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Country Poverty Analysis (Detailed)

Nepal

Asian Development Bank

COUNTRY POVERTY ANALYSIS: NEPAL

A. Background

1. This country poverty analysis draws mainly on the National Living Standards Surveys (NLSS), which was first conducted in 1996, and carried out again in 2004 and 2011.¹ The NLSS estimates the national poverty line following the cost of basic needs approach, which is the expenditure value in local currency required to fulfill both food and non food basic needs. The NLSS III findings can be disaggregated into fourteen analytical domains (mountains, urban-Kathmandu, urban-hill, urban-terai, eastern rural hills, rural central hills, rural western hills, rural mid- and far-western hills, rural eastern terai, rural central terai, rural western terai, and rural mid- and far-western terai. This analysis also draws from the Nepal Demographic Health Survey (2011) and the Census (2011) for information on health and access to basic services.

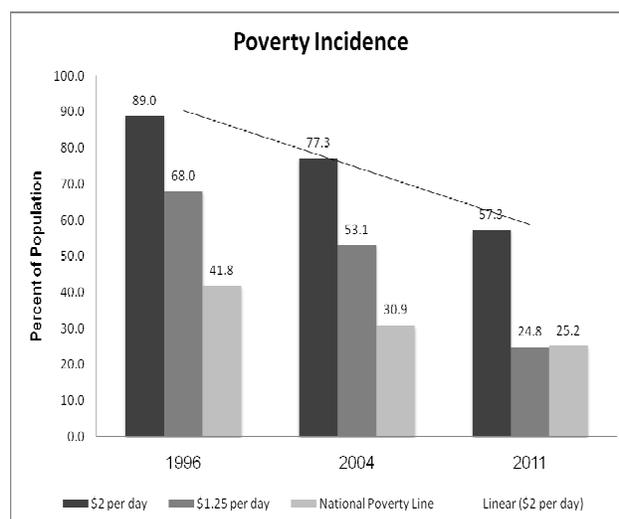
B. Income Poverty and its Distribution

2. Using the national poverty line, poverty incidence has been falling at an accelerated pace from 41.8% to 30.9% between 1996 and 2004 and further to 25.2% of the overall population in 2011. This remarkable decline occurred in the backdrop of a significant increase in the national poverty line from NRs7,696 per capita per year in 2004 to NRs19,261 per capita per year in 2011 to account for a higher quality consumption pattern.

3. Using international poverty line of \$1.25 per day, the incidence of poverty has declined steadily from 68.0% in 1996 to 53.1% in 2004 and 24.8% in 2011. Poverty incidence at \$2 per day has similarly declined from 89.0% in 1996 to 77.3% in 2004 and 57.3% in 2011 (Figure 1).

4. Despite the remarkable decline in overall poverty level, poverty in rural Nepal is still higher than urban Nepal, even though rural poverty is declining at a faster pace than urban poverty. While urban poverty fell from 21.6% in 1996 to 10.0% in 2004, it again rose to 15.5% in 2011. On the other hand, rural poverty has declined continuously from 43.3% to 35.0% and to 27.4% between 1996, 2004 and 2011.

5. Variation of poverty across the five development regions shows that poverty incidence in the far western development region is not only the highest but is also on the rise. The percentage of poor in the far western development region declined from 63.9% in 1996 to 41.0% in 2004, but risen again to 45.6% in 2011. In contrast, poverty incidence in the eastern development region is the lowest and has been steadily declining from 38.9% to 29.3% between 1996 and 2004 and further to 21.4% 2011.



¹ Please note that data reported for 1996, 2004, and 2011 correspond to data covering the fiscal year of the government, which would be 1995/96, 2003/04, and 2010/11. The World Bank reports the same data corresponding to 1995, 2003 and 2010.

6. In 2011, poverty in the mountains was most prevalent at 42.3% in contrast to an average of 8.7% in the urban hills. Similarly, the mountains not only have the highest percentage of poverty on average, but it is also increasing. Poverty incidence in the mountains decreased considerably from 57.0% to 32.6% between 1996 and 2004, but has since increased to 42.3% in 2011. It is comparatively lower in the other ecological zones—24.3% in the hills and 23.4% in the Terai.

7. The poverty gap index shows that on average, more Nepalese poor are closer to rising above the poverty line than they were 7 years ago. The poverty gap index measures the severity of poverty by considering how far, on average, the poor are from the poverty line. It can be interpreted as the average percentage shortfall in income of the poor, from the poverty line. Nepal's poverty gap (as per the national poverty line) has steadily declined from 11.8% in 1996 to 7.6% in 2004 and further to 5.4% in 2011. Similarly, the rural poverty gap index has also been steadily declining from 12.1% in 1996 to 8.5% in 2004 and 5.9% in 2011— indicating that the average rural poor's probability of escaping out of poverty has improved.

8. Corresponding to the highest incidence of poverty in the far western development region, the poverty gap index was also the highest at 10.74% in 2011, indicating the region's relative backwardness both in terms of poverty incidence and its severity. On the other hand, not only is the eastern development region lowest in prevalence of poverty, but the region also had the lowest poverty gap index at 3.8% in 2011. Geographically, besides having the highest poverty incidence, the severity of poverty is also the worst in the mountain districts, where the poverty gap index is at 10.1%.

9. Overall, the squared poverty gap has been decreasing, indicating a decline in severity of poverty amongst the poor. The squared poverty gap shows the severity of inequality amongst the poor. It has steadily decreased from 4.6 to 2.70 between 1996 and 2004 and further to 1.81 in 2011.

10. The different subgroups of poor in urban Nepal have a lower poverty variation and are therefore more at convergence compared to the poor in rural Nepal. In FY2011, the squared poverty index for urban Nepal was 1.01, while the squared poverty index for rural Nepal was 2.00. However, inequality amongst the poor in urban Nepal has increased since the last NLSS survey—urban squared poverty index decreased from 2.65 to 0.70 and then rose to 1.01 in FY1996, FY2004 and FY2011 correspondingly. Conversely, rural inequality amongst the poor has been continuously declining from 4.83 to 3.10 and further to 2.00 in FY1996, FY2004 and FY2011 respectively.

11. In FY2011, the far western development region had the highest rates of poverty and the region's poor were most unlikely to escape out of poverty. Correspondingly, inequality amongst the poor in this region is also the highest with the squared poverty gap index at 3.77 in FY2011. On the other hand, inequality amongst the poor is lowest in the eastern development region with a comparatively lower square poverty gap index at 1.01.

12. Corresponding to its highest incidence of poverty and relative backwardness in its ability to escape out of poverty, inequality amongst the mountain poor under the ecological zone category is also the highest—in FY2011, squared poverty index of the mountains was 3.54, compared to a lower index at 2.09 of the hills and 1.31 of the tarai.

13. Even though under the analytical domain category, the mountain area has the highest poverty incidence and the poor there are least likely to escape out of poverty, inequality amongst the poor was highest in the rural central hills of Nepal in FY2011.

14. The above poverty estimates are based on the current official poverty line of NRs.19,261 per capita per year. As per the international poverty line of US\$1.25 per day, a level often used for making international comparisons, poverty incidence was 24.8% in 2011. Thus, as per the international poverty line estimates, poverty was reduced almost by half from 53.1% in 2004.

15. As per the head count index, poverty is declining, overall. Although rural poverty is declining at a faster pace than urban poverty, poverty incidence is still predominantly a rural phenomena. Amongst the five development regions, poverty is highest and rising in the far-western development region, and in the mountains.

16. Similarly, as per the poverty gap index, the ability of Nepal's poor to rise above the poverty line is increasing. Even though the urban poor is closer to the poverty line, the urban poor is escaping out of poverty at a slower pace while the rural poor's poverty intensity is declining. The poor from the far-western development region and the mountains are furthest away from the poverty line.

17. Findings from the squared poverty gap index show that inequality amongst different subgroups of the poor is declining. While inequality amongst the rural poor is higher than inequality amongst the urban poor, inequality amongst the rural poor is declining in contrast to an increasing trend for inequality amongst the urban poor. Inequality is highest amongst the poor of the far western development region and amongst the mountain poor under the development region and ecological zone category respectively; and (iv) inequality amongst the poor of the central hills is highest under the analytical domain category.

C. Changes in Income Distribution over Time

18. Just as the estimates presented thus far indicate an improvement in average national prevalence, intensity and severity of poverty, inequality in Nepal is also improving, even though urban inequality is wider than rural inequality.

19. Inequality in Nepal widened between 1996 and 2004, but then narrowed in 2011. The Gini coefficient, which increased from 0.34 to 0.41 between 1996 and 2004 has since declined to 0.33 in 2011. Inequality in urban Nepal is wider than inequality in the nation as a whole, even though it is akin to the national trend. Inequality in the urban area widened from 0.43 in FY1996 to 0.44 in FY2004 only to narrow to 0.35 in FY2011. Furthermore, gini coefficient estimates also measure a similar trend for rural Nepal: inequality increased from 0.31 to 0.35 and then decreased to 0.31 in FY1996, FY2004 and FY2011 respectively. Moreover, rural inequality is lower than both urban and inequality in the nation as a whole.

20. In FY2011, consumption based inequality was lower than income based inequality. The poorest quintile group had 7.6% of its share in total consumption compared to 45.1% of the richest quintile group's share in total consumption. On the other hand, the poorest quintile group only had a meager 4.1% of its share in total income compared to a whopping 56.2% of the richest quintile group's share in total income. Similarly, gaps in per capita consumption amongst the second, third and fourth poorest quintile group were also lower than the gaps in per capita income amongst groups of the same category, demonstrating a lower consumption based inequality compared to an income based inequality. Also, up to the third quintile group from the bottom, the level of per capita consumption was higher than their income. Accordingly, in FY2011, around 60% of the lowest quintile groups consumed around 33.8% share of total consumption as against only 24.1% share of total income. This indicates a tendency towards either a debt based or remittance based consumption led pro poor growth. On the other hand,

the per capita consumption of the top two quintile groups was lower than the per capita income of the groups of the same category. Thus, in FY2011, around 20% of the highest quintile groups in Nepal consumed around 66.30% of total consumption as against 75.9% of income, signifying a higher rate of savings amongst the richer groups than amongst the poorer groups.

D. Millennium Development Goals (MDG): A Human Development Approach to Poverty Alleviation

21. The ability of households to meet their basic consumption needs and to have access to resources such as adequate living conditions, education, health, nutrition and a clean and green environment are important non income dimensions of poverty and key aspects of human development. These measures of human development are taken into account by the MDGs, which the global development community has adopted as the benchmark for monitoring progress in global poverty alleviation. Nepal has registered a remarkable progress towards achieving the MDGs and is on track to achieving at least six out of the eight MDG targets by 2015.

22. **Goal 1: Eradicate extreme poverty and hunger.** Of the three indicators used to measure extreme poverty and hunger, Nepal is most likely to achieve the target of cutting down in half the proportion of people whose income is less than a dollar a day. Even by the international poverty line standards, poverty in Nepal reduced almost by half from 53.1% in 2004 to 24.8% in FY2011. The MDG target of meeting full and productive employment for all by 2015 is potentially likely as per the latest MDG progress report for Nepal.² Challenges in achieving full employment include (i) inability of the Nepali state to create a business friendly environment, (ii) poor implementation of property rights, (iii) rigidity in the labor market, (iv) low levels of foreign direct investment (FDI) due to challenges in the legal and regulatory framework, (v) prolonged political uncertainty, and (vi) infrastructure bottlenecks such as poor access to power and road network. On the other hand, the MDG target to halve the proportion of people who suffer from hunger is likely to be met. As per the latest data, the prevalence of underweight children aged 6 – 59 months has declined from 57.0% in 1990 to 28.8% in 2011—the target for 2015 being 29.0%. The target for proportion of population below the minimum level of dietary energy consumption has also been met. As of 2011, 15.7% are below this threshold while the target for 2015 was 25%. However, the target for proportion of children 6 – 59 months who are stunted, of 30%, will be a challenge to meet as 41% of children under five are still stunted in Nepal.

23. **Goal 2: Universal primary education.** As per the latest MDG progress report, Nepal is potentially likely to achieve the target of universal primary education. Out of the three indicators measuring this target, Nepal has shown remarkable improvement in the net enrollment rate in primary education—net enrollment rate increased from 64% to a whopping 95.3% in 2013. Similarly, the improvement in proportion of pupils that survive to grade 5 has increased from 38.0% in 1990 to 84.2% in 2013. The literacy rate has also increased from 49.6% in 1990 to 88.6% in 2013. But it will be challenging to achieve that target of 100% on all three fronts by 2015.

24. **Goal 3: Gender equality and empowerment of women.** Surprisingly, despite Nepal's progress on the gender front, it is unlikely to achieve the MDG target to promote gender equality and empower women. Of the 6 different indicators that measure this goal, gender equality at the primary and secondary education levels have been achieved. However, significant gaps remain

² Government of Nepal, National Planning Commission and United Nations Country Team of Nepal. 2013. *Nepal Millennium Development Goals Progress Report 2013*. Kathmandu.

in gender equality at the tertiary level and literacy rate amongst 15-24 year olds. In recent years, the share of women in wage employment in the non agricultural sector has improved from 18.9% in 1990 to 44.8% in 2013, and the proportion of seats held by women in national parliament increased from 3.4% in 1990 to 32.8% in the last constituent assembly. However, gaps remain.

25. **Goal 4: Reduce child mortality.** A landmark progress has been achieved in reducing child mortality and indicators point to the possibility that Nepal may achieve its goal by 2015. In fact, trend analysis of data show that infant mortality has declined from 108 deaths per 1,000 live births in 1990 to 46 deaths per 1,000 live births in 2011. The target is to drop this to 36 deaths per 1,000 live births. As for the target related to under-five mortality, this has been met with a decline in under-five mortality rate from 162 deaths per 1,000 live births in 1990 to 54 deaths per 1,000 live births in 2011. The National Immunization Program, including vaccination against measles, is a successful government run free program that is credited for the successful increase in immunization of one year old children from 42% in 1990 to 88% in 2011.

26. **Goal 5: Improve maternal health.** On the maternal health front, Nepal has achieved its target to reduce maternal mortality ratio (MMR) by three quarters. MMR decreased from 850 deaths per 100,000 live births in 1990 to 170 deaths in 2011. As per the latest MDG progress report, 50% of births are attended by skilled birth attendants. The target of achieving 60% is thus likely by 2015. The government's initiation of the Safe Motherhood Program in 1997 was a landmark initiative to reduce MMR and increase the access of mothers to skilled birth attendants. The program not only deals with improving obstetric care related infrastructure but also seeks to ensure equity and accessibility of obstetric care.

27. **Goal 6: Combat HIV/AIDS, malaria and other diseases.** Nepal is likely to achieve its MDG target for halting and reversing the spread of HIV/AIDS. HIV infection amongst youth between 15-24 years is declining. It has dropped from 0.15% in 2005 to 0.12% in 2013. The continuous decline in HIV/AIDS can be attributed to the following reasons: (i) government recognizes HIV/AIDS as a developmental issue and has prioritized programs within the national plan to tackle the epidemic; (ii) reported usage of condoms has been increasing amongst all genders of sex workers; and (iii) knowledge and awareness of HIV/AIDS has been increasing over time. However, the target of 80% of the population with advanced HIV infection receiving antiretroviral combination therapy remains a challenge as only 28.7% were receiving treatment as of 2013.

28. HIV/AIDS in Nepal is concentrated amongst key affected groups of people such as seasonal male labor migrants that constitute 42% of all infections. This is followed by urban and low risk females who are likely to be wives of labor migrants, clients of sex workers, female sex workers and men who have sex with men. Survey results show that commercial sex, sharing of injecting needles and migration to India are the primary risk factors for HIV/AIDS.

29. Nepal is assessed to have achieved the goal to halt and reverse the incidence of malaria and other major diseases. Both the prevalence rate and the death rates associated with malaria have been on a continuously declining trend. In fact, the incidence of clinical malaria has declined from 5.67% per 1,000 people in 2010 to 3.28% in 2013, and there were no deaths related to malaria in 2013. The proportion of children sleeping under insecticide treated bed nets has improved from 48.2% in 2005 to 96.8% in 2013. The reasons for decline in malarial infection are (i) effective nationwide implementation of malaria control activities, (ii) free distribution of long lasting insecticide treated nets, (iii) two rounds of indoor residual spraying every year in malaria infected areas, (iv) improvement in anti malarial treatment, and (v) development and implementation of the National Malaria Control Strategic Plan.

30. Similarly, the prevalence of tuberculosis declined from 460 per 100,000 people in 1990 to 238 in 2013. The World Health Organization (WHO) defined targets of a 70% case detection rate and an 85% treatment success rate has already been achieved, and hence the MDG target for this category is also likely to be achieved. The main reason for success in tuberculosis detection and treatment is the successful implementation of the DOTS Plus program for the treatment of multi-drug resistant tuberculosis.

31. **Goal 7: Ensure environmental sustainability.** Nepal is assessed to be likely to achieve the goal related to integrating the principles of sustainable development into country policies and programs and reverse the loss of environmental resources (Target 7A). Nepal has no or only little role in global warming since its carbon dioxide emissions were only about 0.1 tons per capita in 2103 and the growth rate of carbon dioxide equivalent emissions is lowest amongst developing countries. Similarly, the Government's efforts to ban ozone depleting substances has resulted in a continuous decline of consumption of all ozone depleting substances from 25 tons in 1990 to 0.88 tons in 2005. Data for more recent years is not available. Energy consumption has increased only minimally from 6,847 ToE in 1990 to 10,155 ToE in 2013 and the commercial usage of energy per unit of GDP has increased from 1.44 ToE/mRs in 1990 to 3.2 ToE/mRs in 2013. Although fuel wood is still the dominant source of energy for households in Nepal, the proportion of people using fuel wood as their main source of energy is slowly declining from 75% of the total population in 1990 to 64.4% in 2013. On the other hand, liquefied petroleum gas is not as widely used but its usage has increased from 7.7% of the population in 2000 to 18.0% in 2013. Key factors that have contributed to the above mentioned improvement are (i) Nepal Government's prioritized promotion of alternative energy, (ii) support from key donors for national programs on alternative energy, and (iii) the Government's commitment and adoption of the framework on climate change. On the other hand, the biggest challenges to mitigating climate change are (i) affordability and accessibility of renewable energy services, especially for the poor; (ii) inadequate infrastructure and lack of technical, managerial and financial skills; (iii) Nepal's geography is vulnerable to climate change; (iv) lack of research on aspects of climate change that are Nepal specific; and (v) Nepal's inability to realize its hydropower potential.

32. With regards to Target 7B (Reduce biodiversity loss, achieving a significant reduction in the rate of loss by 2010), the latest progress report assesses it to be potentially like to be met by 2015. Most indicators that measure reduction in biodiversity loss lack sufficient data. Still, Nepal has a significant size of its total land area dedicated to forest conservation—in 2013, 39.6% of Nepal's total land area was forest covered, and 23.2% of terrestrial land was protected. Around 40% of Nepal's total households are benefitting from community forests and forest area managed by community forestry has increased from 0.013 million ha in 1990 to 1.65 million ha in 2013.

33. On the water supply and sanitation front, Nepal has achieved the MDG targets to halve the proportion of people without sustainable access to safe drinking water and basic sanitation. As of 2013, 85% of households had access to an improved source of drinking water and 62% had access to toilets. The Government's new Three Year Plan (FY2014 – 2016) seeks to achieve universal coverage of water supply and sanitation and guides investments and programs in this sector.

34. While the population living in slum and squatters increased from 11,850 in 1990 to 50,000 in 2010, sufficient data to measure the improvement in the lives of these slum dwellers is unavailable. The squatter population is comprised mostly of freed bonded laborers, landless

people and migrants from rural areas. While it is imperative to improve living conditions of squatter populations by providing access to clean drinking water systems and improved sanitation facilities, it is equally necessary to come up with a plan to reduce the ever increasing pace of rural-urban migration and to offer a proper relief and rehabilitation package to the freed bonded laborers.

E. Rationale for Decline in Poverty

35. The factors that have had the most significant impact on reducing the above mentioned estimates of poverty incidence, intensity and severity and have contributed to human development indicators are (i) increase in remittance; (ii) growth in agriculture sector and rise in farm income; (iii) poverty reduction is a main focus in planned development; (iv) greater access to rural finance and increase in microfinance institutions; (v) growth in human capital development; and (vi) increase in access to facilities such as roads, schools, health posts, hospitals, public transportation, markets and financing.

36. Contribution of remittances has been a key factor in increasing per capita income and poverty alleviation: (i) remittances have helped maintain macroeconomic stability during the conflict era, (ii) remittances are the second largest source of income after agriculture, (iii) remittances increased from 15.3% of GDP in FY2006 to 18.7% in FY2011, (iv) remittance in amount increased from NRs13 billion in FY1996 to NRs259 billion in FY2011, (v) percentage of households receiving remittance increased from 23.4% in FY1996 to 56% in FY2011, (vi) nominal average amount of remittance per recipient household increased from NRs15,160 in FY1996 to NRs80,436 in FY2011, (vii) share of remittance in total household income among recipients increased from 26.6% in FY1996 to 30.9% in FY2011, and (viii) nominal per capita remittance received for all Nepal increased from NRs625 in FY1996 to NRs9,245 in FY2011.

37. With around 74% of the population involved in agriculture and the sector comprising one third of GDP, agriculture's huge role in poverty reduction is unequivocal. Agriculture growth rates for the past two decades have not been impressive and have hovered around a meager average of 3%-3.2%. On the other hand, agriculture growth rates increased to 4.5% and 4.9% in FY2011 and FY2012 owing to improved monsoon, better distribution of fertilizers, usage of improved seeds and technology and increasing commercialization of the sector. Moreover, the declining trend in family size and the tightening of the labor market due to worker migration from rural areas have caused real wages in agriculture to increase to 22% in the last seven years as compared to an only 6% increase in the non agriculture sector.

38. Nepal's significant decline in poverty could not have been possible without the Government prioritizing poverty alleviation as a strategy in planned development. The Government's commitment to poverty reduction has been made clear from the beginning of the planned period in 1956. Furthermore, the Tenth Plan (FY2002—FY2007) was developed as a Poverty Reduction Strategy Paper with the chief objective to reduce poverty and the current Approach Paper for the Three Year Plan (FY2011—FY2013) prioritizes employment generation as a strategy for poverty alleviation and to achieve the MDG targets by 2015.

39. Access to rural finance enables microenterprise development and commercialization of agriculture, which is crucial for poverty alleviation. Financial institutions in Nepal have not only increased in number but the Central Bank's offer of special interest rates based benefit to financial institutions has caused the number of bank branches to increase from 555 bank branches in FY2008 to 1,245 bank branches in mid July 2011.

40. Education is a key element of human capital development that is crucial for poverty alleviation. As already discussed in the MDG section of this report, all the indicators measuring education and literacy have made considerable improvement over the years.

41. Access to necessary facilities not only increases the quality of life of an individual or community, but also improves the living conditions and alleviates poverty. With the inception of the peace process market led development has slowly gained pace and the period witnessed an increase in private sector investment in hydropower, roads, transport, education, health facilities, hospitals, civil aviation and financial services.

F. Social Exclusion

42. Social inclusion was one of the four pillars of Nepal's Poverty Reduction Strategy Paper, which was also the Tenth Plan. The same plan recognized that apart from economic aspects of poverty and human development; political representation, agency and empowerment are equally important dimensions of poverty. As reported in the preceding sections, both poverty and human development have improved at the national level; but widespread disparities on all three aspects of poverty exist on the basis of gender, caste, ethnicity and geography.

43. While economic poverty by geography has already been discussed in the preceding sections, poverty incidences by caste and ethnicity are highest amongst the hill and tarai Dalits. A whopping 57.8% and 45.5% of the total hill and tarai Dalit population were poor in FY1996 and FY2004 respectively. Even though NLSS III placed the hill and tarai Dalits under separate categories in FY2011, these groups were still the poorest with 43.63% of poor amongst the hill Dalit population and 38.16% poor amongst the tarai Dalit population. Following the tarai Dalit group, at 28.69% in FY2011, poverty incidences were highest amongst the tarai other caste group, which was followed by the hill Janajatis at 28.25%. Conversely, poverty incidence was at a lower proportion for Newars and hill Brahmins at 10.25% and 10.34% respectively.

44. HDI, which is an average measure of life expectancy, adult literacy rate and gross domestic product per capita, measured wider disparities based on caste and ethnicity than by geographic region. In 2006, three caste groups comprising of madhesi Brahmin and Chettri, Newar and hill Brahmin had a higher HDI value of (0.6 and above) than that of Dalits and Janjatis both of the hills and tarai. Madhesi Dalits had the lowest HDI value of 0.383 followed by Muslims at 0.401.

45. Disparities in human development indicators between lower and upper caste groups and ethnic groups are widespread. In 2009, the Dalit population at 20% comprised the lowest caste group enrolled in primary education followed by 38.6% Janjatis as compared to a high 93.7% nett enrollment rate in primary education. Similarly, in 2006, the literacy rate for all Dalits was lowest at 59.9%, followed by Madhesi other castes at 72% and all Janjatis at 79.6%. Literacy rate for hill Brahmins was highest at 96.9%. Similarly, hill Dalits have the highest under five mortality rate at 95 deaths per 1,000 live births compared to the lowest corresponding figure for Newars at 43.

G. Social Exclusion and Disparities Result from Political Poverty

46. Our poverty assessment thus far informs that even though poverty and human development indicators have been improving at the national level; widespread disparities with respect to caste, ethnicity, geography and gender still exist. While the madhesi/hill Dalits and Muslims are lowest in poverty incidence and most human development indicators, the other Madhesi castes and Janjati groups also suffer from similar disparities. Similarly, human

development among women is less than that of men. A juxtaposition of the assessment of poverty and human development at the national level vis-à-vis poverty assessment of different social groups and geographic regions ipso facto raises an inquiry on the dichotomy of the findings of these assessments. The remaining section will try and investigate the reasons behind these mutually exclusive findings.

47. It is not only widely agreed that lack of political representation of different social groups causes disparities in economic poverty and human development; but also that participation of these groups in decision making processes is indispensable to (i) remove disparities amongst social groups and enable them to partake in the development process, (ii) improve the livelihood status of marginalized groups, (iii) empower these groups so that they can successfully engage in and influence the development process, and (iv) transform the political and socio-economic structure to positively influence governance.

48. Another dimension of poverty that is not only a feature of Nepal but is also the key reason for existing disparities amongst social groups is political poverty. This, as described by the World Bank's publication, arises from a lack of political representation of women and different ethnic and caste groups in mainstream political parties and government institutions. In other words, the mentioned criteria unequivocally states that political inclusion in the legislature and different branches of government, and equitable access to the judicial system along with a broadening and deepening of democracy are imperative for the removal of widespread inequalities amongst different caste, ethnic, gender and geographic groups.

49. In fact, political and socioeconomic transformation for inclusive democracy was a key agenda of both the Comprehensive Peace Accord and the Interim Constitution 2007, and hence a mixed electoral system constituting both the First Past The Post (FPTP) and the Proportional Representation (PR) systems were adopted for the elections to the Constituent Assembly (CA). As a result, Nepal's CA was the most representative in history and the total representation for Dalits in parliament and CA increased from 1 in 1991 to 49 in 2008. Similarly, female representation increased from 5.8% in 1999 to 32.8% in 2008, and the representation of other ethnic, religious and caste groups also increased in proportion to their population.

50. Even though the PR system increased the number of proportional representation and fostered inclusion, the system is not ideal for generating accountability and instead tends to promote loyalty towards party leaders that nominate representatives. The PR system allows a small group of party leaders to select representatives, and lacking in accountability, these representatives are neither able to provide the agency necessary for marginalized communities to participate in the development process, nor are they able to advocate policies and institutions that favor a truly inclusive agenda. Moreover, representation at the decision making level in mainstream political parties remain socially exclusive and loyalty to party leaders results in the promotion of policies and institutions that favor the majority.

51. Besides the necessity for a fair and democratic representation in the legislative; disparities by caste, ethnicity and gender also exist in representation in state organs, administration, leadership positions of constitutional bodies, bureau of political parties and civil society organizations. Hence, data from 2005 show that females, Dalits, Janjatis, Madhesis and Muslims were under represented in almost all organs of state and society. As a result, these groups are lacking in voice, agency and influence necessary for removing barriers and increasing access to development opportunities that will result in improved livelihood status.

Appendix 1: Poverty Profile by Analytical Domain (2011)

Region	Incidence			Distribution	
	Headcount rate	Poverty gap (x100)	Poverty gap squared (x100)	Of the poor	Of the population
Urban	15.46	3.19	1.01	11.7	19.0
Rural	27.43	5.96	2.00	88.3	81.0
Eastern	21.44	3.81	1.01	19.8	23.3
Central	21.69	4.96	1.76	30.8	35.7
Western	22.25	4.27	1.38	16.9	19.2
Mid-western	31.68	7.74	2.69	16.4	13.0
Far-western	45.61	10.74	3.77	16.0	8.8
Mountain	42.27	10.14	3.54	11.8	7.0
Hill	24.32	5.69	2.09	42.8	44.2
Terai	23.44	4.52	1.31	45.4	48.7
Urban-Kathmandu	11.47	2.77	1.00	2.6	5.7
Urban-Hill	8.72	1.75	0.54	1.5	4.4
Urban-Terai	22.04	4.31	1.29	7.5	8.6
Rural hills-Eastern	15.93	2.91	0.82	4.0	6.3
Rural hills-Central	29.37	8.52	3.70	10.8	9.3
Rural hills-Western	28.01	5.31	1.75	10.5	9.5
Rural hills-Mid & Far western	36.83	8.89	3.13	13.3	9.1
Rural terai-Eastern	20.97	3.67	0.91	9.6	11.6
Rural terai -Central	23.13	4.14	1.08	13.9	15.1
Rural terai -Western	22.31	4.4	1.35	5.9	6.6
Rural terai -Mid & Far western	31.09	7.17	2.47	8.5	6.9
NEPAL	25.16	5.43	1.81	100.0	100.0

Source: Government of Nepal, Central Bureau of Statistics. 2012. *Poverty in Nepal 2010/11*. Kathmandu.

Appendix 2: Poverty Incidence by Caste/Ethnic Group

Caste/Ethnicity	Incidence			Distribution of poor	Population ratio
	Headcount rate (%)	Poverty gap (%)	Poverty gap squared (%)		
Hill Brahmin	10.3	1.73	0.48	5.2	12.7
Hill Chhetri	23.4	5.55	1.86	16.6	17.8
Terai Brahmin	18.6	1.75	0.19	0.4	0.5
Terai Middle Class	28.7	5.36	1.47	17.6	15.4
Hill Dalits	43.6	10.89	4.22	15.2	8.7
Terai Dalits	38.2	8.09	2.24	6.9	4.6
Newar	10.3	2.07	0.70	2.5	6.2
Hill Janajati	28.3	6.64	2.49	24.4	21.8
Terai Janajati	25.9	4.48	1.25	7.3	7.1
Muslim	20.2	3.38	0.85	3.5	4.3
Others	12.3	3.58	1.13	0.5	0.9
NEPAL	25.2	5.43	1.81	100.0	100.0

Source: Government of Nepal, Central Bureau of Statistics. 2012. *Poverty in Nepal 2010/11*. Kathmandu.

Appendix 3: Progress Towards the MDGs: Status at a Glance (2013)

GOALS	WILL DEVELOPMENT GOALS BE ACHIEVED					STATUS OF SUPPORTIVE ENVIRONMENT			
	Achieved	Likely	Potentially likely	Unlikely	Lack of data	Strong	Fair	Weak but improving	Weak
Goal 1: Eradicate Extreme Poverty and Hunger									
1A. Halve the proportion of people whose income is less than one dollar a day		√				√			
1B. Achieve full and productive employment and decent work for all			√				√		
1C. Halve the proportion of people who suffer from hunger		√			√				
Goal 2: Achieve universal primary education									
Ensure children everywhere –boys and girls complete primary education			√			√			
Goal 3: Promote Gender Equality and Empowerment of women									
Eliminate gender disparity in primary and secondary by 2005 and in all levels of no later than 2015				√			√		
Goal 4: Reduce child mortality									
Reduce under-five mortality by two thirds		√				√			
Goal 5: Improve Maternal Health									
5A. Reduce the maternal mortality ratio by three - quarters	√					√			
5B. Achieve universal access to reproductive health		√				√			
Goal 6: Combat HIV/AIDS, malaria and other diseases									
6A. Halt and reverse the spread of HIV/AIDS		√				√			
6B. Achieve universal access to treatment for HIV/AIDS for all those who need it		√				√			
6C. Halt and reverse the incidence of malaria and other major diseases	√					√			
Goal 7: Ensure Environmental Sustainability									
7A. Climate change and GHG emission					√	√			
7B1. Reverse loss of forest		√					√		
7B2. Reduce biodiversity loss		√					√		
7C1. Halve proportion of population without sustainable access to improved water resource	√						√		
7C2. Halve Proportion of population without sustainable access to improved sanitation	√						√		
7D. Improve lives of slum dwellers					√				√

Source: Adopted from Government of Nepal, National Planning Commission and United Nations Country Team of Nepal. 2013. *Nepal Millennium Development Goals Progress Report 2013*. Kathmandu.

Appendix 4: Human Development by Caste and Ethnicity (2006)

Country/ caste-ethnicity	Life expectancy at birth	Adult literacy	Mean years of schooling	Per capita income PPP income in \$	Life expectancy Index	Educational Attainment	Income index	HDI	Ratio to national HDI	Rank
All Nepal	63.69	52.42	3.21	1,597	0.645	0.421	0.4624	0.509	100.0	
Caste /Ethnicity										
All Brahmin/Chhetri	62.95	63.65	4.40	2,027	0.633	0.522	0.5022	0.552	108.4	5
Hill Brahmin	68.10	69.93	5.40	2,395	0.718	0.586	0.5301	0.612	120.1	3
Hill Chhetri	60.61	58.40	3.69	1,736	0.594	0.471	0.4763	0.514	100.8	9
Terai/Madhesi/ Brahmin/ Chhetri	63.89	83.80	6.40	2,333	0.648	0.701	0.5257	0.625	122.7	1
Terai/Madhesi /other caste	61.94	41.85	2.30	1,119	0.616	0.330	0.4031	0.450	88.3	15
All Dalits	61.03	38.02	1.73	977	0.601	0.292	0.3804	0.424	83.3	18
Hill Dalits	60.89	45.50	2.07	1,099	0.598	0.349	0.4001	0.449	88.2	16
Terai/Madhesi/ Dalits	61.26	27.32	1.21	743	0.604	0.209	0.3348	0.383	75.1	20
Newar	68.00	68.20	4.66	3,097	0.717	0.558	0.5730	0.616	120.9	2
All janajati excluding Newar	62.91	51.67	2.96	1,405	0.632	0.410	0.4410	0.494	97.1	12
Hill/Mountain/Janajati	63.61	53.81	3.05	1,490	0.644	0.427	0.4509	0.507	99.5	11
Terai Janajati	61.55	48.11	2.81	1,224	0.609	0.383	0.4180	0.470	92.3	13
Muslim	60.99	30.32	1.60	890	0.600	0.238	0.3648	0.401	78.7	19
All Janajati including Newar	63.33	53.52	3.14	1,697	0.639	0.427	0.4726	0.513	100.7	10
All Hill Janajati including Newar	64.15	56.23	3.31	1,869	0.652	0.448	0.4887	0.530	104.0	7
All Hill/Mountain groups with Newar	63.12	58.47	3.67	1,846	0.635	0.471	0.4866	0.531	104.3	6
All Hill/Mountain groups without Newar	62.86	57.75	3.60	1,699	0.631	0.465	0.4728	0.523	102.7	8
All Terai/Mashesi groups with Muslim	61.59	42.34	2.37	1,094	0.610	0.335	0.3993	0.448	88.0	17
All Terai/Madhesi groups without Muslim	61.69	43.74	2.47	1,143	0.612	0.346	0.4066	0.455	89.3	14
Others	66.35	57.97	3.70	2,227	0.689	0.469	0.5180	0.559	109.7	4

HDI = human development index

Source: United Nations Development Programme. 2009. *Nepal Human Development Report 2009*. Kathmandu.