

POVERTY REDUCTION

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Poverty in Nepal

Nepal is mired by high and perpetuating incidence of poverty. The first effort to gauge the incidence of poverty was attempted in 1976/77, and subsequent estimation of poverty incidence was made on the basis of other national household surveys undertaken in some other contexts such as preparation of consumer price index, rural credit etc. The Nepal Living Standards Survey (1996) provides recent information on the dimension and characteristic features of poverty.

In 1976/77, about 33 percent of the population were estimated to be below poverty line defined in terms of certain minimum consumption basket. Though exact comparison is not possible due to changes in definition and methodology, poverty incidence is recorded at 42 percent in 1996. At the beginning of the Eighth Plan, it was estimated as high as 49 percent in 1992. So, the message is clear - poverty is hanging around and it is at a high level.

Poverty Situation in Nepal

	Percentage of Population Below the Poverty Line		
	Rural	Urban	Nepal
Comparison Between 1976/77 and 1995/96			
(i) Poverty Incidence in 1976/77 (SEIDCP, 1977)	33.0	22.0	33.0
(ii) Poverty Incidence in 1996 (CBS/World Bank 1996)	44.0	23.0	42.0
Comparison Between 1984/85 and 1995/96			
(i) Poverty Incidence in 1984/85			
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
(ii) Poverty Incidence in 1995/96 (NLSS)			
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

Source: World Bank (1999)

Poverty is accompanied by low level of human development indicators. Almost two-thirds of the adult population cannot read or write. Only less than half the population have access to safe drinking water, the country has the highest infant mortality rate (98 per thousand) in South Asia, and about half the children below five years of age are underweight.

Both poverty and lower value of human development indicators are more severe in mountainous and remote areas. It is widespread in rural areas, and females are even more affected. Likewise, certain socially excluded groups have remained poor.

Reasons for continued poverty

Feeble and annually fluctuating economic growth and rapid population increase are two main reasons for continuing poverty in Nepal. The long-term growth rate of per capita income is hardly about one percent per annum. The monsoon-based agriculture, and unorganized and limited urban-based economic activities could not take the economy too far ahead. Some of the successful targeted programs have too limited a coverage to make a dent at the national level. Delivery of social services through government mechanism is both inadequate and inefficient.

GDP Growth Rates: 1976/77 – 1995/96

Period	Agriculture	Non-Agriculture	Total
1976/77 – 1984/85	2.6	6.3	4.3
1984/85 - 1995/96	3.0	6.8	5.0
1976/77 – 1995/96	2.8	6.6	4.7
1996/96 - 1999/00	3.5	5.7	4.8

The recent history of planned development saw most of the time the private sector excluded from the development process. Likewise, centralized decision-making process pushed back the participation and involvement of local government bodies as well. Hence, the development process could never be broad based. Broad-based development process involving all the stakeholders of development in planning, implementing and monitoring of development activities ensure not just participation but cultivate a sense of ownership which in turn enables them in further promoting and nurturing the process of development. This realization has led to the greater confidence put upon market forces for the active participation of private sector, and the serious efforts to implement the decentralized local self-governance to energize the local government bodies.

But such shifts in themselves have not brought about any perceptible changes in the economic status of the people, even if economy showed a significant thrust ahead particularly in the urban areas. Reasons for such state of the affairs can be observed at two levels.

- A. Implementation and management, and
- B. Planning and sectoral performance.

A. Implementation and management:

Good strategies and policies are not ends in themselves. First they have to be evolved through consultative process, and second they have to be implemented effectively with the involvement of all the stakeholders. Both these things are lacking in their entirety. Political commitment has yet to emerge effectively to implement these processes in toto. At best, we have just reached to the stage where stakeholders are listened to but yet to accept them as partners in the decision-making process. Such half-way through towards effectively involving all the stakeholders in the decision-making process can be attributed to the lack of process through which such involvement can be ensured. Operational details are hardly clear for many of the policies. As a result, policies get crashed before they get fully operational.

Such problems get compounded by the frequent changes in policies due to the changes in government. The classic example of 'policy changes' due to political instability is the policy towards privatization of public enterprises. Such policy oscillations do not give a good message to the private sector, which plans its investment programs with fairly long-term consideration. Political instability has another manifestation in the frequent change in the project management staff.

Bureaucracy in Nepal has evolved through feudal social norms and centralized decision-making system. So, there is always a tendency to set up a system promoting arbitrary and discretionary and hence unpredictable decision-making of the government officials. System-based and facilitating role of the government is yet to emerge, and such role is often construed as weakening of the government. Ad hoc control is preferred over systemic regulation. So, there are implementation delays, private sector pushed behind due to insecure feeling, and ad hoc decision-making system gradually leading to centralized control system. Performing bureaucracy is the first requirement.

Financial resource utilization is another component where public institutions are subjected to severe criticisms. There is an increasing concern raised against thin distribution of resources in innumerable projects causing implementation delays and cost overrun. Political influence in the planning bodies is one reason for this. The other reason for this can be observed in weak planning bodies at various levels due to there is an apparent lack of project screening process.

With the liberal and market based economic policies, private sector has shown encouraging trend. However, its total participation is still constrained by various factors. Arbitrary and discretionary authority of government officials is one major factor in this respect. Besides, there are inadequate legal framework to ensure competition in both labor and product markets and to ensure greater transparency and accountability on the part of private sector as well. Cost of financial intermediation is still high calling for significant financial reform measures. Private sector is also a fragmented lot with myopic vision and mostly family based. Their involvement in improving and sharing the costs for the overall environment for active private sector participation is quite minimal if not absent altogether. Micro interests at the firm level overshadow the broad macro perspectives so essential for their organized development.

Another critical lacuna in our planning and implementation process is the poor monitoring. Monitoring is increasingly getting less and less emphasis. Monitoring of both impacts and progress is absolutely necessary to evolve sustainable development strategies.

B. Planning and Sectoral Performance

As we have seen, poverty is more of a rural phenomenon. And agriculture is the main occupation of the people in the rural areas. However, performance of agriculture sector is less than satisfactory. This sector is subsistence oriented and least modernized. As a result, agriculture productivity has remained at best stagnant. Due to limited prospects for area expansion, stagnant agriculture productivity means poor agriculture development. It also means low redistributive capacity of development. Since more than 3/4th of labor force still have their primary occupation in agriculture, stagnant agriculture tends to squeeze the domestic market (due to low purchasing power of majority of people) thus in the process limiting the growth prospects. There is a valid reason to believe stagnant agriculture productivity leading to unsustainable use of natural resources.

Low technology level is one reason for low productivity - not just in agriculture sector but in other sectors as well. Low literacy level, remoteness, and low health status due to poor social and economic infrastructures have made technological changes a difficult process. Besides, subsistence nature of agriculture sector does not encourage technological change. Its commercialisation has led to some significant technological change in a limited way. They make people capability poor.

1995/96 Survey: Literacy and Some Health Related Indicators

Quintile Group (percent)	Literacy Rates for 6 years and older (percent)	Population Reporting Chronic Illness (percent)	Households consulting None for Health Problems (percent)	Mean # of Children Ever Born Per Woman	Awareness and Use of Family Planning Methods (percent)	
					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
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*

The non-farm activities that can come up without much of backward and forward linkages of agriculture development are the manufacturing of export-oriented products and tourism. Poor governance, both civil and corporate, technological backwardness and poor human resources have eroded our comparative advantages in these products.

As we have discussed earlier, planning is very much a top down process. Decentralization has yet to be implemented with full effects. Weak institutional capacity of local government bodies is a critical problem.

Strategic Framework for Poverty Reduction

The Ninth Plan has clearly spelt out over all development strategy. Since it has poverty reduction as the sole objective, the strategy is oriented towards this sole goal. Three pronged strategies are proposed.

- I. Broad based growth,
- II. Social sector spending, and
- III. Targeted programs for the backward and vulnerable groups.

Broad and sustained high growth rate generating employment opportunities is regarded as the major tool for poverty reduction. For this, agriculture sector is identified as a lead sector having significant spin-off effects. Agriculture Perspective Plan provides a broad framework for developing agriculture sector. Its major thrusts are upon the use of modern agriculture inputs primarily chemical fertilizer, promote high value crops particularly in the hill areas, and push shallow tube wells for irrigation. It is expected that high growth rate in agriculture will push the growth of non-farm activities as well.

To secure high labor productivity from the employment opportunities, social sector spending particularly upon social priority sectors will be increased. Social

priority sectors include basic education, basic health facilities, and drinking water. These social priority sectors have yet to receive 20 percent of total government spending. However, increasing the spending has not been enough if past experiences are any guidelines. Though physical access has been enhanced significantly quality aspect has lagged behind considerably. So, delivery of quality social services and spending upon such items has become absolutely necessary.

It is well recognized that there are always such areas and groups, which will find difficulty in getting into the mainstream development process guided by market forces. So, to respond to such groups and areas, targeted intervention programs are also proposed.

With a view to evolve more participatory and accountable planning process, these development strategies and other reform measures are presented for further consultative process with different stakeholders including local government bodies, civic societies, non-government organizations, teaching communities etc. Consultations with women stakeholders are given particular emphasis. Such consultations are expected to make the poverty analysis and poverty reduction strategies more realistic, enhance a sense of ownership among the stakeholders in these strategies and programs, and make them an agent for monitoring development programs. Accordingly, National Planning Commission is preparing a draft outline of Interim Poverty Reduction Strategy Paper. As this exercise is expected to make the government planning process more transparent and accountable, it is also being required by donor agencies particularly by multi-lateral donors for their assistance strategy. Such PRSP is also expected to provide a common basis within which all the donors will design their assistance strategy to the country. At the moment, each of the countries and multi-lateral agencies has developed their own poverty reduction strategies making coordination job complicated. The final I-PRSP will be later evolved into the approach paper for the Tenth Plan. The Tenth Plan will then incorporate full-fledged Poverty Reduction Strategy Paper.

The I-PRSP has re-iterated the broad development strategies as outlined in the Ninth Plan. However, as weak implementation capacity is one major bottleneck of development, it is given prime importance. In this context, efforts are needed to:

- Enhance implementation capacity of the government and its service delivery,
- Ensure competition and promote private sector participation, and
- Support decentralization and strengthen local government agencies.

Civil service reform, corporate governance, decentralization and capacity building of the local government bodies, financial sector reform, legal provisions for ensuring competition etc. are some of the programs proposed for strengthening implementation capacity at all the fronts - central government, private sector, and the local government bodies.

At the sectoral performance and planning front, I-PRSP emphasizes to:

- Promote agriculture development
- Allot higher share to the social priority sectors
- Ensure better accessibility to the backward and inaccessible areas
- Promote other sectoral programs - tourism, small, medium and micro-hydro power, small and medium enterprises

- Promote targeted programs - access to resources, improving infrastructures, skill generation, income generating activities, targeting etc.
- Poverty mapping and monitoring
- Monitoring and evaluation

Various programs have been identified and they are still in the process of being finalized. In conclusion, these strategies and program identification are conspicuous not by their newness but by consultative process through which they are re-iterated.