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Poverty reduction in Nepal: a clinical economics approach

Gyan Pradhan
Rabindra Bhandari
Westminster College

Introduction: According to Sachs (2005), development economics resembles modern medicine and if development economics is to be effective, economists need to be trained to think like clinicians and adopt the thoroughness, understanding and realism of modern medicine. A clinical economics approach to addressing the challenge of extreme poverty and the prospects of economic growth in developing countries involves a thorough examination of the problem followed by an appropriate treatment routine. Sachs (2005) suggests that in order to examine an impoverished country, the clinical economist should go through a diagnostic checklist that includes the following: the extent of extreme poverty, economic policy framework, fiscal framework, physical geography and human ecology, patterns of governance, cultural barriers to economic development, and geopolitics. Following Sachs (2005), this paper adopts a clinical economics approach and attempts to undertake a systematic “differential diagnosis” of the nature and scope of poverty in Nepal. Subsequently, we will examine the causes of poverty and the determinants of household per capita income in Nepal. Ultimately, we hope to propose programs and institutions to address the critical barriers to poverty reduction that are identified through the differential diagnosis. As Sachs suggests, these strategies will be much more effective if the right questions are asked from the start. Given the current tumultuous environment in Nepal, it is difficult to be sanguine about the prospects for improving living standards. However, regardless of what political situation emerges in the near future, political stability will not endure without sustained improvement in living standards.

The poverty dimension: In terms of per capita income, Nepal is the poorest country in South Asia and among the poorest in the world. However, between 1995/96 and 2003/04, poverty rates declined considerably across the country — the headcount poverty rate declined from 42 percent to 31 percent. Urban poverty declined from 22 percent to 10 percent, and rural poverty declined from 43 percent to 35 percent. There has been an improvement in the standard of living as well. Agricultural wages have increased, as has the ownership of durable goods and consumption of luxury goods. The proportion of households reporting

inadequate food consumption declined, and self-assessments of adequacy of housing, clothing, health care and children's schooling improved. Nepal has also improved some of its human development indicators. Infant and child mortality rates declined although there are large regional variations. Nepal's achievements are particularly impressive given the difficult and conflict-ridden environment. While the reduction in poverty has been quite remarkable, overall inequality actually widened during the period — the Gini coefficient increased from 0.34 to 0.41.

A number of explanations have been put forth to explain Nepal's rather impressive achievements in reducing poverty. First, a significant increase in remittances helped to increase consumption. The proportion of households receiving remittances increased from 24 percent in 1995/96 to 32 percent in 2003/04. It is estimated that more than one million Nepalese (roughly 1 out of every 11 youths) worked abroad, primarily in India, the Gulf and East Asian countries. Moreover, the average real remittance amount has risen by more than 80 percent. Second, as a result of improving productivity and a tightening labor market, agricultural wages increased by about 25 percent in real terms over the past decade. Increased demand, together with improved connectivity and better access to markets, has stimulated entrepreneurial activities and allowed for non-agricultural wages and incomes to rise. Non-agricultural wages rose by 20 percent during the period and skilled wages doubled. Third, the growth in urbanization from 7 percent to 15 percent during the past ten years has moved workers from low productivity jobs in rural areas to higher productivity jobs in urban areas. Finally, the decline in fertility which began in the 1980s has reduced household size and the dependency ratio.

Although Nepal has made significant gains, poverty is still pervasive and multifaceted, and it remains Nepal's most pressing problem. Poverty in Nepal is by and large a rural occurrence — about 90 percent of Nepal's poor inhabit rural areas. In 52 districts, the average proportion of people living below the poverty line is 35 percent, four percent more than the national average. In more than 25 remote districts in the mid-western and far-western hills and mountain regions, poverty afflicts 45-60 percent of the population. While overall poverty declined by 56 percent in urban areas during the said period, rural poverty declined by only 20 percent, serving to underscore the pattern and pace of economic growth in rural and urban areas and the resultant disparity in economic opportunities. Rural poverty has suffered primarily due to stagnation in the growth of agriculture, the main source of income and employment, as well as the lack of access to basic social and economic infrastructure.

Human development: It is also possible to measure poverty more broadly in terms of access to basic social and economic infrastructure which help to improve quality of life at different levels of income. Access to education is probably the most important, because it enables one to climb out of poverty over time. Access to healthcare, safe drinking water and sanitation also contributes to improved living standards and life expectancy. Over the past two decades, Nepal has made significant progress in terms of such qualitative indicators. However, human development indicators are still low, and as with income poverty, wide variations exist within the country. For instance, the Human Development Index (HDI) is much higher in urban areas than in rural areas due to better access to services, resources and opportunities in urban areas. For similar reasons, the HDI is much higher in the hills than in the mountain areas. In addition, many large cities and towns including Kathmandu Valley are located in the hills. The HDI is higher in the central, eastern and western regions due to the concentration of trading centers and productive economic activities.

Gender-based disparities: Nepal has made significant progress with regard to female life expectancy, female literacy, and primary and secondary school completion rates. However, large gender gaps remain. For instance, life expectancy and average years of schooling are much lower for females compared to males. It is also apparent from the data that female-headed households tend to be poorer and spend less on consumption than their male-headed counterparts. While about 13 percent of all households nationally are headed by females, that proportion for households in 13 mountain and remote districts is more than 20 percent, helping to explain the higher poverty incidence in the mountain region. Moreover, women constitute only about a third of the paid labor force and their wages for the same type of work are lower than those for men. For example, women agricultural workers earn about 20 percent less than men. As a general rule, a woman's share in household assets and resources is more uncertain than that of men. Traditionally, it is men who inherit family land and control the allocation of household income and assets. And women's legal right to inherit parental property is still limited. Women in Nepal are also largely without influence in the public domain. Women make up only about 8 percent of the civil service and 4 percent of those holding officer level positions. Women are also under-represented in national and local governments.

Ethnicity and caste-based differences: Several waves of immigration over the past 2000 years in Nepal have resulted in a pluralistic society with diverse ethnic, caste, linguistic and religious communities. There are about 60 recorded castes and ethnic groups (mostly Indo-Aryan and Mongol) and 70 languages (mostly Indo-Aryan and Tibeto-Burman). There are many indigenous ethnic (Janjatis) and caste (Dalits) groups who have been historically disadvantaged. Such groups continue to lag behind in terms of income and assets, educational achievement, human development indicators, and representation in the power structure. Although one does not observe a simple correlation between rank in the traditional caste system and poverty level, there are broad linkages. The poverty level among the lower social castes is generally much higher (ranging from 45 to 70 percent) than that of groups higher in the social ladder. The HDI for Janajatis and Dalits fall below the national average and well below that for Newars, Brahmins and Chhetris. Notwithstanding some government efforts after 1991, there has not been much success in improving the educational, economic or welfare status of Dalits and Janajati groups. It is telling that high caste Brahmins and Chhetris have more than twice the level of participation in the civil service, public office and political leadership, and Newars nearly three times their population share. In contrast, the hill Janajatis have about 30 percent and Dalits only 3 percent of the participation they would have if they were represented in proportion to their population share in the country.

Summary: The preceding discussion suggests that the poor in Nepal share several common characteristics. People who tend to remain poor are households of agricultural wage earners, those who are landless or have small land holdings, those with illiterate heads of households, and those living in households with seven or more members. There are broad correlations between the caste level and the level of poverty. Hill and Terai Dalits represent the poorest segment of the population despite a decline in poverty from 58 percent to 46 percent. Although there are some exceptions, the poverty level among the lower social castes is generally much higher than that among the upper castes. Poverty also varies by gender. Female-headed households tend to be poorer than male-headed ones. Women's labor force participation in the paid labor force is still very small. When they enter the labor market they tend to earn significantly less than men for the same type of work. Thus, the level of poverty seems to be positively associated with the degree of social, political and economic inclusion. Women and ethnic groups on one hand and remote districts on the other have both been left out of the mainstream of

development because they lack empowerment, representation, voice as well as access to economic opportunities and resources. As might be expected, the prolonged Maoist conflict has also been a contributing factor. One study found that a lack of economic opportunities (measured by higher poverty rates or lower literacy rates) was significantly associated with a higher intensity of violent conflict: a 10 percentage point increase in poverty was associated with 23-25 additional conflict-related deaths (Do and Iyer, 2006).

Future research: In order to examine the causes of poverty more fully, the next step is to examine the determination of household income in Nepal so that a well-grounded anti-poverty strategy can be formulated. We will need to explore the causes of poverty in a local context to provide insight into the core characteristics of poverty and determine who are likely to be poor in Nepal. For this purpose, the following limited probabilistic (logit/probit) model could be estimated:

$$P = F[E, H, LHW, FS, CE, RU, ES, NE, MS, AP, AI, CP]$$

where,

P = poverty
E = education
H = health
LHW = land holdings and other wealth
FS = family size
CE = caste and ethnicity
RU = rural/urban dwelling
ES = employment status
NE = nature of employment
MS = migration status
AP = access to power
AI = access to information
CP = cross product between variables

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