in Nepal is pervasive and deep-rooted, with discrimination against women reducing their physical survival, health and educational opportunities, ownership of assets, mobility, and overall status. Poverty incidence is higher among ethnic minorities such as the Limbus, Tamangs, Magars, Tharus, and Mushahars. 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. Disparities in human development indicators between lower- and upper-caste groups are widespread. The inequality driven by social exclusion shows that poverty in Nepal is intimately intertwined with lack of access to the very resources necessary for escaping it, as reflected in the low level of human development indicators.

The study identifies a number of causal factors underlying poverty in Nepal including (i) slow overall economic growth in the face of relatively rapid population growth, (ii) weak redistributive and institutional capacity overall on the part of the

¹ The HDI value for Nepal was 0.42, at the 152nd position in 1990. The value has significantly increased to 0.48, improving the ranking at the 129th position in 2000.

² Nepal is divided into three ecological zones: the terai, hills, and mountains.

Government, (iii) nonagricultural growth lacking any significant spillover effects on the rural poor, (iv) low productivity and slow growth of output in the agriculture sector, and (v) weak social and economic infrastructure (education, health, drinking water, transport, and energy) leading to inadequate access of the poor to the means for escaping poverty.

Based on the findings, the study suggests that any meaningful poverty reduction approach in Nepal must address the following key concerns. First, major emphasis should 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. Finally, strong economic growth that outpaces population growth is necessary. However, the growth process should be broad-based.

While poverty has always been an overriding concern in development planning in Nepal, only since the Sixth Plan (1981–1985) has it been explicitly stated as a development objective. The current Ninth Plan (1998–2002) adopted poverty alleviation as its sole objective and intends to reduce poverty via (i) sustained and broad-based growth, (ii) development of rural infrastructure and social priority sectors, and (iii) specific programs targeting the poor. The Plans recognizes accountable, democratic systems and market-oriented economic structures that avow social and ecological responsibility as being necessary for sustained growth. In addition to the Ninth Plan, the Government's commitment to poverty reduction was further manifested by its preparation of an interim poverty reduction strategy in 2001 that drew on the findings of this study as well as from public consultations and focus group discussions. A comprehensive poverty reduction strategy will be developed and fully integrated into the Tenth Plan (2003–2007).

As one of Nepal's major development partners, ADB formally adopted poverty reduction in 1992—although it has been a major concern since its lending operations began in 1969. ADB's primary focus in Nepal has always been on poverty reduction, consistent with the Government's goal. In 1999, the Country Operational Strategy (COS) was adopted to guide ADB's operations during the next 3–5 years. ADB to date has provided 97 loans totaling \$1.9 billion and 223 technical assistance grants for a total of \$101.3 million. Much of ADB's past lending was focused on agriculture (42% of the value of all loans), energy (21%), social infrastructure (16%), and transport and communications (14%).

Based on the findings of this study, priority setting for poverty reduction-oriented strategies and initiatives have been undertaken in full consultation with the Government, development partners, and nongovernment partners. In July 2001, the Country Strategy Program Update for 2002–2004 (2001 CSPU) updated the 1999 COS based on the poverty analysis and the views of the High-Level Forum that was held on 26 February 2001. The 2001 CSPU emphasizes poverty reduction as its sole objective. Sustainable poverty reduction will be achieved through (i) job generation and increased rural incomes resulting from faster and broad-based pro-poor economic growth, (ii) equitable improvements in basic social services to enhance human development, and (iii) good governance. ADB's future operational priorities will be focused to seven 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. This sharpened sectoral focus will be in key core competence areas where ADB has a comparative advantage to maximize the poverty reduction impact of its assistance.