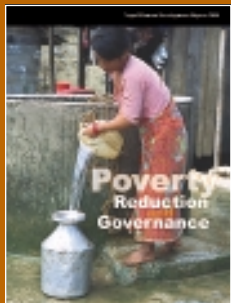


Poverty

Reduction and Governance

Poverty Reduction and Governance



Nepal Human Development Report 2001
Poverty Reduction and Governance

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United Nations Development Programme

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FOREWORD



he *Nepal Human Development Report 2001* takes stock of the country's progress in reducing poverty since the restoration of democracy in 1990. During these 11 years, Nepal has embarked upon a programme of reforms that has covered almost all sectors of socioeconomic activity. Despite significant nationwide gains in such indicators as life expectancy, education and per capita income, approximately 40 per cent of Nepalis continue to live in conditions that deny them dignity. This Report asks why.

It identifies weak governance as the root of disappointments in development, notably an absence of citizen participation in the decision-making processes that shape their lives. This may seem odd; we normally think of reducing poverty in terms of providing jobs, infrastructure, healthcare and schools – in short, the social and economic aspects of progress. We do not connect these benefits directly with broadening the freedoms that enable people to make real choices towards leading full and productive lives. Even at the dawn of a new millennium, we still tend to consider people's expressions of their preferences a concomitant – even an effect – of economic growth and general modernization of living conditions.

The concept of human development overturns this kind of reasoning. It posits development as the enlargement of choice. It therefore examines the relationship between vast disparities in the ownership of productive assets – both capital and non-capital – with a lack of broad policy “ownership” and the participation of citizens in allocating public resources. It explores the relationship of transparency and accountability in governance to such issues as the misuse and waste of public resources. It asks if these shortcomings blunt the thrust of poverty reduction.

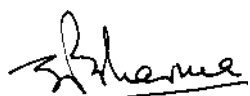
In Nepal, despite various efforts, citizens are largely excluded from governance in many ways: they may face discrimination; their voices may not be

heard; the government may not protect their basic rights; and their state institutions may be neither transparent nor accountable. Given the country's history, geographic situation, and social stratification, grassroots people have only limited opportunities to accelerate development. As to enjoying the benefits of development, these citizens have little control over the delivery of basic services.

This Report asserts that government policies and programmes for reducing poverty have suffered basically from weak institutions that cannot implement these undertakings effectively. To analyze these issues, it examines governance in four dimensions – ownership, equality, accountability, and efficiency. It proposes that if human development and poverty reduction are to be realized, policies and programmes should focus on broad-based growth and should be monitored closely to ensure that action follows intention towards the goals of poverty reduction, good governance and, consequently, human development. It issues an urgent call for such governance improvements as devolving authority through decentralization and empowering people through social mobilization.

The pages that follow candidly present the critical situation of Nepal today, underscoring the challenges that lie ahead. Although current state efforts to reduce poverty and promote human development through improved governance provide encouraging signs, the existing insecurity throughout the country may now constitute the greatest hurdle to both poverty reduction and good governance. The future of the country rests on how quickly these obstacles are overcome.

The *Nepal Human Development Report 2001* has been prepared by a team of independent authors. It reflects their views rather than those of either the government or UNDP. We believe it will prove to be a useful resource for policy-makers and development practitioners in understanding Nepal's problems and its prospects for development. It has been issued to serve as a reference point for all those who have a stake in Nepal's development and for Nepal's friends in the international community.



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CONTRIBUTORS

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Anand Aditya provided editorial inputs, and Shawna Tropp edited the final version of the Report. The team at WordScape designed the cover and layout.

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ABBREVIATIONS

| | | | |
|---------|--|--------|--|
| ADB | Agricultural Development Bank | MOE | Ministry of Education |
| APP | Agriculture Perspective Plan | MOF | Ministry of Finance |
| BPE | Basic Primary Education | MOH | Ministry of Health |
| BS | Bikram Sambat | MOWT | Ministry of Works and Transport |
| CBS | Central Bureau of Statistics | MPHBS | Multi-purpose Household Budget Survey |
| CDR | Central Development Region | NDAC | National Development Action Committee |
| CIAA | Commission for Investigation on Abuse of Authority | NDHS | Nepal Demographic Health Survey |
| CO | Community Organization | NGO | Non-Governmental Organization |
| DDC | District Development Committee | NLSS | Nepal Living Standards Survey |
| DDPP | District Development Periodic Plan | NMIS | Nepal Multiple Indicator Surveillance |
| DFID | Department for International Development | NPC | National Planning Commission |
| DHS | Demographic Health Survey | NRB | Nepal Rastra Bank |
| DIMC | Decentralization Implementation and Monitoring Committee | NRCS | Nepal Rural Credit Survey |
| DPP | District Periodic Planning | PAC | Public Accounts Committee |
| EDR | Eastern Development Region | PAF | Poverty Alleviation Fund |
| FECOFUN | Federation of Community Forestry Users | PCRW | Production Credit for Rural Women |
| FUG | Forest Users' Groups | PDDP | Participatory District Development Program |
| FWDR | Far Western Development Region | PERC | Public Expenditure Review Commission |
| FY | Fiscal Year | PPP | Purchasing Power Parity |
| GDI | Gender-related Development Index | PRA | Participatory Rural Appraisal |
| GDP | Gross Domestic Product | PRSP | Poverty Reduction Strategy Paper |
| GEM | Gender Empowerment Measure | Rs | Rupees |
| GNP | Gross National Product | SAPAP | South Asia Poverty Alleviation Program |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit | SFCL | Small Farmers Cooperative Limited |
| HDI | Human Development Index | SFDP | Small Farmers Development Programme |
| HMGN | His Majesty's Government of Nepal | SHG | Self-Help Group |
| HPI | Human Poverty Index | SMA | Social Mobilization Agency |
| IFAD | International Fund for Agriculture Development | SMC | School Management Committees |
| IMR | Infant Mortality Rate | SNV | Netherlands Development Organization |
| INGO | International Non-Governmental Organization | UNCDF | United Nations Capital Development Fund |
| I-PRSP | Interim Poverty Reduction Strategy Paper | UNDP | United Nations Development Programme |
| LDO | Local Development Officer | UNICEF | United National Children's Fund |
| LGFC | Local Government Finance Commission | U5MR | Under Five Mortality Rate |
| LSGA | Local Self-Governance Act | VDC | Village Development Committee |
| MLD | Ministry of Local Development | VDP | Village Development Programme |
| | | WDR | Western Development Region |
| | | WFP | World Food Program |

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OVERVIEW

POVERTY IN NEPAL: A CRISIS OF GOVERNANCE



he political, economic, and social changes that have taken place since the restoration of democracy in Nepal 11 years ago have shaped the nation's development debate in no small way. So far, this discussion indicates that policies are moving in the right direction, but that expectations have not been met.

Nepal has embraced human development as an overarching goal, thus defining people, *all the country's citizens*, as both the means and end of development efforts. Although the country has made significant strides in education, health and other social services, particularly within the last decade, the level of human development in Nepal remains among the lowest in the world. This stems basically from inequity and inequality in the distribution of resources and opportunities. It results in the persistence of poverty –one of two main concerns of the *Nepal Human Development Report 2001*.

While per capita annual income grew by an average rate of about 2.7 per cent during the 1990s, the incidence of poverty has remained high, largely because of disparities in the ownership of productive resources – both capital and non-capital – and access to them. These inequalities correlate closely with lack of broad *policy ownership* and citizen participation in determining the allocation of public resources. In the absence of transparency and accountability, public resources are misused. Along with misuses, waste, non-transparency and insufficient accountability are all hallmarks of weak governance – with direct impacts on poverty reduction efforts. The *Nepal Human Development Report 2001* therefore addresses the persistence of poverty and the crisis in governance as twin concerns.

*Citizen ownership
calls for people's
participation in the
development process
at all levels*

In a fully functioning democracy, appropriate public policy is far from the sole factor in poverty reduction and human development. Attaining these goals also requires effective citizen ownership of the governance process. This entails the participation of citizens as full-fledged stakeholders in a country's development, transparency in governance processes, and accountability of public officials to citizens. Accountability to the governed is a fundamental element of good governance. It is also essential to efficiency.

Citizen ownership calls for people's participation in the development process at all levels – local, regional, national, and international – and in all segments of society: the state, the market, and civil society. Ownership involves self-governance, self-organization, and collective mobilization to assert rightful claims to resources from a variety of sources – notably the state, the market, and civil society – and to allocate, distribute, and manage these resources.

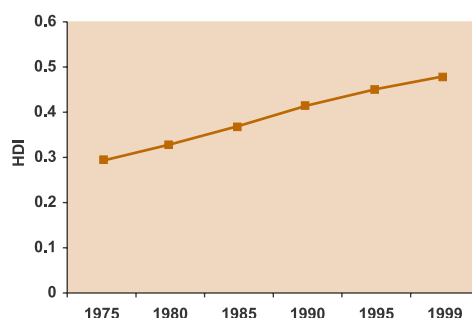
Human Development and Poverty – Realities on the Ground

Although human development in Nepal has improved over the years, as indicated by both Figures 1 and 2, it still ranks below all the South Asian countries except Bangladesh and Bhutan.

Along with overall low human development, Nepal also faces the challenge of significant disparities in the level of human development within the country, as Figure 2 and Map 1 show. Some areas, such as the mid- and far western mountain districts, lag far behind other parts of Nepal. The level for women falls well below that of men. Human poverty is also greater among the occupational castes and some ethnic minorities.

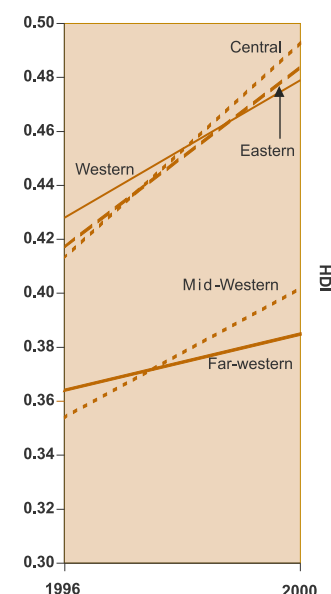
A recent nationwide survey estimates that 42 per cent of Nepal's population – about nine million people – still live in poverty, particularly in the rural areas. In some of these, especially in the mid-western and far western regions, virtually everyone is poor and has been so for generations. Poverty alleviation efforts have failed to reach these hinterlands. Indeed, large segments of these populations are “hardcore” poor, people who barely scratch a living out of fragile, vulnerable ecosystems. Moreover, large areas of the country lack even the most elementary infrastructure. Similarly, throughout the entire country, development efforts have failed to make significant changes in the lives of most people from disadvantaged groups.

Figure 1
Human development in Nepal 1975-1999



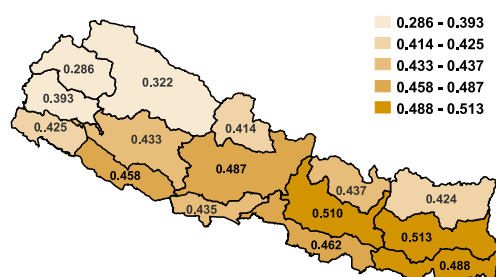
Source: UNDP 2001.

Figure 2
Improvement in HDI 1996-2000 by development region



Source: NESAC 1998 and Annex, Table 1

Map 1
Human development across eco-development region, 2000 Nepal = 0.466



Source: Annex 1, table 1.

The Fight against Poverty – Success and Failure

Over the last 15 years, Nepal has attained an average annual economic growth rate of 5 per cent. A close look at the components of this growth, traced in Figure 3, reveals that this overall rate stemmed largely from growth in the non-agricultural sector. Although this has significantly changed the structure of the economy, employment has failed to keep pace with the transformation. About 80 per cent of the Nepalese population still works in agriculture, where growth has been erratic and has fallen below expectations. This has widened inequalities in income distribution and raises the question of just how pro-poor economic policies and growth have been.

Nepal does not lack for poverty initiatives. They range from policies for broad-based growth to infrastructure improvement, and from expansion of basic social services to interventions targeting the poorest citizens. But achievements have not met expectations, in large measure because of the country's continuing dependence on agriculture. Even though social and economic infrastructures have improved significantly, they have so far failed to benefit large sections of the population.

In view of the low performance of agriculture, the government formulated an Agriculture Perspective Plan (APP) in 1995 to increase production and productivity in this sector, but implementation has been inadequate. In fact,

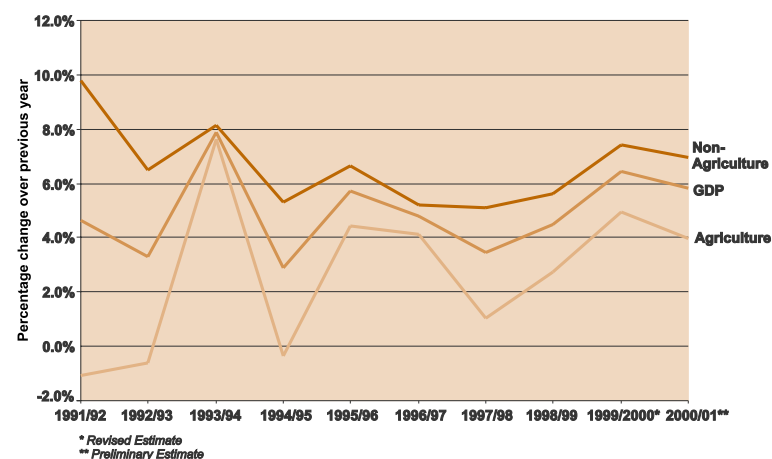
agriculture's share in public investments has declined and the large number of existing projects and programmes in agriculture have not been streamlined in accordance with APP objectives. In addition, some of the "soft" policy options adopted by the government, such as the discontinuation of subsidies for fertilizers and small irrigation systems, have clearly worked against the poor.

Inefficient administration, ineffective governance mechanisms, and an inadequate service delivery system stem directly from weak institutions and sharp limitations in government capacity to monitor and evaluate performance. These shortcomings arise from a lack of technical competence, expertise, and organizational structure and ultimately undermine the quality of those services that are delivered. In addition, because poverty reduction efforts are more often than not controlled by the elite, they become unsustainable. In short, poor governance pervades development efforts in Nepal.

Empirical evidence shows a strong causal relationship between good governance and desirable development outcomes, such as increased per capita income, lower infant mortality, and higher literacy. Because governance involves the exercise of power at various lev-

*Poor governance
pervades
development efforts
in Nepal*

Figure 3
Gross domestic product 1990-2000



Source: MOF 2001.

els of society, it involves more than official government bodies, especially in a developing country like Nepal, where institutions are weak and implementation capacity insufficient. It is therefore vital to focus on the quality of governance.

Basic Social Services: Greater Access through Broader Participation

As a part of its overall poverty reduction strategy, Nepal has been giving increasing priority in recent years to the social sector, especially basic social services. Although social indicators such as life expectancy, literacy, net primary school enrollment, and access to drinking water and sanitation, have recently shown marked improvements, inefficiency has slowed progress and lowered quality. Access to these services still lies beyond the reach of much of the Nepalese population in geographically isolated regions.

Public investment in the social sector has increased significantly in recent years. In addition, households are investing a greater proportion of their resources in education and health services. Nonetheless, per capita spending remains low even by South Asian standards. Nor have these investments improved quality because an inefficient delivery system has distributed these services unevenly. Potential beneficiaries take little part in the planning or delivery processes and therefore feel no ownership of the system. For this reason, too, there is a lack of transparency and accountability in the management of services.

Given these shortcomings, the strategy for future development of the social sector should focus, among other things, on improving the quality and efficiency of service delivery and reducing disparities. Decentralized management and increased, well-coordinated involvement of the private sector and NGOs in service delivery should be emphasized. Examples within Nepal have shown that strong community participation in the management of services can improve their coverage and quality dramatically, as well as increase the efficiency

of their delivery. Nepal has a distinguished history of community initiatives in service provision, especially in education. But the centralization of education in 1971, like other past policy decisions of the government, has discouraged community involvement. Reviving community participation is one possibility of giving poverty reduction efforts new impetus – provided communities *own* the process. In certain sectors such as irrigation and forestry, ownership has already broadened, furnishing lessons that can be applied to the management of basic social services.

Partnership can also play an important role in improving delivery. A number of NGOs, private players, and local bodies are now involved in the process and have the capacity to contribute even further. Their comparative advantages should be tapped by nurturing appropriate alliances between these actors and the public sector.

Public Resources – Improving Management

Public financing of services is a core element of poverty reduction policy and practice. But weak fiscal governance – from budget formulation and implementation to monitoring – impedes the efficiency of pro-poor public spending. Raising public spending on social services and infrastructure does not always translate into more or better service for the poor. Whatever their quality, programmes that target poor populations often fail to respond to their needs. Ensuring benefits to the poor entails undertaking a number of reforms. Governments have to restructure their budgetary process so that spending in different sectors, such as health and education, becomes mutually reinforcing. This means reshaping implementation mechanisms between such sectors and within them. It also involves a process of reviewing priorities and decentralizing the system – which requires social mobilization as well. Moreover, government spending in the social sector alone will not ensure effective service delivery to the poor unless it is accompanied by infrastructure development

Weak fiscal governance impedes the efficiency of pro-poor public spending

and the creation of income-earning opportunities.

And, as indicated above, the monitoring and evaluation of government projects is also essential. Nepal's central government controls almost 90 per cent of public expenditure in the country. Little goes to locally elected bodies. This erodes both ownership and accountability at the local level – and results in high levels of wastage and leakage.

Because Nepal is a poor country, domestic actions must be complemented by development cooperation to bring about debt relief and expand the resource base. However, the need to fund development through foreign aid has created excessive reliance on external assistance, added to the complexity of public expenditure patterns and exacerbated lack of ownership and transparency. Making the best use of foreign aid in poverty reduction requires prudent fiscal governance and the restructuring of aid in favor of investments in social infrastructure. Yet the overall level of domestic public expenditure remains low because of a low revenue/GDP ratio, which, in turn, results from a number of economic and institutional problems in revenue mobilization. Increasing spending on security also compromises poverty reduction efforts.

Without better governance, the situation can hardly be expected to improve.

Decentralized Governance: Moving Authority as well as Responsibility Downwards

Subsidiary governance puts people at the centre of the governance process by enabling them to monitor and influence local government activities in their own best interests. Local governments have a distinct comparative advantage for tackling poverty at the local level. Often, their familiarity with local conditions reduces the overall cost of poverty reduction efforts.

Three fundamental pre-conditions must be met in designing and implementing poverty reduction through decentralized local governance:

■ *Devolution of tasks to local government, particularly the provision of basic public services, must dovetail with both human and financial needs, priorities and resources.*

■ *The decentralization process should not stop at the local governments. The spirit and essence of the subsidiarity principle is empowering citizens to govern themselves. In this process, the role of community organizations and civil society institutions becomes crucial, as these bodies not only articulate peoples' needs and aspirations, but also serve as a forum for collective action in the fight against poverty. Even more important, their participation helps prevent elite domination in local governance.*

■ *Transparency and accountability must be addressed simultaneously by the devolution agenda. Social mobilization can play a crucial role in organizing communities to this end. Although local governments are hardly free of corruption and irregularities, their activities are far more visible than those of the centre. It is also easier to track duplication of tasks among different tiers of local government, as well as between local governments and line agencies, and to establish clear divisions of responsibility among them. This enhances both horizontal transparency and accountability.*

The process of decentralization to improve governance and increase people's participation has been championed for a long time in Nepal. Both before and after 1990, laws to implement decentralization were adopted. The latest effort in this direction is the Local Self-Governance Act of 1999. However, it has contradictions that remain to be addressed. The mechanism for fiscal decentralization also has to be initiated and institutionalized so as to respond to local government priorities and release resources in time for local governments to implement their programmes.

The mechanism for fiscal decentralization has to be initiated and institutionalized

Nepal's case clearly shows that without people's participation in development and without people's ownership of the development process, poverty will perpetuate itself

The Poor Speak Out: Increasing Assertiveness

In Nepal, where society comprises many castes, creeds, and ethnic groups, strong patrimonial and patriarchal systems have long existed to perpetuate the domination of the elite. Subsidiary governance is realized only when people themselves become aware of their rights and exercise them as citizens and members of civil society to promote individual and collective well-being. Effective decentralization therefore requires capacity-building at the local level. This includes the capacity of both local-level management and local citizens-at-large.

Socioeconomically disadvantaged groups will require mobilization to fully realize their potential to contribute to their own development, as well as that of their community. In such a context, social mobilization can become a powerful mechanism for setting in motion a “virtuous cycle” in which poverty reduction efforts contribute to improved governance and better delivery of social services – all of which, in turn, reduce poverty further.

Recent experience in Nepal shows that social mobilization is an effective tool for accelerating development through improved governance by mobilizing and harnessing local energies. But the coverage and upscaling of social mobilization has not been adequate. Local governments, service delivery agencies, financial institutions, civil servants, and policy-makers must recognize the importance of “organizations of the poor” in enhancing the effectiveness of outreach programmes.

Tracking Progress

The lack of an appropriate monitoring system has blunted national efforts to reduce poverty and promote human development. Monitoring efforts have been sporadic and ad hoc. Moreover, the lack of coherent and uniform monitoring tools has made it difficult to track progress over time. Excessive emphasis on quantitative approaches has crowded out real understanding of the dynamics and issues

underlying poverty and the ways in which the exclusion of women and disadvantaged groups from mainstream development exacerbates poverty. The present system for monitoring poverty and human development needs to be significantly strengthened.

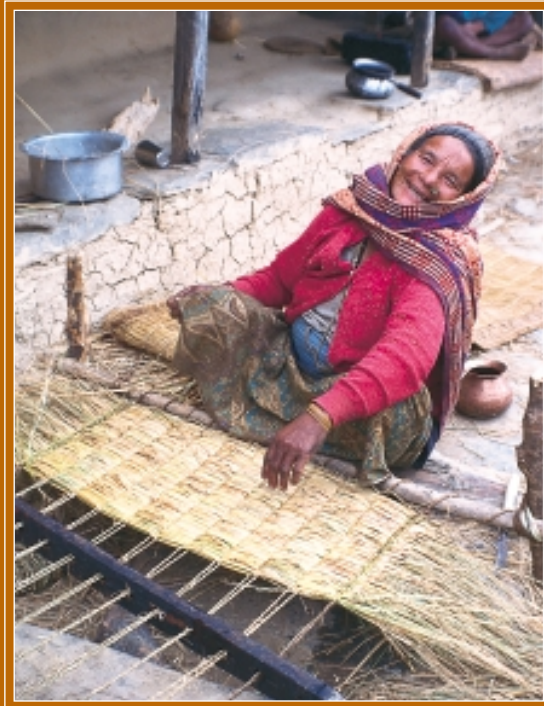
Monitoring is also a powerful tool for improving governance, the root cause of the failure of Nepal's development efforts to make headway in poverty reduction and human development. Without commitment at the highest level of leadership, however, significant improvement in governance and effective monitoring will not be possible.

Moving Together towards the Goal

All stakeholders must play their part in eradicating poverty and improving the quality of people's lives. Nepal's case clearly shows that without people's participation in development and without people's ownership of the development process, poverty will perpetuate itself. But participation and ownership cannot be effective without empowerment. And people's empowerment becomes possible only through improved governance, greater equity in the distribution of resources, and progress towards equality in access to opportunities.

These, in turn, can materialize only through dissemination of knowledge and information to all citizens. Making choices requires a grasp of available alternatives and their relationship to goals further down the road. Transparency and accountability cannot take root in governance institutions unless people have access to public information and the freedom to pose questions, voice their opinions without fear, and ascertain for themselves how policies and programmes affect their lives as individuals, households, and communities. These factors also have a direct bearing on efficiency.

All these elements underlie good governance. Without it, the battle against poverty will continue to be lost at all levels. And it has so far been too promising a campaign to abandon.



PART I
POVERTY AND HUMAN DEVELOPMENT



Chapter 1

**HUMAN DEVELOPMENT, POVERTY,
AND GOVERNANCE**

Human Development and Poverty
State, Governance, and Poverty Reduction
Organization of the Report

Chapter 2

**THE STATE OF HUMAN DEVELOPMENT
AND POVERTY**

Human Development
Gender and Human Development
Income Poverty
Human Poverty

HUMAN DEVELOPMENT, POVERTY, AND GOVERNANCE

A large, stylized, light-colored letter 'D' is positioned on the left side of the page, partially overlapping the first paragraph of text. It has a subtle texture and is set against a dark background.

Development efforts become meaningful only when they serve and benefit the people for whom they are initiated. Only by listening to people's voices and addressing their needs can the fight against poverty be won and human development realized. Past development efforts have fallen short of this goal and the most basic aim of development – providing everyone with opportunities to lead long, productive, and dignified lives – has yet to materialize. Failure to contain poverty spurred the convening of the 1995 World Summit on Social Development. There, along with other nations, Nepal agreed upon the need to create an enabling environment for increased equity and empowerment of all people at all levels of society through sound governance, participation, and enhanced capacity.¹ At the United Nations Millennium Summit in September 2000, heads of states and governments reiterated this commitment further.

Nepal has been pursuing planned development for nearly 50 years. However, the country's human development status remains among the lowest in the world. Despite the progress made, human capital formation and human resource development remain inadequate, and great disparities between men and women, different caste and ethnic groups, and different geographic regions, persist. This persistence cannot be explained simply by a lack of resources; the allocation and management of resources play an equally important role. This Report shows that good governance – effective and efficient management of resources in response to the needs of all members of society – is essential to achieving both poverty reduction and human development. Indeed, good governance is the “missing link” in Nepal's poverty reduction strategy.

Box 1.1 Concepts and definitions**POVERTY**

Poverty has two dimensions – low income, which is insufficient to maintain a dignified life; and low level of human capabilities, which restricts a citizen's options to lead a life of his or her choosing.³ Poverty is a form of deprivation with strong interactive linkages to other forms such as physical weakness, isolation, vulnerability, and powerlessness.⁴ “[It] is a state of economic, social and psychological deprivation occurring among people or countries lacking sufficient ownership, control or access to resources to maintain minimal acceptable standards of living. It represents an exclusionary relationship where individuals or states are denied access to an adequate package of resources.”⁵

HUMAN DEVELOPMENT

Human development concerns widening the range of choices for people to pursue – economic, social, cultural and political – by enhancing their capabilities to shape their lives as they wish and enabling them to live in dignity.⁶ Human development is reflected in a person's ability to lead a long and healthy life, to obtain education and further knowledge, to have control over key resources, to engage in productive employment of his or her choice, and to participate effectively in the activities of community and the state. Human development also emphasizes personal security, sustainability, environmental preservation, social integration, and guaranteed human rights. The spirit of human development is the freedom to make choices that lead towards the life of one's choosing without threat or intimidation.

GOVERNANCE

Governance is the complex of mechanisms, processes, relationships, and institutions through which citizens and groups articulate their interests, exercise their rights and obligations, and mediate their differences. Governance encompasses all the methods – good and bad – that societies use to distribute power and manage public resources and problems. In *sound governance*, public resources and problems are managed effectively, efficiently, and in response to the critical needs of society. *Effective democratic forms of governance* rely on public participation, accountability, and transparency.⁷

Good governance ensures equitable access to resources without regard to gender, social, class, ethnic, or religious affiliation. It underlies the process of realizing real freedoms and capabilities, along with subsequent achievements in poverty reduction and human development. The hallmark of democratic good governance is its ability to secure freedom from discrimination, want, injustice, and fear. Freedom of participation, expression, and association and freedom for decent work and for the realization of one's human potential are also essential elements of a mature and ideal governance system and a just and equitable society.⁸ The four essential elements of humane governance – ownership, equity, accountability, and efficiency – provide an enabling environment for human development and eradication of human deprivation.⁹

HUMAN DEVELOPMENT AND POVERTY

Since the beginning of the 1990s, the focus of development has shifted from economic growth models and national income accounts to enhancing capabilities and enlarging people's choices as a means to alleviating poverty. The human development paradigm asserts that economic growth alone is not sufficient to promote development and improve the lives of the poor. It is also necessary to invest in education and primary healthcare and to enhance people's capabilities through greater freedoms. People should have the liberty to engage freely in the labour market, to pursue education, and to control resources. Without poverty reduction *and* human development, a nation's prosperity cannot and will not be sustainable because it cannot ensure the security of its citizens. Human insecurity lies at the root of anarchy.

Opportunity, security, and empowerment are the three elements essential to poverty reduction and human development.² They are also the pillars on which sound democratic governance can be built. Opportunities are created through economic growth in an enabling policy environment, which stimulates the expansion of growth to areas where it is not yet strong. Economic growth is essential to creating jobs, skills, markets, and income. Growth can be more equitably spread through the development of strong integrated markets and infrastructure and greater investments in social services. Markets can work better for poor people if barriers to the development of local entrepreneurship and small and micro-enterprises are removed and credits are made more accessible through the development of financial institutions in the rural areas. Consequently, policies to promote economic growth and, at the same time, address the needs of the poor constitute the cornerstone of poverty alleviation and the realization of

human potentials. Pro-poor growth is necessary to poverty reduction and human development. However, broad-based economic growth is best achieved through inclusive participation and good governance (see Box 1.1).

STATE, GOVERNANCE, AND POVERTY REDUCTION

In poverty reduction and human development efforts, people take centre stage. Human development increases productivity by improving health and by enhancing education and skills. It tends to reduce population growth by improving literacy and family health, as well as persuading people to keep their families small so as to enhance each member's quality of life. Poverty declines as people increasingly become integrated into the development process and as democracy takes root in a socially stable environment in which an active civil society plays an effective role. In addition, human development can serve to ease tensions, reduce civil disturbances, and maintain political stability.¹⁰ As the capabilities of people increase, better prospects emerge for an equitable distribution of opportunities and resources. And, as capabilities increase, the number of poor people declines.

Shortcomings in both income and human development have marginalized large segments of the Nepalese population from the mainstream of the country's development — economic, social, and political — and, in many ways, from the cultural mainstream as well. This has resulted in widespread alienation, creating an environment conducive to civil strife and insurgency movements. Although development policies have been put in place, weak institutions and inefficient delivery systems have obstructed their effective implementation. The continuing exclusion of women and disadvantaged groups from governance and mainstream development is

reflected in the limitations of their capabilities and their low levels of achievement. This is the major challenge to democracy in Nepal. It stems in large measure from a crisis in governance.

Humane governance is good governance. Because it builds on institutions that promote ownership, participation, equity, equality, transparency, accountability, and efficiency, it works against poverty. Poverty reduction and human development grow not only out of public policy, but from broad citizen ownership of the governance process. This requires the participation of citizens as full-fledged stakeholders in national development and, conversely, transparency on the part of public officials and their direct accountability to citizens. Accountability to the governed is a defining characteristic of good governance and therefore a precondition of human development.

Ownership means citizen participation at all levels — local, regional, national, and international — and in all components of society — the state, civil society, and the market. It also entails self-governance and organization, along with the mobilization of groups of people to assert rightful claims to allocate, distribute, and manage the resources of the state; participate in regulating markets; and tap the potential of civil society. Decentralization and social mobilization enable partnership and ownership and enhance both.

Equitable access to public goods and services, the labour market, formal credit markets, and the justice system should empower all citizens equally. Women and men should have equal rights, protections, and access to recourse mechanisms. Because of its structural constraints, the market alone cannot redress poverty and promote human development. The state has a proactive role to play in creating economic opportunities as well as enhancing

The continuing exclusion of women and disadvantaged groups from governance and mainstream development is reflected in their low levels of achievement

Although Nepal has a relatively long history of decentralization, the country's devolution of authority so far is not commensurate with the access to resources that would give it meaning

human capabilities. Effectively and efficiently managed, public expenditure can act as a powerful tool for reducing poverty and reaching human development goals. But it cannot do so without good governance.

Decentralization enhances good governance by enabling people to assume responsibilities at the local level. It involves them in the delivery of basic social services and allows them to hold state structures accountable to them in fundamental ways. Broad-based, decentralized governance also promotes the confidence of marginalized citizens in asserting and claiming their rights. It helps them secure their livelihoods and reshape them to meet the economic and social needs of their households. Although Nepal has a relatively long history of decentralization, the country's devolution of authority so far is not commensurate with the access to resources that would give it meaning. Real decentralization entails far more commitment.

Only when citizens at large become aware and empowered can decentralization become effective. Social mobilization spurs awareness and empowerment effectively at the grassroots level. Where social mobilization has succeeded, decentralization has reduced poverty and promoted human development.

However, without an effective monitoring system, good governance tends to falter. Monitoring progress in poverty reduction allows policy-makers to review the impact of policies and programmes and, where and when

required, to take corrective actions. Monitoring also involves assessing the effectiveness of public service delivery systems and ensuring efficiency in the management of resources. One major thrust of this Report is showing how a monitoring system can work towards ensuring good governance and thereby move a country further towards the elimination of poverty through enhancing the capabilities of empowered citizens.

ORGANIZATION OF THE REPORT

This Report has three parts. The first – Human Development and Poverty – includes the present chapter and the one that follows, which assesses the current poverty and human development situation in Nepal. The second part – The Persistence of Poverty in Nepal – comprises three chapters that examine poverty reduction policies, programmes and initiatives; social service delivery and barriers to equitable distribution of public goods and services; and public expenditure. This survey concludes that good governance can supply the linkage essential to nationwide efforts to reduce poverty and promote human development.

The three chapters of Part Three – Improving Governance – take up this challenge by analyzing how good governance can be achieved through decentralization, the social mobilization of local communities, and a comprehensive, systematic monitoring of both poverty and efforts to reduce it.

THE STATE OF HUMAN DEVELOPMENT AND POVERTY



Nepal is divided into three ecological regions – mountains, hills, and the Tarai – and five administrative regions – the eastern, central, western, mid-western, and far western development regions – each of which, in turn, is subdivided into three ecological belts. All in all, therefore, the country comprises 15 eco-development regions, each of which is fairly homogeneous in terms of physical characteristics and socioeconomic and cultural attributes.

HUMAN DEVELOPMENT

The concept of human development focuses not on deprivation, but on achievements, enhancing people's capabilities and enlarging their choices. Just as income poverty is not the only kind of poverty, increasing income alone does not automatically advance human development. Since UNDP published the first *Human Development Report* in 1990, the Human Development Index (HDI) has been used to measure average achievement in basic human capabilities. It has three components: longevity, educational attainment, and a decent standard of living. These are measured, respectively, by life expectancy at birth; adult literacy and mean years of schooling; and per capita income (see Annex 1). The HDI provides a basis for setting priorities for policy intervention and the evaluation of progress over time.

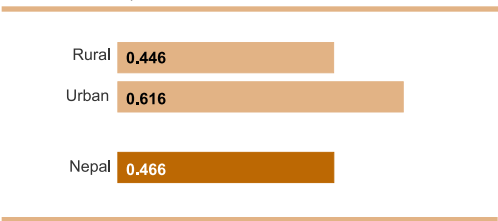
Nepal's levels of human development are low even by South Asian standards. The country's HDI value, calculated in the global *Human Development Report 2001*,¹ stood at 0.480, slightly above Bhutan (0.477) and Bangladesh (0.470),² but below the others of the sub-region. Using somewhat different data sources for the year 2000, the present Report

estimates Nepal's HDI at 0.466, with a life expectancy of 59.5 years and an adult literacy rate of 50.7 per cent.³

Understanding regional trends in human development is critical for designing subsequent policy and programme interventions to address disparities

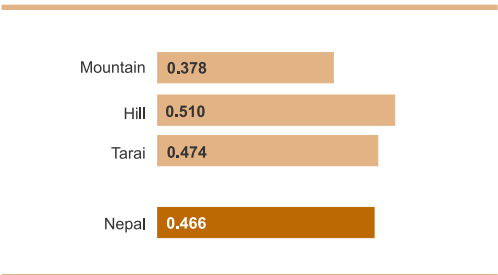
Disaggregated at the regional and sub-regional level, the HDI values for Nepal highlight significant differences in human capabilities and welfare. Understanding regional trends in human development is critical for designing subsequent policy and programme interventions to address these disparities. The HDI for urban areas (0.616) far outstrips that for rural areas (0.446), where more than 80 per cent of the population live, because of far better access to services, resources, and opportunities (see Figure 2.1). Clearly, Nepal's development is urban-biased. In part, this bias explains the persistence of poverty in the rural areas.

Figure 2.1
Human development in rural and urban areas, 2000



Significant differences between ecological regions also emerge. Human development in the mountains is far below that in the hills (see Figure 2.2). The broad scattering of commu-

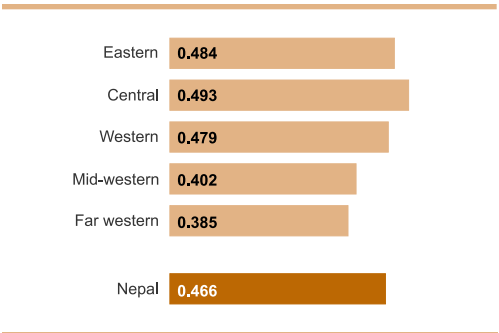
Figure 2.2
Human development across ecological belts, 2000



nities in the mountains sharply limits access to services and information and severely disadvantages the people who live there. Human development in the hills is higher than in the Tarai, in part because many large and prosperous towns and cities are located in the hills. In addition, a number of population groups in the Tarai, including the Tharus and Musahars, have been disadvantaged for generations and remain so.

Among the development regions, the highest HDI (0.493) is found in the central region, followed closely by the eastern (0.484) and western regions (0.479) (see Figure 2.3). This stems largely from the fact that most of Nepal's trading centers and productive economic activities are concentrated here. By contrast, the mid-western (0.402) and far western (0.385) regions, far from the centre of power, have traditionally been neglected until recent effort began to include them in the mainstream of the country's modernization. Except for the central mountains, which benefit from their relative proximity to Kathmandu and from tourism, the mountains have low human development. The comparison of the HDI values across eco-development regions provides an even more detailed picture of regional disparities in human development achievements in Nepal (see Figure 2.4 and Map 2.1, as well as Annex 1, Table 1.)

Figure 2.3
Human development across development regions, 2000



Human Development Index over Time

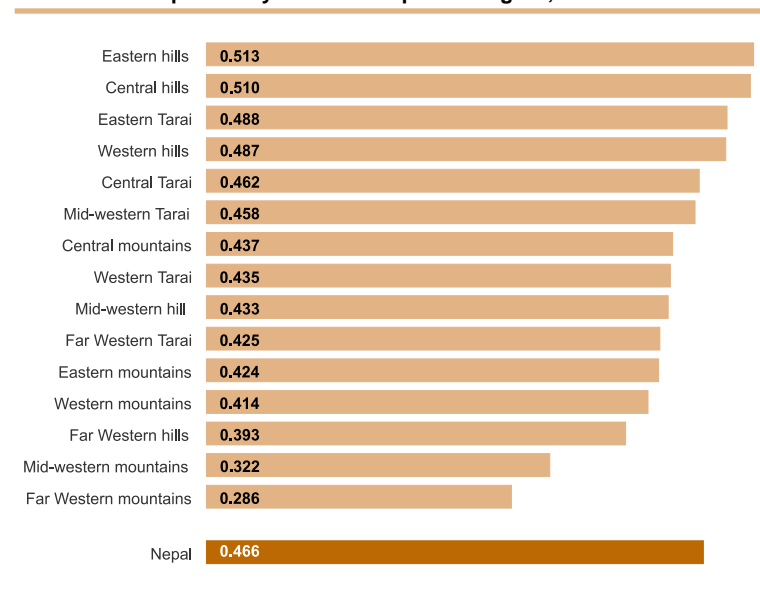
A comparison of human development achievements over time shows an improvement in HDI between 1996 and 2000. The 1998 HDI, based on 1996 data, was recalculated, using the methodology used for the 2000 data in the present Report, so as to make the indices comparable. Except in the far western mountains, human development in every region improved between 1996 and 2000 (see Figure 2.5). However, the level of improvement varies significantly with their geography. The mountains show relatively little (see Figure 2.6), with the exception of the central area (where HDI saw the greatest increase between 1996 and 2000 (see Figure 2.5)). The greatest improvement took place in the hills. Nonetheless, the central hills, which include the Kathmandu Valley urban districts, show only a 0.8 per cent increase. In fact, the urban areas in general saw less improvement than the rural areas, despite their significant lead. And the most glaring disparities persist: the mid-western and far western development regions (see Figure 2.7), where HDI levels were the lowest at the outset, show less improvement than the country as a whole.

GENDER AND HUMAN DEVELOPMENT

In 1995, the Gender-related Development Index (GDI) was introduced into human development calculations to capture some of the differences, often immense, between the achievements of women and those of men. GDI uses the three variables of the HDI to measure gender disparities. The ratio of GDI to HDI serves as an approximate indicator of the depth of gender disadvantage. An additional index, the Gender Empowerment Measure (GEM), examines to what degree men and women actively participate in economic and political life and take part in decision-making. In short, while GDI focuses on capabilities, GEM shows the use of those ca-

pabilities to take advantage of opportunities in life. The difference is significant worldwide. Even where women achieve higher levels of education than men, as in much of Europe and North America, they participate far less in public life than in several poorer regions – with marked implications for other comparative human development indicators, as this Report will later show.

Figure 2.4
Human development by eco-development region, 2000



Gender-related Development Index

In the context of Nepal, gender-based exclusion covers physical survival, health and educational opportunities, ownership of assets, mobility, and overall cultural status. Although the country's GDI (0.452) is slowly inching towards equality (HDI 0.466), geographic differences are marked. Gender-related development follows the same pattern as human development (see Annex 1, Table 2), higher in urban areas (0.605) than in the rural (0.426), as Figure 2.8 indicates – again, because of significantly greater access to knowledge and information and health facilities, and better economic opportunities. GDI is highest in the hills (0.494), while women continue to suffer the greatest exclusion in the mountains (0.355). The mid-western and far western development regions have marked gender disparities in com-

Figure 2.5
Percentage change in HDI 1996-2000 by eco-development region

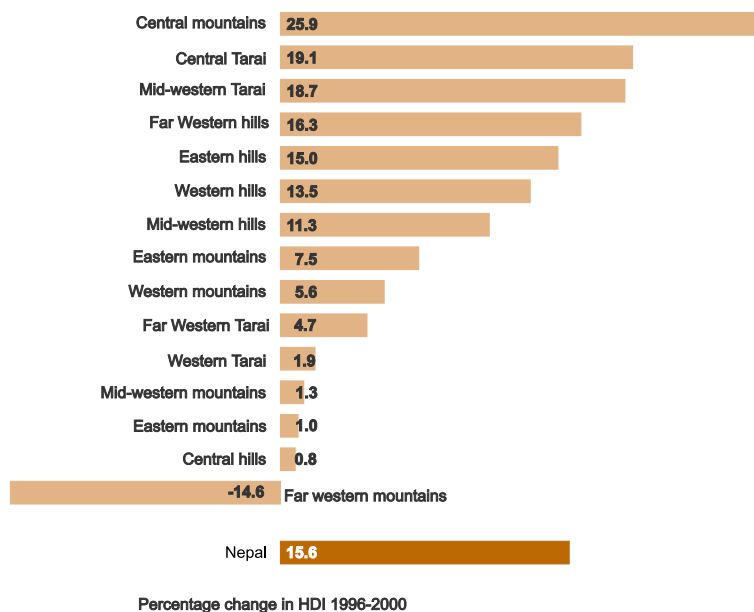


Figure 2.6
Percentage change in HDI 1996-2000 in rural and urban areas and across ecological belts

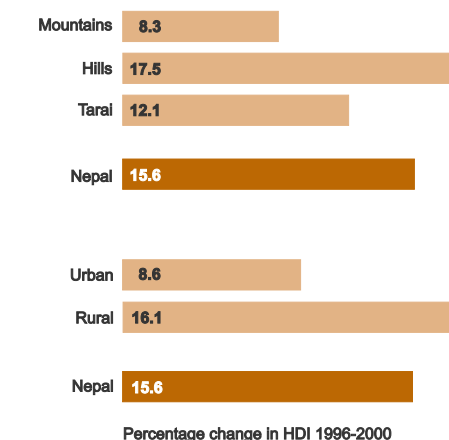
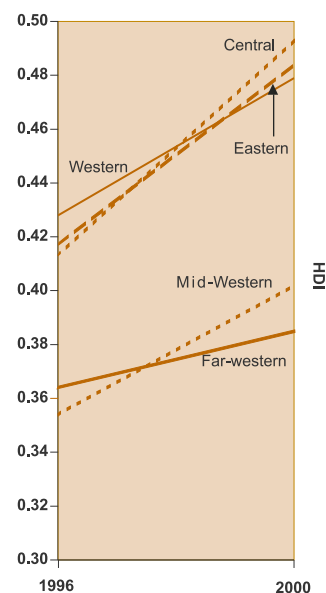


Figure 2.7
Improvement in HDI 1996-2000 by development region

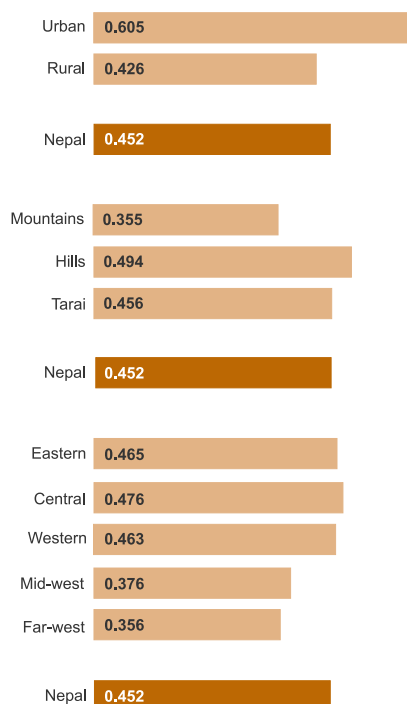


Source: NESAC 1998 and Annex, Table 1

parison to the other three regions. Map 2.2 presents gender development in the eco-development regions, which follows patterns similar to those of human development, ranging from 0.499 in the central hills to 0.246 in the far western mountains.

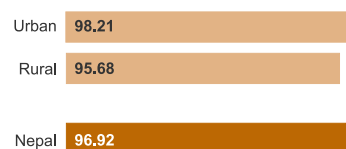
The ratio of GDI to HDI provides a better picture of the deprivation of women in relation to men than GDI alone and belies prevailing assumptions about gender disparity in Nepal. Although gender inequalities in the rural areas are higher than that of the urban areas (see Figure 2.9), even in the rural areas, Nepal generally shows improved gender equality in human development, notably in life expectancy, child mortality, immunization coverage, and Vitamin A intake.⁴ To narrow the gender gap further, it is important to concentrate on education, especially focusing on women and girls. It is equally important to expand opportunities and make them accessible to all – again, with a special emphasis on women's participation.

Figure 2.8
Gender-related development indices by region, 2000



It is interesting to note that the depth of gender disparity is not always greatest where overall human development is lowest (see Annex 1, Tables 1 and 2). The western mountains have the second highest ratio of GDI to HDI (97.75), closely following the central hills (97.78), even though the HDI of the former (0.414) is lower than the national average (0.466). However, the mid- and far western mountains show the greatest gender disparity (89.05 and 86.26, respectively), as well as the lowest levels of human development. These regions must be integrated into the mainstream, with particular emphasis on improving the status of women. As to the Tarai, the GDI/HDI ratio is lower than the national average, although the HDI is higher than the national average, which suggests that extra emphasis on empowering women is necessary in this part of the country as well.

Figure 2.9
The ratio of GDI to HDI in rural and urban areas, 2000



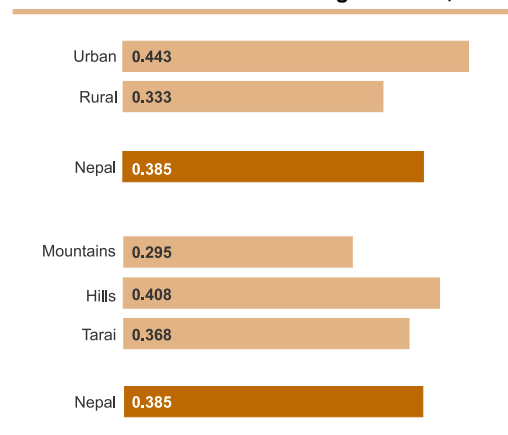
Gender Empowerment Measure

GEM measures the participation of women in economic, political, and professional spheres, using the percentage share of men and women in administrative, managerial, professional, and technical positions to gauge economic participation and decision-making power. Women's political empowerment is measured by their participation in local and national elections. An income variable is used as a proxy for a "source of economic power that frees the income-earner to choose from a wider set of possibilities and exercise a broader range of options."⁵

Nepal's GEM clearly shows that women are far less empowered than men (see Annex 1, Table 3). Women's participation in the political process is only one fifth of that of men; the same pattern is also manifest in professional occupations and even more so in administrative jobs. Their share in earned income is about one third of that of men. To address this alarming marginalization, Nepal needs to stress the education and training of women at higher levels. The government should also consider taking appropriate measures to increase women's participation in the political process and the recruitment of more women into professional and administrative jobs. This can be sustained only by increasing opportunities for women in both education and employment. Expanding economic opportunities will require a shift in the structure of the economy away from subsistence agriculture – and thus a rise in income-generating scope for both men and women.

High gender empowerment in the urban areas as compared to the countryside (see Figure 2.10) stems from better access to knowledge, information, and opportunities. Women in the hills have greater empowerment than those in the Tarai because of sociocultural factors. Among Nepal's development regions, women's empowerment ranks highest in the central and lowest in the mid-western region (see Map 2.3). Two policy implications are obvious: enhance the overall level of human capability and combine it with a more equitable gender distribution, with a particular focus on disparities in the mid-western and far western regions.

Figure 2.10
Gender empowerment measure in rural and urban areas and across ecological belts, 2000



INCOME POVERTY

Traditionally, poverty has been defined in terms of inadequate consumption or income. However, drawing a poverty line to track progress in poverty reduction remains a controversial subject both at the national and international levels because of the many dimensions of poverty – from caloric intake to marginalization, even within a single household – and its changing nature over time, including seasonal variations that determine when food may be abundant or scarce and when roads and trails may or may not be passable.

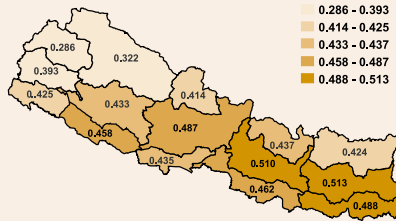
According to a government document published a few years ago, Nepal is a poor country and getting poorer everyday.⁶ This is reflected in various social and economic indicators, as well as Nepal's current rank as 129th worldwide in the Human Development Index (HDI).⁷

The Nepal Living Standards Survey (NLSS) estimated the head-count index of poverty at 42 per cent at the national level⁸ using household consumption expenditure data.⁹ Poverty estimates tend to vary when a different poverty line is used. However, if one adopts the definition of “one US dollar a day” as a poverty threshold, the incidence of poverty in Nepal turns out to be 37.7 percent.¹⁰ Yet these estimates fail to convey the depth and severity of poverty throughout the country. Large segments of the poor are “hardcore” poor, people who barely scratch out a living in fragile ecosystems; their vulnerability to natural and economic shocks is heightened by the fact that even the most basic infrastructure has so far failed to reach them. Whatever poverty line one chooses, it is probably safe to state that close to nine million people of Nepal can currently be classified as income-poor.

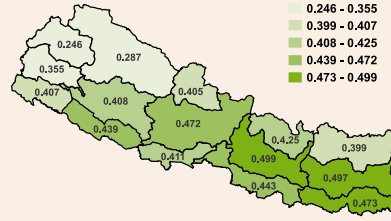
Based on the NLSS index, 44 per cent of the country's rural households – 88 per cent of Nepal's total population – and 23 per cent of its urban households appear to fall below the poverty line. Moreover, based on the three dimensions of poverty covered by the NLSS – poverty incidence; intensity (measured by the poverty gap index); and severity (measured by the squared poverty gap index) – poverty is far more rampant, deeper, and more severe¹¹ in rural areas (see Annex 2, Table 1): worst in the mountains, followed by the hills, then the Tarai.

Poverty varies not only spatially, but socially. Its incidence is higher among ethnic minori-

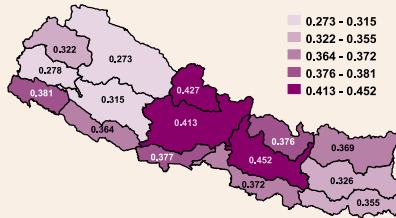
Map 2.1
Human development across eco-development region, 2000 (Nepal = 0.466)



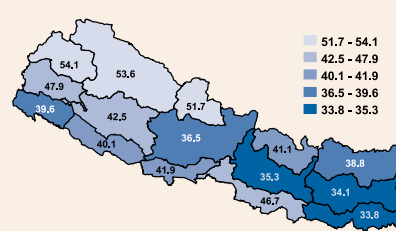
Map 2.2
Gender development across eco-development region, 2000 (Nepal = .452)



Map 2.3
Gender empowerment across eco-development region, 2000 (Nepal = 0.385)



Map 2.4
Human poverty across eco-development region, 2000 (Nepal = 39.2)



Source (for above maps): Annex 1.

ties such as the Limbus, Tamangs, Magars, Tharus, and Musahars, reflecting a severe deprivation of opportunities in all aspects of life. The situation of women who belong to disadvantaged groups is even more disturbing; their social indicators fall well below that of their male counterparts.¹² The other hardest-hit group is the dalits, comprising occupational castes such as Kami (blacksmith), Damai (tailor), and Sarki (shoemaker), who remain the object of discrimination despite the fact that they constitute 16 per cent of the total population.¹³ And largely because dalit women have low status within their own groups, they occupy an even more disadvantaged position than dalit men.

Income Poverty over Time

Nepal conducted its first large-scale household-level survey on employment, income distribution, and consumption patterns in 1976/77.¹⁴ Measuring subsistence consumption and subsistence income, it showed poverty incidence

in the rural areas as higher than that of urban areas by 60 and 119 per cent respectively. The next large-scale survey, a multi-purpose household budget survey (MPHBS), was carried out by the Nepal Rastra Bank¹⁵ in 1984/85 and estimated poverty incidence at 41.4 per cent, again with an incidence of rural poverty (43.1 per cent) far higher than urban poverty (19.2 per cent), as well as wide variation within the rural areas across ecological zones. According to the 1991 Nepal Rural Credit Survey (NRCS), confined to rural areas and the 1991 Population Census and Agricultural Census, which used the same set of household income and consumption data, rural poverty incidence was estimated at 34 per cent in the Tarai and 64 per cent in the hills and mountains.¹⁶

Comparisons with the 1995/1996 NLSS are tricky, mainly because of methodological incompatibilities and varying definitions of the poverty line. In an effort to address these problems, poverty estimates were recalculated by

There has been a steady improvement in adult literacy – despite the fact that half the population cannot yet read or write

applying the definitions of poverty line, income, and consumption employed in earlier surveys to the data for 1995/96.¹⁷ This exercise indicates that the incidence of poverty may have increased from 33 per cent in 1977 to 42 per cent in 1995/96. Over these two decades, poverty incidence held steady in urban areas, which suggests that its worsening took place largely in the countryside. Moreover, a comparison of 1984/85 and 1995/96 data indicates that since the nationwide incidence of poverty rose slightly (from 41.4 per cent to 44.6 per cent) in 1995/96, rural poverty seems to have increased, while urban poverty diminished. Given this comparison, it also seems safe to say that income poverty in Nepal has not improved over the 20-year period. However, other aspects of poverty – those reflected by social, demographic, health, education, and infrastructure indicators – point to progress, notably in primary education and in health. For this reason, an examination of Nepal's trends in human poverty is imperative.

HUMAN POVERTY

UNDP introduced the concept of human poverty in its 1997 *Human Development Report* so as to look beyond income poverty to other aspects of deprivation. Human poverty encompasses lack of capabilities, lack of political freedom, inability to participate in decision-making, lack of personal security, and inability to participate in the life of a community. The Human Poverty Index (HPI) seeks to measure the degree of deprivation in these areas by examining five attributes of poverty: illiteracy, malnutrition among children, early death, poor healthcare, and poor access to safe water. (The details of how HPI is calculated are set forth in Annex 1).

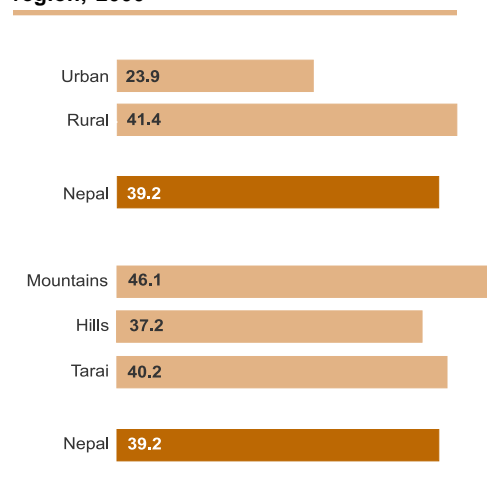
The latest global *Human Development Report* (2001) estimates HPI for Nepal at 44.2, with a rank of 77 out of 90 developing countries.

This HPI value for Nepal is higher than for any other South Asian country, indicating a worse situation. By comparison, HPI for Bangladesh was 43.3, for Pakistan 39.2, for India 34.3, and for Sri Lanka 18.0.

This National Human Development Report, using the most recent data available, calculates Nepal's HPI as 39.2. Significant improvements have taken place in recent years. Nonetheless, chronic malnutrition among children below five years of age (54.1 per cent) and the proportion of people not expected to survive beyond 40 years (21.8 per cent) remains among the highest in the world (see Annex 1, Table 4). This can be explained not only by the persistence of income poverty, but also limited access to health facilities. The percentage of population without access to safe water has come down significantly, although it is doubtful that much of this water is really safe to drink. There has also been a steady improvement in adult literacy – despite the fact that half the population cannot yet read or write.

As Figure 2.11 shows, human poverty in rural areas (41.4) is almost twice as high than in urban areas (23.9) and, like income poverty, varies widely across ecological zones. HPI is highest in the mountains (46.1), followed by the Tarai (40.2), and hills (37.2) (figure 2.11).

Figure 2.11
Distribution of human poverty by region, 2000



This corresponds to the general distribution of income poverty, where the difference between the hills and Tarai is not great, but the mountains lag far behind, as Map 2.4 shows. However, HPI is *not* always lowest where income is highest, or vice versa. It can thus complement measures of income poverty to cast light not only on dimensions of poverty hitherto largely ignored, but where and for whom one or another component of development may be most needed.

The Overall Situation

All in all, the most salient features of both income and human poverty in Nepal can be summarized as follows:

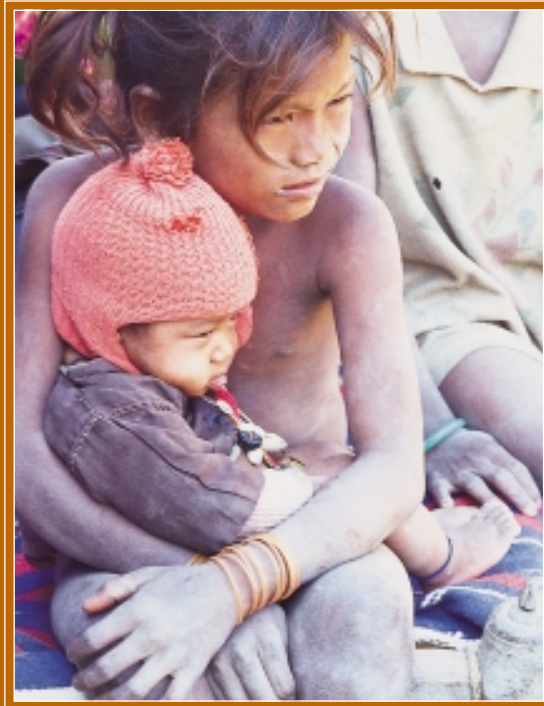
The mid- and far western development regions are characterized by high human and income poverty, low human development, deep gender disparity, and low gender empowerment. Human development in the mountains is much lower than in the hills and the Tarai. Discrimination clearly obstructs women and the disadvantaged groups, especially in the rural areas. The level of human development correlates directly with investments in the country's development regions.

Low investment, then, results in low human development, limiting people's choices and capabilities. Leaving whole regions or groups of people out of the mainstream violates their human rights. It inhibits their participation in economic, social, cultural, and political life. It deprives the nation of the contributions they could well make to any, perhaps all, of these realms. It therefore works against the norms of civilized order, damaging both individuals and society – often irreparably.

Both human and income poverty persist largely because of weak governance. Poverty reduction policies and programmes have often fallen short of their aims. Basic social services remain inaccessible to large segments of the poor and the quality of these services is low. Public investments have yet to become effective in addressing poor people's needs. By and large, governance institutions exclude or silence their voices.

All these reasons for the persistence of poverty are analyzed in Part II of this Report.

Both human and income poverty persist largely because of weak governance



PART II
THE PERSISTENCE OF POVERTY IN NEPAL



Chapter 3

POLICIES AND PROGRAMMES FOR POVERTY REDUCTION

Economic Policies and Growth in Nepal
Initiatives Undertaken for Poverty Reduction
Causes and Effects of Poverty in Nepal
Governance: The Missing Link

Chapter 4

DELIVERY OF BASIC SOCIAL SERVICES

Investments, Delivery, and Critical Issues
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Crisis of Governance in Public Services
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Chapter 5

POSITIONING PUBLIC EXPENDITURE FOR POVERTY REDUCTION AND HUMAN DEVELOPMENT

The Budgetary System and Implementation Mechanism
Trends and Composition of Government Expenditure
Impact of Escalating Police and Defense Expenditure
Community Demand for Public Resources
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POLICIES AND PROGRAMMES FOR POVERTY REDUCTION



Over the last 15 years, Nepal's annual economic growth rate has averaged about 5 per cent. Although this is not spectacular, especially in comparison to the growth of East Asian countries, it is not very low either. A close look into the components of economic growth reveals that Nepal's overall growth has derived largely from the growth of the non-agricultural sector – which now contributes about 60 percent of GDP, compared to a mere 40 percent 15 - 20 years ago. This has transformed the economy's structure. However, the structure of employment has not changed accordingly. About 80 per cent of the Nepalese population still works in the agriculture sector. Consequently, income distribution has become far more uneven, with severe impacts on those whose livelihoods depend on the land, rivers, and forests. Little wonder, then, that poverty is endemic in the rural areas. This raises the question of how pro-poor the country's economic policies and growth have been.

ECONOMIC POLICIES AND GROWTH IN NEPAL

Definition and Measurement of Pro-Poor Growth

Pro-poor growth, once discussed largely as broad-based growth,¹ is now viewed in far more specific terms. One study has defined pro-poor growth as "... labour absorbing and accompanied by policies and programmes that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups."²

Cross-country evidence suggests a strong positive correlation between growth and poverty reduction.³ This result is consistent with the "trickle-down" theory, which asserts that a certain portion of increased growth

*Pro-poor growth,
requires a growth
strategy deliberately
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will eventually reach the poor even though their share may be relatively small compared to that of the non-poor.⁴ However, the degree of poverty reduction for the same growth rate varies significantly from country to country, which indicates that the impact of growth on the poor differs significantly across countries.⁵ This finding led to the introduction of the concept of pro-poor growth, which requires a growth strategy deliberately geared to benefiting the poor. The idea has sparked great interest as an explanation of why some countries prosper generally while others continue to find the majority of their people mired in poverty.

This section examines whether – and to what extent – economic growth has been pro-poor in Nepal. Subject to the availability of data, we have tried to establish a pro-poor growth index using the methodology developed by Kakwani and Pernia (2000). The index is based on the poverty head-count index, per-capita GDP growth rate, and the Gini coefficient (for the measure of inequality). Following Kakwani, the degree of poverty is assumed to depend on average income and income inequality: an increase in average income reduces poverty, while an increase in inequality increases it. Also, while economic growth increases average income or consumption, it may be accompanied by increasing or decreasing inequality. An increase in inequality implies that the proportional benefits received by the poor are lower than those of the non-poor. Conversely, a decrease in inequality implies that the proportional benefits received by the poor are higher than those of the non-poor. Thus, growth becomes pro-poor when inequality decreases.⁶

Pro-Poor Growth in Nepal

In this section, we have tried to measure poverty elasticity and compute a pro-poor growth index. We must conclude that because of data constraints, not much can be said with certainty about the pro-poor aspect of growth. We made efforts to compute the pro-poor growth index for periods prior to the 1990s,

for example, during 1976/77-1984/85 and 1984/85-1995/96. However, due to a lack of reliable and comparable estimates for poverty incidence and Gini coefficients, the index for those years could not provide any convincing arguments. Consequently, for those years, the inequality component had to be ignored; only the growth component was considered in examining the pro-poor nature of growth – if any. For this reason, we have calculated the pro-poor growth index only for the period 1996/97-1999/00⁷ (see Annex 2 for details).

One study has reported that the head-count index of poverty may have increased from 33 per cent in 1976/77 to 42 per cent in 1995/96.⁸ This suggests that, on average, from 1976/77 to 1995/96, the proportion of Nepal's poor increased at an annual rate of 0.47 per cent. Assuming that the annual per capita GDP growth rate during this period was roughly 2 per cent, poverty elasticity (measured by the ratio of annual percentage change in poverty to the annual percentage change in growth rate) can be computed as 0.24. This suggests that during these 20 years, on average a 1 per cent growth rate was accompanied by an increase in poverty incidence of 0.24 per cent.

Similarly, consider the period from 1984/85 to 1995/96, when per capita GDP also rose roughly by an average annual rate of 2 per cent. During this period, poverty incidence increased marginally by 0.6 per cent, from 41.4 per cent to 42.0 per cent. This indicates that, on average, the proportion of poor people, as measured by the head-count index, increased at an annual rate of 0.05 per cent during the 11-year period. Given the annual per capita GDP growth rate of 2 per cent, the poverty elasticity comes out at about 0.025. This indicates that from 1984/85-1995/96, on average, a 1 per cent growth rate led to an increase in poverty incidence of 0.025 per cent. For the period from 1976/77 to 1995/96,

given the unreliability of inequality data (as measured by Gini coefficients), only the growth component of poverty elasticity has been considered, ignoring the inequality aspect.

To provide some insight into the degree of “pro-poorness” of more recent policies in Nepal, we have calculated the pro-poor growth index for the period 1996/97-1999/2000 based on NPC estimates of head-count ratio, per-capita GDP, and Gini coefficients (see Annex 1, Table 2 for details). During this period, the annual percentage reduction in poverty was 0.976, while the average annual percentage growth rate in per capita GDP was 2.13 per cent.⁹ This results in a poverty elasticity value of -0.46 – which suggests that, on average, a 1 per cent growth rate led to a decrease in poverty incidence of 0.46 per cent.

Further, during the same period, the annual percentage change in Gini coefficient was 0.54, suggesting the value for growth effect of -0.99. This means that if inequality had not increased, then each 1.0 per cent of growth would have reduced the head-count poverty index at the rate of 0.99 per cent. The pro-poor growth index then becomes 0.46. Therefore, the extent of poverty reduction explained by the pure GDP growth effect is estimated as 0.46, suggesting that during the period 1996/97-1999/2000, economic growth might have been moderately pro-poor in Nepal (see Annex 2, Table 3).

As the pro-poor growth index highlights the causal relationship between economic growth and its impact on poverty, i.e., the impact on poverty alleviation of each percentage rise in economic growth, it should provide policy-makers with the tool to gauge the success of pro-poor policies. For example, if economic growth is resulting in only moderate poverty reduction or none at all, this message will emerge clearly and policy-makers can take the necessary intervention measures. For these

reasons, this area obviously requires further investigation with attempts to address data limitations.

However, in view of the exercise above, not much can be said with confidence regarding the pro-poor nature of growth in Nepal, especially for the period prior to the mid-1990s. First, poverty incidence figures are not directly comparable due to differences in methodology, sample sizes, and poverty line definitions. Second, inequality estimates prior to the mid-1990s vary significantly, casting grave doubts on their reliability. Therefore, any interpretation must be made with caution. Nonetheless, it can be stated that the growth process (of roughly 4 per cent during the last two and a half decades) has probably made little impact on the lives of the poor, as there is no indication that poverty has declined significantly during this period.

Some Observations on Pro-Poor Growth

Since the mid-1980s, Nepal has adopted the Structural Adjustment Programme as a means of addressing serious macroeconomic imbalances both domestically and internationally. Although no sufficient empirical evidence exists on the impact of liberalization on poverty, many people have stated that the liberalization policies initiated since 1985 and expedited since the early 1990s have not benefited the majority of the poor.¹⁰ During the last two and half decades, the incidence of poverty has not decreased¹¹ and it is clear that the average growth rate of around 4 per cent has not been strong enough to exert a significant impact on poverty reduction. Further, growth in Nepal continues to depend largely on the performance of the agriculture sector, which itself depends heavily on the vagaries of the monsoon. The industrial sector is mainly one of import substitution without any significant expansion in its base. With its relatively high population growth, Nepal has turned from a

During the last two and half decades, the incidence of poverty has not decreased and it is clear that the average growth rate of around four per cent has not been strong enough to exert a significant impact on poverty reduction

net exporter of food grain (at least till the 1970s and early 1980s) to a net importer of larger and larger quantities of food grain.¹²

Prior to the mid-1990s, little improvement took place in terms of efficiency, the management of public enterprises, enhancements of productivity in agricultural and non-agricultural sectors, and the mobilization of domestic resources. Even though the growth rate has increased for some years, along with other positive indicators, these achievements have not been sustainable. Moreover, improved economic performance, especially from the mid-1980s to the mid-1990s, benefited mainly the non-poor – among them, large farmers in the vicinity of the Kathmandu valley¹³ – and inequality appears to have worsened. Some government policies, such as discontinuing subsidies to fertilizer and small irrigation systems, have hurt the poor farmer the most. In the non-agricultural sector, given the prevailing rate of inflation (roughly double digit from 1984/85-1995/96), the improved growth rate did not translate into increases in salaries and wages and thereby benefited poor people very little.

During the 1990s, despite a slower growth of capital stock than in the 1980s, GDP growth improved mainly because of increased factor productivity. Several changes explain this rise. First, the liberalization of trade, industries, the financial system, and the foreign exchange regime substantially reduced bureaucratic procedures, shortened delays in administrative decision-making, and minimized rent-seeking activities. Second, the involvement of the private sector in economic activities led to massive expansion of financial, transport, communication, and even social sector services, all of which contributed to higher growth. Third, the orientation of the economy to the international market played a catalytic role in increasing exports, which contributed to GDP growth. All these developments helped expand the non-agriculture sector in particular.

What emerges here is a mixed picture of some success with considerable shortcomings. The failure of agricultural production to keep pace with demand has made the country a net food importer. To compensate for this shortfall, Nepal has had to rely increasingly on food imports and external aid. Except in the service sector, which centres primarily around urban areas, low general economic performance – in terms of growth, employment, and a widening of the revenue base – indicates an absence of pro-poor policies.

INITIATIVES UNDERTAKEN FOR POVERTY REDUCTION

Nepal's Seventh Plan (1985-90) represented its first attempt to formulate a distinct programme with a long-term perspective for poverty alleviation. Subsequently, poverty alleviation became one of the major objectives of the Eighth Plan (1992-97) and the sole goal of the Ninth (1997-2002), which established long-term targets with various poverty-related indicators for the first time in the country's history.

Although the policies and strategies of the Ninth Plan aimed at achieving broad-based growth and providing basic social services to address various aspects of poverty, experience in Nepal and elsewhere indicated that even this combination failed to reach large segments of the poor, notably the poorest of the poor and marginalized groups. The government has since tried to tackle poverty through three simultaneous strategies: broad-based economic growth; social sector development; and a set of targeted programmes. In addition to emphasis on broad-based growth, poverty reduction initiatives to date can be broadly classified as those focusing on rural infrastructure; priority accorded to the social sector; interventions targeted to poor and vulnerable groups, accompanied by safety nets; and decentralization and social mobilization pro-

Some government policies, such as discontinuing subsidies to fertilizer and small irrigation systems, have hurt the poor farmer the most

grammes.¹⁴ Once again, poverty alleviation has been declared the sole objective of the forthcoming Tenth Plan (2002-2007).

The government has reiterated this three-pronged strategy in its Interim Poverty Reduction Strategy Paper (I-PRSP). Broad-based growth will concentrate on increasing agricultural productivity, along with continuing emphasis on growth led by the private sector. The Paper also recognizes the interlinkage between poverty reduction and good governance, stating the government's commitment to improve governance by focusing on such components as civil service reform, decentralization, an increased role for NGOs in service delivery, and involvement of the private sector in service provision. In this context, it should be noted that the government's recognition of its limitations in service delivery has resulted in the rapid growth of NGOs and community organizations (COs), many of which have flourished because of the financial support of external donor agencies. In addition, the Paper stresses the significance of poverty assessment and monitoring through the adoption of implementation mechanisms necessary to improving and institutionalizing data collection procedures for a proper analysis of poverty indicators, as well as of the impact of national policies and local programmes (see also Chapter 8).

Government Initiatives Focusing on Broad-Based Growth

The government aims at an overall economic growth rate of 6 per cent¹⁵ with appropriate steps to ensure that all sectors, regions, and groups of people share the fruits of growth through expanded employment opportunities. Given the significance of the agriculture sector, the implementation of the Agriculture Perspective Plan (APP) forms the backbone of this strategy. The rise in agricultural production and the growth anticipated in employment opportunities in agriculture and related

sectors, such as agro-based industries, are the key elements. The modalities of APP emphasize technical and institutional issues and stress a more participatory approach than earlier government efforts. Moreover, to reach the poorest of the poor and disadvantaged groups, the government has emphasized the roles of civil society, NGOs, and the private sector, as well as participation of women and other disadvantaged groups. In addition, institutional capacities at the VDC and DDC levels are to be strengthened, and local level monitoring is being planned to ensure that the benefits accrue to all sections of the population.¹⁶

However, APP delivery on its promises requires re-examining several of its aspects. For example, though primarily an agriculture-focused plan, the APP is multi-sectoral and, at the policy level, it is not immediately clear whether appropriate linkages have been built with all the line ministries concerned. Similarly, the role of the NPC needs to be further clarified to reduce bureaucratic bottlenecks and coordinate activities effectively across all the agencies concerned.

The second component of the government's broad-based growth strategy is employment generation through labour-intensive private and public sector-led growth. Increases in employment are to be achieved through agricultural growth, employment-intensive infrastructure projects, cottage and small-scale industries, skill development training, and rural tourism. However, the government does not have a clear policy for increasing employment-intensive opportunities except in agriculture. For instance, given the dismal level of industrial employment, no clear policy exists for promoting the labour-intensive methods the government considers desirable. In addition, in view of the low level of human resources in rural areas, a clear need exists for involving NGOs and the private sector in working with the local governments and the people to enhance employ-

Low general economic performance – in terms of growth, employment, and a widening of the revenue base – indicates an absence of pro-poor policies

ment-generating activities through literacy and awareness campaigns and skill development training.

Rural Infrastructure Initiatives

Nepal has favoured rural infrastructure projects as a means of reducing poverty, among these the construction of rural roads to increase access to markets and other services; irrigation projects to bring more land under cultivation and/or provide protection from floods; drinking water projects to reduce the high prevalence of water-borne diseases; and rural electrification projects to provide household lighting and power to cottage industries.

Most of these infrastructure projects have been designed as labour-intensive and have succeeded in generating employment for local people facing food insecurity. The more recent programmes have emphasized local participation in planning, designing, and implementation and are also becoming gender-sensitive. Moreover, as these projects incorporate social mobilization and local institution-development components, they appear to be enjoying a greater level of success in terms of local ownership, transparency and accountability, and reaching the poorest of the poor. In many cases, the implementing organizations are user groups or local self-help groups, VDCs, and DDCs. However, these programmes suffer from limitations such as slow execution, poor selection and design, shortage of funds, flawed criteria for selecting beneficiaries, poor labour management, and lack of monitoring and evaluation.

Initiatives in Social Priority Sector

The government's efforts to provide basic education, primary healthcare, and drinking water and sanitation are important elements of the poverty reduction programme. Currently, basic education programmes focus on primary education and non-formal education

for children as well as adults. They also stress activities like school construction and the repair of existing facilities to increase access in the more backward areas, as well as awareness campaigns to change attitudes concerning schooling for children, especially girls. In non-formal education, the government intends to mobilize NGOs (and the private sector) to provide out-of-school instruction to children, as well as to run adult literacy classes, by giving NGOs easy and direct access to both government and donor funding. Lately, the government has increased emphasis on the education of girls and literacy instruction for women. Whereas earlier efforts concentrated primarily on increasing enrolment, attention is being given to improving quality by improving technical and institutional capacities at all levels.

In primary healthcare, the government focuses on immunizing children and reducing diarrhea and acute respiratory diseases among them, as well as improving reproductive health. The government's efforts in drinking water and sanitation lie in providing drinking water facilities to all and improving its quality, increasing public awareness of health and sanitation, and developing proper sanitation facilities in both the rural and urban areas. To these ends, greater emphasis is being placed on decentralized planning by mobilizing users' committees, NGOs, and other local-level organizations for planning, construction, and the operational aspects of projects. However, in most of the priority sector programmes, the follow-up actions appear weak.

Ideally, demand should drive a number of these programmes. They should also involve strong elements of participation and cost-sharing. Recently, especially in the areas of drinking water and sanitation, efforts have been made to incorporate these characteristics into priority sector projects. Commendable as these steps are, resource mobilization issues in resource-

Most infrastructure projects suffer from slow execution, poor selection and design, shortage of funds, flawed criteria for selecting beneficiaries, poor labour management, and lack of monitoring and evaluation

poor areas need to be considered. These questions are addressed in greater detail in Chapter 4.

Targeted Interventions

Targeted programmes attempt to address issues such as regional disparities, gender insensitivity, lack of access to credit and other resources, as well as other problems experienced by marginalized groups, and have been implemented in Nepal since the mid-1970s. Both the Ninth Plan (1997-2002), including the budget for the fiscal year 2001-2002, and the I-PRSP reiterate the significance of such programmes for poverty alleviation. However, most targeted programmes are centrally conceived, designed, and implemented. They are also characterized by low local participation, a high level of political interference, mis-targeting, lack of transparency, the dilution of limited resources over many projects (and high costs, especially in projects involving rural infrastructure), as well as a tendency to seek “quick fixes” rather than address fundamental structural issues. They also suffer from lack of vision and clarity of issues, along with inadequate monitoring and supervision. By contrast, the few programmes that have had relative success – largely health-related programmes for women and children, most of them funded by donor organizations – involve participatory approaches and devolve authority significantly towards the grassroots level.

In recent years, the community-driven model has gained ground in most programmes resulting in a stronger component of social mobilization and local-level participation in formulating strategies, policies, and budgets. This type of approach has resulted in higher recovery rates and better targeting and outreach, as well as a greater sense of ownership. In addition, the credit-based programmes are increasingly providing support services such as technology, extension, and market access. Indeed, the proliferation of microfinance or-

ganizations has highlighted the need for coordinating their activities to institutionalize credit delivery and strengthen capacity. The establishment of a Rural Microfinance Development Centre represents a noteworthy step towards this objective.

To strengthen the institution-building in target-oriented programmes, the government has established a Poverty Alleviation Fund (PAF), which will bring all such interventions under a single umbrella, and is consulting with local governments and beneficiaries to develop modalities for the use of such financing. As the I-PRSP states, poverty alleviation initiatives will be widely discussed with grassroots organizations, local governments, and the general public to strengthen ownership and ensure successful implementation. Overall, however, given inequalities in education, awareness and access to resources, it is still difficult to tell whether this general demand-driven participatory type of programme benefits the “hard-core” poor rather than those among rural population who already had significant advantages (see also Chapter 7).¹⁷

Decentralization and Social Mobilization Initiatives

In view of the successes and shortcomings sketched above, Nepal’s great need in poverty alleviation appears to be local self-governance coupled with a strategy for empowering the poor and vulnerable to ensure that local governments serve their interests. Hence the renewed interest in decentralization and social mobilization reflected by the Participatory District Development Programme and the Local Governance Programme, implemented in Nepal since the mid-1990s, for the promotion of people-centred, decentralized local governance. The organizational structures at the village and district levels that these programmes have strengthened or helped build have been found quite effective in enhancing people’s participation.

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CAUSES AND EFFECTS OF POVERTY IN NEPAL

As indicated earlier, poverty has persisted in Nepal because of low economic growth, inadequate social and economic infrastructure, relatively high population growth, low access to land, low access to non-agricultural income, and deep-rooted cultural and historical practices. In addition, institutional weaknesses at both the government (central and local) and non-government level – lack of good governance – is a major reason for the perpetuation of poverty.

However, it is important to note that these factors are not all strictly *causative*. Alternatively, they can be viewed as *effects* of poverty. But even if some do not cause poverty in the strict sense, they certainly result in its perpetuation – and it is in this broader sense that this section discusses each general category.

Low Economic Growth

The main characteristics of economic growth that directly impact poverty in Nepal are: a low growth rate; low agricultural growth; growth that is urban-biased; and low redistributive capacity. Over the last three decades, economic growth has averaged about 4 per cent, only marginally exceeding the population growth

rate of 2.37 per cent (see Figure 3.1). Growth rate in the agriculture sector has been even lower – less than 2.5 per cent – and very inconsistent throughout these 30 years. Taking together the growth of total food-grain production and that of population, Nepal has slowly but steadily changed from a net exporter to a net importer of food grain, as indicated earlier in this Report. The overall result – lack of food security – has been the prime factor in increasing rural poverty (see Box 3.1). During the last few years, violence in remote areas has aggravated this insecurity.

Growth in the non-agriculture sector, driven largely by growth in the urban service sector, has not been strong enough to trickle down to the rural poor. The types of jobs created in the growing urban economies tend to favour skills that rural areas are just not able to provide. The government's redistributive capacity is extremely limited by its inability to raise sufficient internal revenues¹⁸ and to allocate resources to the social priority sector.

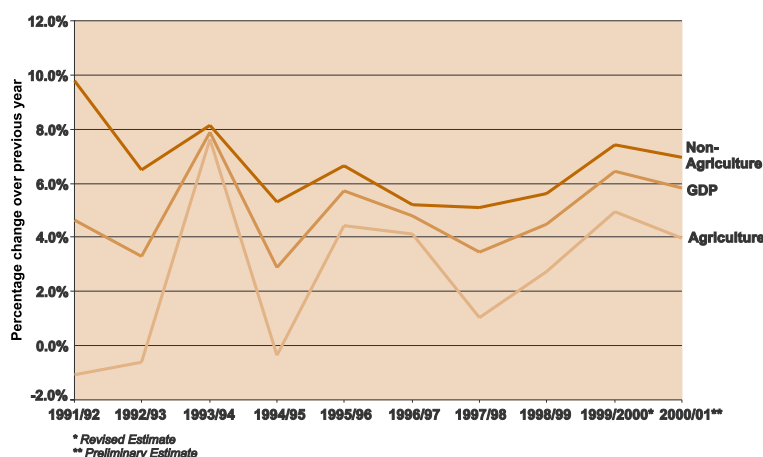
Low Agricultural Productivity

Nepal's economy centres on agriculture: 86 per cent of the country's households cultivate some land; 80 per cent have some livestock; and 83 per cent of the labour force relies mainly on agriculture for employment.¹⁹ The NLSS data reveal that this overwhelming dependence on agriculture prevails regardless of consumption levels. The poor households appear to differ from the non-poor in terms of the returns derived from agriculture.

Examination of data on the production of major food grain from 1985-86 to 1998-99 reveals production as stagnating or only marginally increasing. Studies show that the poor derive even smaller returns from the land in relation to the size of their holdings, due to their smaller share of good quality *kebet* land,²⁰ and poor access to technology, formal-sector credit, and rural roads.

Poverty has persisted in Nepal because of low economic growth, inadequate social and economic infrastructure, relatively high population growth, low access to land, low access to non-agricultural income, and deep-rooted cultural and historical practices

Figure 3.1
Gross domestic product 1990-2000



Source: MOF, 2001.

Low Levels of Social and Economic Infrastructure

Even by South Asian standards, Nepal's level of social and economic infrastructure is low. The NLSS data suggest that the rural poor suffer from insufficient and sub-standard health services and the relatively high cost of medical treatment. Further, as low agricultural incomes correlate closely with low levels of education, public expenditure in primary education is likely to benefit the poor.²¹ The NLSS data also show significant differences in accessibility to drinking water by consumption group.

Generally, measured in quintiles, the poor have less access to basic social and economic infrastructure. By far the greatest difference emerges when the data are disaggregated by rural and

urban sectors. Except for access to primary school, values in the rural areas are significantly lower than those in urban areas. There appears to be a close link between access to roads and poverty in general, particularly its severity. This further highlights the fact that Nepal's poorest areas are its geographically remote regions in the hill and mountain districts.

High Population Growth and Adverse Impact on Environment

Since Nepal's economic growth has not been high or sustainable during the last two and half decades, high population growth has meant that the absolute number of people below the poverty line has doubled from 4.7 million in 1976 to close to nine million. High population growth without commensurate economic growth, especially in terms of the economy's capacity to

Box 3.1 Who is vulnerable to food insecurity?

According to self-evaluation by residents in 65 communities surveyed in a Rapid Assessment for the National Food Security Vulnerability Profile (FSVP), vulnerable households exist in all areas of Nepal. The criteria used to distinguish between households that had food security and those that did not appear below:

Main indicators used for distinguishing food secure and food insecure households in 65 surveyed communities, Nepal 2000

| INDICATORS | NO | % |
|--|-----------|--------------|
| Lack of able-bodied labor | 42 | 64.6 |
| Small land holdings | 37 | 56.9 |
| Lack of access to service/pension income | 33 | 50.8 |
| Small livestock holdings | 25 | 38.5 |
| Poor land quality/location | 22 | 33.8 |
| Working as wage labor | 16 | 24.6 |
| Working as semi-skilled labor | 15 | 23.1 |
| Lack of foreign remittances | 14 | 21.5 |
| Reliance on tenancy arrangements | 13 | 20.0 |
| Lack of occupation in trades | 12 | 18.5 |
| TOTAL | 65 | 100.0 |

Of the ten most frequently cited criteria used to distinguish the food-secure from food-insecure households, most relate to lack of access to land and livestock and their quality, as well as (skilled) labour resources within households. Quantitative data within settlements gener-

ally support the observations made by household members. In addition, households without access to income from trading opportunities, employment in the service sector, pensions, and those who rely on apparently uncertain, casual employment, such as agricultural laborers and porters, are also among the most food insecure populations in the country.

Interestingly, at the national level, the issues of caste/ethnicity, geographic remoteness and the sex of household head do not appear among those most often cited, perhaps because they already characterize the households selected for the participatory assessment. Since occupational and disadvantaged caste populations tended to prevail throughout the sample settlements, caste difference in many cases was not relevant to within-community distinctions between the households that characterized themselves as secure or insecure in terms of food. Where differentiation by caste or ethnic group did emerge, the most insecure belonged to the Kami (blacksmith), Damai (tailor), and Sarki (cobbler) in the hills and, in the Terai, the Chamar, Bhand, Satar, Tatmas, Dusadh, Musahar, Dhankar, and Badi.

However, this suggests the use of different sets of indicators at different levels of targeting. While the indicators listed above are appropriate to household-level screening and targeting, geographic targeting should include such environmental features as geographic remoteness and such socioeconomic characteristics as literacy, caste, infrastructure and services.

Source: WFP (2001)

The core issues are the ways in which a national government gains and sustains its legitimacy, implements its policy and delivers on its promises

create additional employment opportunities, has led people to rely even more on the land. At times, this has meant clearing forests, intensifying the use of public land, and farming marginal land. All these activities have adversely affected the environment – which, in turn, has had devastating effects on the poor, as they usually rely on the most marginal and fragile land.

Lack of Non-Agriculture Employment Opportunities

Non-agriculture employment is an important factor in poverty reduction, substantiated by the NRCS as well as NLSS. The NRCS data show that as many as 42 per cent of households in the landless and marginal land-owning groups are better off than other poor households because they earn substantially more from non-agricultural sources, mainly in the form of salary and wages.²² A recent publication²³ that has further explored the contribution of wage work to total income reveals that the share of salary and wage in total income is highest for the bottom quartile of the landless and owners of marginal lands; it monotonically decreases with each higher quartile group.

Unfortunately, non-agricultural employment is not expanding fast enough to absorb even a fraction of the approximately 200,000 people who enter the labour force each year. Some seek employment abroad and significantly reduce their poverty. However, those who cannot avail themselves of such opportunities, either within the country or abroad, remain trapped in poverty.

Social and Cultural Factors

In Nepal, many groups of poor people stay poor because of social and cultural factors, notably historic inequalities in the distribution of social and economic power.²⁴ Caste-related biases have confined the so-called “untouchable castes” to the lowest-paying menial jobs,

restricted or blocked their access to common resources, and limited or denied their access to government and public services. Some ethnic minorities and indigenous groups also face similar discrimination. As Chapter 2 indicated, women continue to face discrimination in almost all aspects of life.

GOVERNANCE: THE MISSING LINK

One striking feature in Nepal is the persistence of poverty despite almost five decades of planned development. This stems not so much from problems of policies and strategies, but weak governance institutions, which have resulted in the ineffective implementation of these undertakings. Empirical evidence reveals a strong causal relationship between good governance and desirable development outcomes, such as higher per capita income, lower infant mortality, and higher literacy.²⁵

As governance concerns traditions and institutions involved in the exercise of power, it involves more than the government alone. In Nepal, a nascent democracy that has only recently embarked on building the institutions that underlie democracy, the government and its relationship to citizens constitutes the core of governance. In other words, the core issues are the ways in which a national government gains and sustains its legitimacy, implements its policy and delivers on its promises, and the degree to which citizens can conduct their day-to-day business in a safe and secure environment, as well as monitor the government's actions and hold it accountable to them. In terms of poverty reduction, the poor and deprived initially depend more than others at least on the government's ability to deliver basic services. In Nepal where nearly nine million people now live below the poverty line, good governance is therefore critical to poverty reduction.²⁶

Since effective and efficient delivery of basic services by the public sector matters most to the poor, weak governance hurts them most. In Nepal, inefficiency, corruption, and waste in the public sector has reduced the resources available to support social services and targeted programmes. However, the denial of basic services to the poor stems less from low investments than from institutional structures that lack accountability and that also exhibit domination by local elites, widespread corruption, traditional sociocultural structures, and lack of participation by the poor.

Achieving the goal of poverty reduction involves a diversified range of stakeholders, namely, the government, the private sector, and civil society institutions. A number of

NGOs, both national and international, are actively engaged in development or are championing the legal rights of the poor. In Nepal, where government resources are limited and where civil society organizations may be the only entities serving poor people in remote, backward areas, good governance requires mobilization of such organizations to benefit from their experiences and perspectives and to take advantage of their closeness to the poor and vulnerable. Good governance is therefore crucial, as it recognizes the limitations of the government, encourages the participation of civil society organizations and works in close partnership with them in an effort to reach out to the poor more effectively and efficiently than before.

Good governance is crucial, as it recognizes the limitations of the government and encourages the participation of civil society organizations to reach the poor more effectively and efficiently

DELIVERY OF BASIC SOCIAL SERVICES



Progress in poverty reduction and human development depends on access to basic social services. A decent standard of living and freedom from want entails according all citizens the right to basic public goods and social services. In a country such as Nepal, poverty reduction and human development are contingent on fulfilling these rights. Good sanitation and drinking water, primary healthcare, and basic education not only improve human development outcomes, but help reduce poverty by raising human capability levels. Nepal is therefore giving increasing priority to basic social sectors in its national budget.

However, delivering these services in the country's current development context demands not only increased investments in a number of areas, but the inclusion of citizens in determining service priorities and their involvement in implementing the decisions they have made.

INVESTMENTS, DELIVERY, AND CRITICAL ISSUES

Basic and Primary Education

The nation's proportion of its Gross National Product (GNP) in public investment and the total national budget expenditure on basic and primary education compare favourably with the figures for its regional neighbors (see Table 4.1). Nonetheless, given Nepal's low per capita income – the lowest in the region – per capita public expenditure on basic and primary education is also the lowest in the region. Public expenditure per primary school child in FY 1996/97 was only Rs 1,206 (approximately US \$ 21) compared to about US \$ 40 in India. Private households also bear a part of the cost of basic and primary education. However, this happens mostly in the urban areas. Rural house-

hold expenditure on basic and primary education usually amounts to less than Rs 100 per year per child.

Nepal's investment in education, especially at the primary level, increased significantly in the 1990s compared to the 1980s and indicates the country's commitment to providing universal access to primary education. About 13-14 per cent of the total national budget now goes to education (10 per cent in the 1980s) and nearly 55 per cent of the education budget to basic and primary education, where the allocation increased from 36 per cent in 1981 to 56 per cent in 1991 and remains at that level.

Table 4.1
Expenditure on education, 1995-97

| COUNTRY | EXPENDITURE (% OF GNP) | EXPENDITURE ON BPE (% OF EDUCATION BUDGET) |
|------------|---------------------------|---|
| Nepal | 3.2 | 55 |
| Bangladesh | 2.2 | 52 |
| Bhutan | 4.1 | NA |
| India | 3.2 | 46 |
| Maldives | 6.4 | 67 |
| Pakistan | 2.7 | 48 |
| Sri Lanka | 3.4 | 82 |

Source: UNDP 2000 and HDC 1999.

Table 4.2
Proportion of primary age children currently in school, 2000

| LOCATION | PERCENTAGE OF CHILDREN IN SCHOOL | | TOTAL |
|----------|----------------------------------|--------|-------|
| | MALE | FEMALE | |
| Urban | 74.0 | 64.1 | 69.2 |
| Rural | 70.8 | 59.6 | 65.4 |
| Nepal | 71.1 | 60.0 | 65.8 |

Source: CBS 2001 (BCHIMES).

Delivery of Basic and Primary Education

Increased attention and investment have enhanced physical access to education in general and primary education in particular over the years. In 1995, nearly 90 per cent of the households in Nepal lived within a 30-minute walk of a primary school.¹ With increase in the number of primary schools, physical access has improved further. Except for isolated cases, virtually all children in Nepal are now within 30 minutes of a primary school.

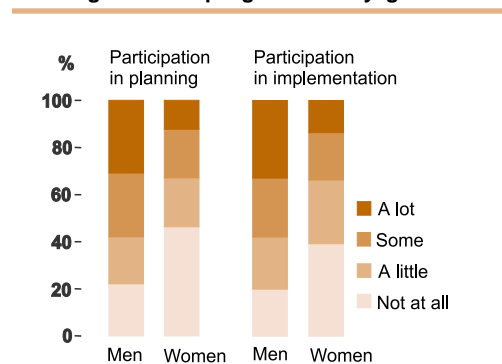
Still, nearly one-third of the primary-age children, including those in the urban areas, remained out of school in 2000 (see Table 4.2), largely because of household or other work. Less than two-thirds of the girls of this age were enrolled.

Table 4.2 also reveals some disparity in school attendance between urban and rural areas, notably a greater gender disparity in the countryside. This can be attributed to pervasive traditional patriarchal thinking, family workload, and lack of female role models (e.g., female teachers in the local schools or active local female leaders). One way to narrow this gap would be higher participation and ownership of women in the governance of schools and education-related services in the villages where the role of women remains weak (see Figure 4.1). Data from the governance survey² show that 68 per cent of the women, compared to 42 per cent of men, participated little or not at all in planning school programmes and an only slighter number (66 per cent) in their implementation.

Dalits and certain disadvantaged ethnic groups also lag in access to education. Only 30 per cent of their children attended school, compared to the national figure of 66 per cent and their literacy rate was about half that of the country as a whole. Their access to education and their children's enrollment is better in urban areas. But dalit groups, like women from all groups, remain marginal in the process of governance and development at the local level.

A second concern is the quality of education provided, especially in publicly funded schools, where the majority of Nepalese children get their education. These primary schools are controlled by the Ministry of Education and Sports through its district-level education offices. Centralization of management means reduced accountability to the local communities, the recruitment of unqualified school-teachers, lack of regular monitoring, weak

Figure 4.1
Participation in planning and implementation
of village school programmes by gender



Source: UNDP Governance Survey 2000.

supervisory support, and teachers unaccountable to the communities where they teach. Ironically, although the compensation package of public school teachers has significantly improved over the years, performance has declined. Further, the large share of salaries in the annual budget of the public schools leaves very little for educational materials and extra-curricular activities.

Private schools have proliferated to meet the need for quality education, but their high cost keeps them largely confined to urban areas, where the more affluent parents tend to live. Private schools generally have better management and facilities, in part because there is less state interference, and far higher success rates. In the School Leaving Certificate examination of 1998, for instance, only 44 per cent of the public school candidates passed, compared to 86 per cent from private schools, many of which attained 100 per cent.³

Since it is largely the children of higher-income households who attend private schools (see Table 4.3), a two-tiered system of education has evolved. The rich have abandoned the public education system, to the point where many middle and upper-class families are sending their children to selected schools in India. This general state of affairs may further deepen the societal divide between the rich

and the poor, eventually increasing the social conflict already fueled by wide development disparities throughout the country.

Critical Issues in Delivery of Basic and Primary Education

Nepal's public education system was established only 50 years ago and has achieved remarkable results in terms of access and participation. Still, Nepal fell far short of attaining the goals of universal primary education and 70 per cent adult literacy set for 2000. Generally, the critical issues may be listed as the following:

- Nearly 30 percent of Nepali children, mostly those from poor households or disadvantaged groups and regions, lack access to basic primary education. Girls fare worse. Reaching these children is a major challenge.
- The high level of wastage in basic primary education is critical in a resource-poor country like Nepal. High repetition and dropout rates reduce the efficiency of the basic and primary education system.
- Despite increasing priority given to basic and primary education, public investment in education is still inequitable. A significant proportion (over 40 per cent) of the national education budget is devoted equally to the secondary and tertiary levels and, consequently, to households with higher socioeconomic

Nearly 30 percent of Nepali children, lack access to basic primary education

Table 4.3
Type of school attended, 1995

| HOUSEHOLD BACKGROUND | PUBLIC | PRIVATE |
|---|----------------|----------------|
| RESIDENCE | | |
| Rural | 95.1 | 4.9 |
| Urban (Kathmandu Valley) | 68.8 (58.3) | 31.2 (41.7) |
| CONSUMPTION GROUP IN QUINTILES | | |
| 1st | 96.0 | 4.0 |
| 2nd | 98.7 | 1.3 |
| 3rd | 97.1 | 2.9 |
| 4th | 94.3 | 5.7 |
| 5th | 82.9 | 17.1 |
| Nepal | 92.6 | 7.4 |

Source: CBS 1996.

A participatory and decentralized primary education system is essential to improving quality and efficiency

standing. This means that the national budget disproportionately subsidizes public education for those who need it less.

■ The central management of the basic primary education system in Nepal encourages weak local participation, as well as poor quality and high waste. A move towards a participatory and decentralized primary education system is essential to improving the quality and efficiency of the system. Although the government has announced its intention to decentralize management on several occasions, this remains to be implemented.

■ The poor quality of education available at public primary schools is due to unqualified teachers, lack of teacher motivation, inadequate supervisory support, poor physical facilities, and lack of educational materials.

■ Parents from the disadvantaged groups feel that neither primary nor secondary education will help them or their children. In addition, they do not actively participate in shaping educational programmes in their communities.

■ There is a growing concern about the duality of education in Nepal – a poor public education system for poor children and a higher quality private education system for the rich. This could lead eventually to serious social conflict, the current Maoist movement being only one instance.

Primary Health Care

Public expenditure in the health sector has increased from 3.2 per cent in FY 1993/94 to 5.7 per cent in FY 1999/2000 (see Figure 4.2). However, in terms of per capita public expenditure at the global level, Nepalese spending ranks among the lowest. The country's total public sector health expenditure amounted to about US\$ 2 per person per annum in 1999/2000, compared to the average per capita cost of US\$ 12 for primary healthcare alone for an average developing country.⁴ In view of the immense human costs of diseases in Nepal, primary healthcare deserves – and now receives – the highest allocation in national

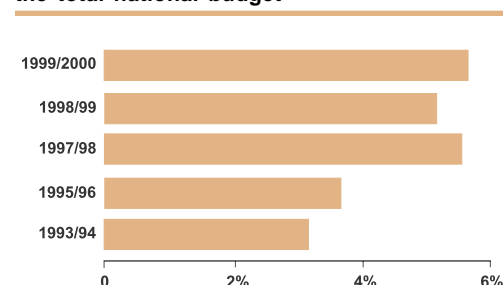
health spending, about three-quarters of the total health budget, although in some years this proportion has declined significantly due to heavy expenditures for some specialized hospitals (see Table 4.4).

Delivery of Health Services

Over the last 10 years, physical access to health institutions improved dramatically, due mainly to the establishment of sub-health posts in VDCs. In 1996 the NLSS⁵ found 69 per cent of the households within an hour's walk from a health institution, even before all VDCs had sub-health posts. Like education, access to health services is determined not only by physical access, but also by ownership in the planning and delivery of health services – now clearly in the hands of men and advantaged groups, despite indications that women and children have the most to gain from investments in primary and other health services. Among women, 71 per cent (compared to 57 per cent of men) have little or no involvement in planning village health programmes, and 67 per cent of women (compared to 59 per cent of men) are only marginally involved in implementation (see Figure 4.3).

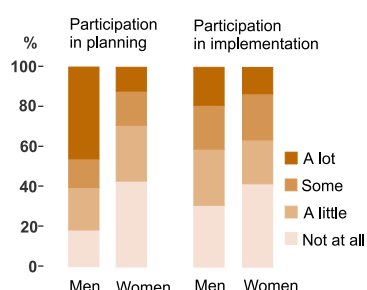
Similar trends in lack of engagement become evident when the participation of dalits is compared with that of advantaged groups, a difference sharper than that for gender. Among the dalits, 75 per cent either do not participate or participate very little in the planning of village health services, compared to 58 per cent

Figure 4.2
Health sector expenditure as percentage of the total national budget



Source: MOF 2001

Figure 4.3
Participation in planning and implementation
of village health programmes by gender



Source: UNDP Governance Survey 2000

of the advantaged groups. This difference parallels that of implementation where non-participation is 74 per cent for dalits, compared to 56 per cent for the advantaged groups.

Although access to health institutions has improved, the quality of services leaves much to be desired. A 1998 survey⁶ found only 8 per cent of those seeking health care content with the services they received, while health workers tended to attribute the problems largely to shortcomings in medical supplies, poor facilities and staff inadequacies, as well as to lack of community support (see Table 4.5).

Regardless of the similarity or difference of opinions, these are all real problems, despite which the public healthcare services helped

improve central indicators significantly (see Table 4.6), however slow the rate of progress.

The national figures hide wide geographic disparities. Although reliable statistics are not always available, health indicators are extremely low in the hills and mountains of the far and mid-western regions, where poverty reigns. Conversely, urban health indicators are much higher (see Table 4.7). There is also a significant disparity between the health indicators for the poor and disadvantaged groups and the better-off social brackets (see Figure 4.4), a trend reflected by the HDI.

Providing the minimum level of primary health services to all remains the most important challenge to the health service delivery system in Nepal. The problem is not simply lack of resources, but also strategies used and weaknesses in management.

Critical issues in delivery of primary healthcare services

A number of health institutions are involved in providing health services, at the forefront 723 health posts and 3,175 sub-health posts in the rural areas. Over 13,000 trained traditional birth attendants and nearly 47,000 female community health volunteers are lending their support in facilitating and providing basic health services. Despite these impressive

Providing the minimum level of primary health services to all remains the most important challenge to the health service delivery system in Nepal

Table 4.4
Health budget by sub-sector

| PROGRAM | 1995/96 | 1996/97 | 1999/2000 | 2000/01* | 2001/02** |
|---------------------------------|---------|---------|-----------|----------|-----------|
| Primary healthcare ¹ | 69.0 | 64.3 | 75.9 | 73.5 | 71.0 |
| Health policy and management | 4.0 | 2.8 | 2.8 | 2.8 | 2.3 |
| Hospital services ² | 23.1 | 29.5 | 17.9 | 20.0 | 23.8 |
| Traditional medicine | 4.0 | 3.4 | 3.4 | 3.7 | 2.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: New ERA 2001.

Note: 1. Expenditure on district hospital is part of the primary healthcare package. Primary healthcare expenditure reported here is not strictly comparable to priority social sector allocation in chapter 5 due to differences in definitions. Moreover, figures reported in this table are based on actual expenditures whereas priority social sector allocations are based on budget allocations.

2. Hospital services include services of hospitals providing specialist services.

* Based on revised estimate of expenditures.

** Based on budget estimates.

figures, the main issues in the delivery of primary health care services are the following:

- The quality of health services at the rural health institutions is either very poor or, often, unavailable because of the lack of medical supplies and supporting facilities, as well as shortages in health personnel.
- Universal access to primary healthcare services, especially to the poor and disadvantaged caste/ethnic groups of rural areas, poses an important challenge.

Box 4.1 Public opinion on government-run health services

The doctor does not examine seriously in hospital, but the same doctor is very serious when I go to his private clinic.

A literate Brahmin woman, Morang.

The health workers are usually unavailable. If they are present, instead of providing medicines, they prescribe medicines to be purchased from outside.

A Yadav woman, Siraha.

Health post staff do not usually distribute medicines. But if we offer money, they do.

A Mahato woman, Siraha.

Our health post is good-for-nothing. The building is nice, but we go to the health center of Bahuni VDC.

An illiterate blacksmith woman, Morang.

Source: NPC/UNICEF 1998.

Table 4.5
Opinion on problems of government health institutions

| PROBLEMS | HOUSEHOLDS % | HEALTH WORKERS % |
|------------------------------|--------------|------------------|
| Lack of medicine | 59 | 84 |
| Poor condition of facilities | 40 | 61 |
| Bad attitude of staff | 35 | - |
| Lack of staff | 11 | 64 |
| Lack of community support | - | 13 |

Source: NPC/UNICEF 1998.

Table 4.6
Trends in health outcome indicators

| INDICATORS | 1990 | 1995 | 2000 |
|---------------------------|------|------|-------|
| Life expectancy | 54 | 55 | 59.5 |
| Infant mortality rate | 102 | 81 | 77.2 |
| Under five mortality rate | 165 | 114 | 108.4 |

Source: NPC 1992, UNICEF 1997, UNICEF 2001, and DHS 2001.

■ Management of the health delivery system is weak, resulting in poor services. Better-managed systems providing far better health services with the same level of resources exist within Nepal.

■ Public investment in health is low. The central health management system has also been weak in terms of utilizing even budgets allocated to the health programs. The absorptive capacity of the health sector, in fact, is one of the lowest (68 per cent of development budget in the 1990s).

■ The fact that the cost of healthcare in Nepal is borne largely by private household expenditures (nearly 76 per cent in 1995)⁷ means that considerable scope exists for cost recovery in the country's health institutions. Resources thus mobilized can be spent to improve supply and facilities. Other, more efficiently managed health institutions in Nepal recover a very high level of recurrent costs by charging very modest fees for the services provided. Resources mobilized in this way can also be used to subsidize the services to the poor and needy.

■ Although the Local Self-Governance Act 1999 envisages a significant role for locally elected bodies in the management of local health institutions up to the district hospital, this aspect has not yet been implemented. Community involvement in the management of health services will help mobilize communities in providing primary healthcare services. In its absence, making primary healthcare services universal will be difficult. However, involvement requires developing an appropriate institutional mechanism, as well as substantial capacity-building at the local level in operating and managing health institutions.

Delivery of drinking water and sanitation services

Nepal spends about 3 per cent of its total national budget, or about 0.5 per cent of its GDP, on drinking water and sanitation. In view of the low coverage of drinking water and

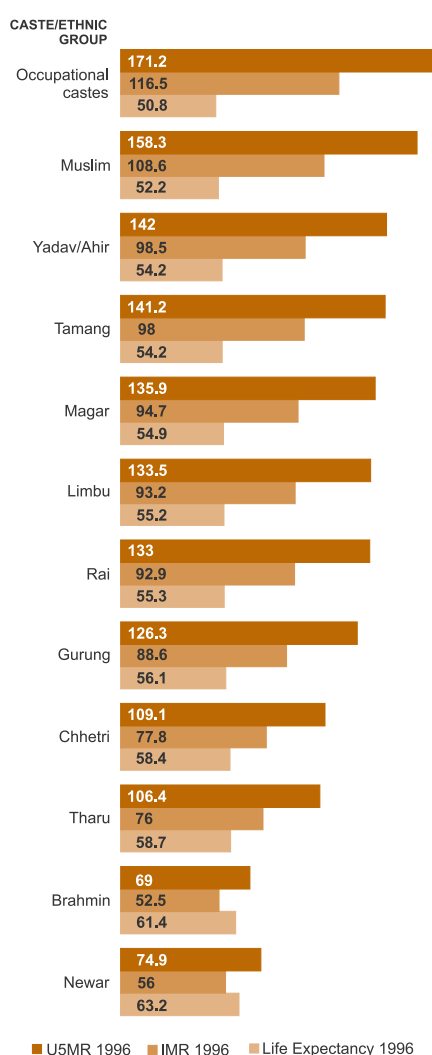
sanitation in Nepal, public investment in drinking water and sanitation is clearly inadequate.

Generally, about one half of the drinking water and sanitation sector budget is financed through external aid. That proportion varies from year to year. Most of the spending on drinking water and sanitation is capital expenditure, a disproportionate share going to drinking water. Expenditure on sanitation amounts to less than 1 per cent of total capital expenditure.

The proportion of population with access to sanitation facilities in Nepal is the lowest in South Asia (see Table 4.8). The situation is slightly better with regard to drinking water. A recent survey⁸ estimates that 80 per cent of households in Nepal have access to piped or tubewell water. However, the quality of drinking water supplied is questionable, even in the cities. Very high levels of *e. coli* contamination have been reported in the water supplies of urban areas of the Kathmandu valley. The poor quality of drinking water means that the population suffers from very high levels of water-borne diseases, such as diarrhea. A 2001 survey⁹ found one fifth of the children below five years afflicted by diarrhea during the two-week period preceding the interview day, the incidence being higher in areas of endemic poverty (rural areas) and among children of illiterate or less educated mothers. The level of poverty in these families is also usually higher compared to the families of mothers who have a higher level of education.

Moreover, the supply of piped water is unreliable, in many places infrequent. In Kathmandu, many households receive water bills without ever having received water. As in education, the need for water is being increasingly met by the private sector, which is unregulated. Those who can afford to purchase a regular, abundant supply of water do not depend on the public system. The end result is that the poor, who register low on human

Figure 4.4
Disparities in health outcome indicators by caste/ethnic group



Source: NESAC 1998.

development indicators, are left to depend on infrequent and contaminated water supply from the public system. There is a larger and more serious threat that lurks in the privatization of education, health, and water supply. The poor are marginalized, without representation, and in a weak bargaining position with the state. When fellow-citizens with resources and political access fail to pressure the state for efficient and better quality public services, but can make alternative arrangements for such critical services, they isolate the poor and

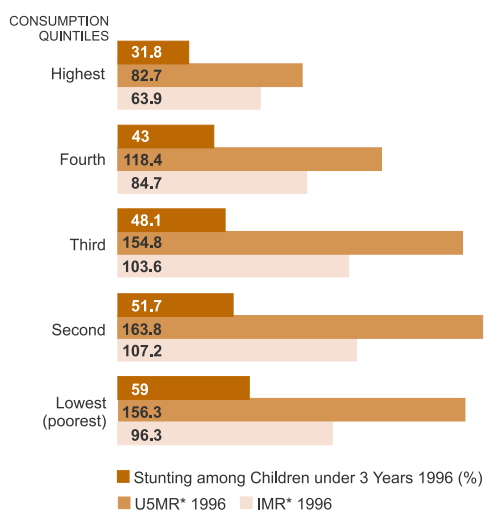
the disadvantaged, leaving them to fend for themselves.

As in education and health services, an analysis of the governance survey of citizen perspectives shows that many people, particularly women and the disadvantaged, are only mar-

ginally involved in the planning and implementation of drinking water and sanitation programmes. As many as 58 per cent of the survey sample participated little or not at all in planning the drinking water supply programmes of their communities and 53 per cent had no say in the planning of village sanitation programmes. The gender disparity in participation persists: only 30 per cent of the women participated in some form in the planning of drinking water supply programmes, compared to 54 per cent of men – a difference of 24 percentage points. In sanitation programmes, it was 39 per cent for women versus 56 per cent for men (see Figure 4.6).

The participation of disadvantaged dalit groups follows a similar pattern. Among the dalits, 64 per cent reported very little or no participation in planning village water supply programmes, compared to 50 per cent of the advantaged groups, as well as low rates for their implementation. An even higher proportion of dalits did not participate in the planning and implementation of sanitation services. Societal discrimination lies at the root of

Figure 4.5
Disparities in health outcome indicators by consumption quintile



Source: NESAC 1998 (* per 1000 live births)

Table 4.7
Health outcome indicators by gender and regions

| REGION/GROUP | LIFE EXPECTANCY 2000 | INFANT MORTALITY RATE * | UNDER FIVE MORTALITY RATE * | STUNTING AMONG CHILDREN UNDER 5 YEARS 2001 (%) |
|---------------------------|-------------------------|----------------------------|--------------------------------|---|
| Nepal | 59.5 | 77.2 | 108.4 | 50.5 |
| SEX | | | | |
| Female | 59.8 | 75.2 | 112.4 | 51.8 |
| Male | 59.3 | 79.2 | 104.8 | 49.2 |
| RESIDENCE | | | | |
| Urban | 71.1 | 50.1 | 65.9 | 36.7 |
| Rural | 58.7 | 79.3 | 111.9 | 51.5 |
| ECO-REGIONS | | | | |
| Mountain | 49.8 | 112.0 | 157.4 | 61.2 |
| Hill | 65.1 | 66.2 | 93.9 | 52.7 |
| Tarai | 62.4 | 80.8 | 112.8 | 47.1 |
| DEVELOPMENT REGION | | | | |
| Eastern | 62.0 | 77.5 | 104.8 | 44.6 |
| Central | 61.3 | 77.4 | 110.9 | 52.3 |
| Western | 67.3 | 60.1 | 83.7 | 50.3 |
| Mid-western | 53.2 | 72.9 | 111.0 | 53.8 |
| Far western | 52.1 | 112.2 | 149.2 | 53.7 |

Source: Life expectancy: Annex 1. Others figures: DHS 2001.

* For 10 years period preceding the survey in 2001. Rate per 1000 live births.

dalit non-participation in many of the basic services.

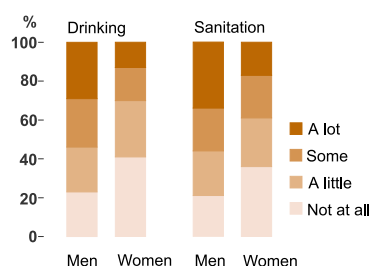
Similar gender and dalit disparities in participation are evident in all the major basic services. It is important to note that these differences are statistically significant, not merely chance events. As access to safe drinking water, schools, critical health services, and good sanitation is fundamental to human development, low levels of participation by important stakeholders such as women and dalits in the planning and delivery of these services will lower human development indicators. In areas such as health, the consequences of low participation by women include poor health outcomes for children as well. These differences in participation significantly affect knowledge and longevity.

Table 4.8
Access to drinking water and sanitation facilities

| SOUTH ASIAN COUNTRIES | PERCENTAGE OF POPULATION WITH ACCESS TO | |
|-----------------------|---|------------|
| | DRINKING WATER | SANITATION |
| Nepal ¹⁰ | 81 | 27 |
| Bangladesh | 97 | 53 |
| Bhutan | 62 | 69 |
| India | 88 | 31 |
| Maldives | 100 | 56 |
| Pakistan | 88 | 61 |
| Sri Lanka | 83 | 83 |

Source: UNDP 2001.

Figure 4.6
Participation in planning village drinking water supply and sanitation by gender



Source: UNDP Governance Survey 2000.

Critical issues in the delivery of drinking water and sanitation

- Coverage is low and there is wide disparity among the various regions of Nepal. The hill and mountain regions show very low coverage.
- Public investment in drinking water and sanitation is low. More resources need to be mobilized to increase coverage.
- Most of the public sector budget allocations in this sector are managed by central agencies through their district level offices. The cost of the schemes is high in terms of per capita beneficiary, and ownership of these schemes is low due to the lack of real participation of communities during their planning and construction.
- Drinking water programmes often ignore the needs of households from the disadvantaged castes, especially when they constitute the minority in the communities where the projects are being built.

In areas such as health, the consequences of low participation by women include poor health outcomes for children as well

BARRIERS TO THE EFFECTIVE DELIVERY OF SERVICES

Education

Centralized education management, which results in the isolation of schools from their communities, is the root cause of the ineffective delivery of basic education. The centralization of education in 1971 made the decision-making process opaque and political interference in education increased, eroding the efficiency of the system itself despite increasing investments in education.

The problem is compounded further by weak educational administration, which is unnecessarily burdened with management responsibilities in individual schools. District Education Officers devote as much as 90 per cent of their time to the appointment and transfer of teachers, often under political pressure. The quality of education and the monitoring of

*Public participation
in health system
management has
been minimal*

the educational system in their districts consequently suffer.

Weak monitoring and supervision of schools, along with the tendency to post teachers on the basis of the number of students, encourages the inclination to inflate enrolment figures. This is why gross enrolment rates reported by the MOE are so much higher than those indicated by household surveys. For example, the 1996 NLSS, based on household interviews, reported a gross primary school enrolment rate of 86 per cent for Nepal. For the same year, the comparative MOE figure was 117 per cent.

As the number of teachers depends on student enrolment, inflation of student enrolment leads to unwarranted expenditures on salaries, leaving little financing for other educational requirements of the schools. Resources that could have been available for providing opportunities to the deprived groups are thus being denied through misappropriation of funds into salaries. Such wastage, along with dropouts and repetitions, deprives the Nepalese education system of a very substantial proportion of total resources – by some estimates, almost 25 per cent of the entire annual education budget.

Health

Because public sector expenditure on health in Nepal is one of the lowest in the world, lack of resources seriously impedes the effective delivery of health services. Nonetheless, in 1993/94, the figure was US \$ 11 per capita per annum, very close to the World Bank estimate of US \$ 12 at 1993 prices for the provision of comprehensive primary healthcare, including hospitalized child delivery services, in developing countries. For a low-wage country like Nepal, the price of comprehensive primary healthcare would be even lower, probably not more than US \$10. As total national health expenditure should thus be sufficient to provide primary healthcare to all, this Report must ask why the reality differs so enormously.

The weak absorptive capacity of the health sector, weak administration, non-functioning referral systems, irrational prescribing and use of medical drugs in the country, and an absence of effective regulatory and monitoring mechanisms of the health service providers in the private sector all contribute to ineffective utilization of national health expenditures, private as well as public.

Another important barrier to the effective delivery of public health is the over-centralization of the health system. Public participation in health system management has been minimal. Again, analysis of the governance survey data indicates very low participation rates for women and dalit groups. The involvement of NGOs and the private sector in the provision of public health services is also a relatively new phenomenon and is extremely limited. Community participation in the management of local health institutions hardly exists.

Drinking Water

The low level of public investment in drinking water and sanitation is a major reason, but hardly the only one, for low coverage of drinking water and sanitation services in Nepal. Most of the public sector drinking water schemes, even in the rural areas, are implemented by state agencies with minimal consultation and participation of the people who are supposed to benefit from these programmes. This results in high costs per beneficiary, while local contribution remains low. A high level of corruption in the procurement of materials and awarding of contracts accounts in part for the high cost of these schemes. Anecdotal estimates of resource leakage due to corruption in the drinking water sector range from 30 per cent to 50 per cent. Greater participation by people in the governance of drinking water schemes is thus essential.

The experience of Rural Drinking Water Fund (RDWF) schemes testifies to positive out-

comes from citizen participation in terms of both of leakage and average per beneficiary cost (Rs 1759 compared to Rs 2863 for schemes directly implemented by the Department of Water Supply and Sewerage).¹¹ Larger local participation and ownership as well as transparency in the implementation of RDWF-supported schemes plays a major role in these results.

CRISIS OF GOVERNANCE IN PUBLIC SERVICES

Ineffective delivery and access to public services keep the quality of life of an average Nepali very low. Nepal ranks low even among the countries of South Asia, where the quality of life is one of the lowest in the world. Within the country itself, certain regions – particularly the mid- and far western hills and mountains – and disadvantaged castes and ethnic groups benefit much less from public services than the more advantaged groups and communities. Low investment, combined with ineffective governance, drastically undermines public services. The exclusion of citizens, especially women and disadvantaged groups, from governance at the community level, further compromises the basic services.

In part, these factors explain the strong presence of radical movements, such as the Maoist insurgency, in the poorer regions – and it is no coincidence that the Maoist movement started in the Rapti zone in the mid-western hills, as this region ranks at the bottom in HDI (mid-western development region hill = 0.433 and mountain = 0.322). Extreme deprivation and the absence of public transparency and accountability encourage radicalism to take root and grow. The failure of basic services that forces many to seek services from the private sector and abroad at high cost – in the case of health and education, for example – also constrains the development of Nepal severely.

Box 4.2 The Participatory Past of the Public Education System

Public education in Nepal started in 1950 after the overthrow of the Rana regime. During the Rana period, modern education was available only to the ruling Ranas, a limited number of families in Kathmandu valley, and a few other areas of Nepal. The regime intentionally restricted education. During the post-Rana period, widespread community initiatives established schools to provide education to children. In the 20-year period from 1951-1971, the number of primary schools increased from 321 to over 7,000 and the number of students from 9,000 to 410,000, a phenomenal growth rate of about 21 per cent annually.

During this period, many communities established and managed the schools entirely by setting up their own school management committees (SMC), comprising local enlightened social workers, donors, parents, and teachers. The management authority and responsibility of the schools was vested on the SMCs, which were accountable to the local community.

The role of government was limited to registration of schools, providing a national curriculum and conducting national school board examinations at the end of grade 10. The government also monitored schools to ensure that the curriculum was followed and provided a token financial grant and other support, such as teacher training.

Although public investment on education during this period was only around 5 per cent of the total national budget, the education system functioned well because of effective management and community support. The system was fairly transparent and accountable. As a result, community support was sustained and there was minimal misappropriation of resources. By contrast, the current system lacks community participation. Women and disadvantaged groups participate even less in the planning and implementation of educational programmes in their communities.

In 1971, a new national education initiative, known as the National Education System Plan (NESP), upheld noble goals and emphasized vocational education. However, it also resulted in centralizing the education system. The District Education Offices virtually became the managers of educational institutions in the districts. While this benefited teachers in terms of job security and benefit packages, schools gradually became detached from communities. Teachers are now hired, fired, and transferred by the District Education Officers rather than by communities themselves through their SMCs. Consequently, both the loyalty and accountability of teachers to schools and communities have gradually declined.

Box 4.3 Putting the cart before the horse

District Water Supply Offices (DWSOs) are mandated to serve the local needs and aspirations of people and have the required authority and power to implement this mandate. But ample evidence points to severe malfunctioning. The Jiri episode offers one vivid example. During the time when the people of Jiri in Dolakha district were suffering from chronic water scarcity, DWSO took the initiative of setting up a drinking water project without consulting the beneficiaries. It installed seven community tap-stands without linking them with the source. Indeed, the source was not even sought – not because the Office lacked technical expertise, but because the budget had already been allocated for the project and they did not have enough time to complete the project within the fiscal year. This rush to spend led to an outcome that could have been anticipated: the project did not achieve its objective. This experience raises doubt on the desirability of having services that are not accountable to the people they are mandated to serve.

Source: SAPPROS-Nepal 2001.

Public services constitute the basis for providing public goods so essential for functioning communities. Left to market forces, these public goods will not be adequately provided, which is likely to impede overall economic growth, human development, and the well-being of society. Therefore, the basic challenge is to improve the reach and quality of public services in the country. The failure of public services has also aggravated inequities within Nepali society. The disillusioned poor, who can neither turn to the market nor look to the state for basic services, are increasingly resorting to violent demonstrations, posing a strong threat to democracy. Such conditions also frighten away potential investors, imperiling the economic development of the country itself. A stagnating economy, in turn, aggravates unemployment, deepens social cleavages and exacerbates tensions within society.

ADDRESSING THE FAILURES OF THE SYSTEM

To address the unsatisfactory state of public services, Nepal needs to further increase public investment in the social sectors. Ways to

increase it are suggested in the next Chapter, which reviews public expenditure. However, poor management performance probably accounts even more for the unsatisfactory situation of the basic social services in the country. One does not have to be ingenious or look very far to improve the situation; a number of success stories exist in the country itself, although they are limited to specific sectors and areas. The community approach to the management of forests, community drug schemes in selected districts, as well as pre-1971 education management systems, furnish examples of success in providing public services in Nepal. A careful analysis of these cases provides lessons that are now universally recognized features of good governance.

Participation and Ownership: Active participation and local ownership characterize all these successful cases. These programmes rely on community-elected groups to manage the activity, which engenders a sense of ownership in the community, greater transparency, and, as a result, greater accountability of the management groups elected by the communities. This results in smaller leakage, larger mobilization of resources, and eventually more effective delivery of services in terms of quality as well as quantity.

Local ownership of management also ensures sustainability of services. Locally managed services are more responsive to local needs, which encourages better use of services by the local people.

State-Community Partnership – Another common feature of these success stories is state-community partnership. In all the cases, the state provides an enabling environment through appropriate policies and legislation. Similarly, the state also provides help in capacity-building and, in many instances, the financial and staff resources necessary to start new activities.

RECOMMENDATIONS

The following recommendations emerge from these success stories for improving public services and delivery of basic social services.

■ In line with the spirit and provision of the Local Self-Governance Act of 1999, expedite the process of entrusting management of basic social services to locally elected bodies. This will require local capacity-building, as well as devising an appropriate procedural framework for local bodies to manage basic services in their locality. Since communities tend to elect such management groups along party lines, there is a real danger that local service institutions may become embroiled in local politics. Therefore such institutions must be devised so that the direct stakeholders – such as the parents of students in the schools – would have the strongest voice in managing the particular service.

■ Local management institutions should not be seen solely as bodies that oversee the expenditure of resources provided by the centre. The principle of partnership should be adopted in resource mobilization. The centre should not reduce the existing level of resource support to local level service institutions, but

should require matching resource mobilization from the localities or local bodies. This will increase local-level ownership and stake in the institutions. Local level resource mobilization should be commensurate with local capability.

■ The available budget and budget allocation process should be clear to all. Financial information should be transparent. Opaque finances give rise to misunderstandings, which can ultimately undermine the effectiveness of institutions. For this purpose, a strong monitoring mechanism has to be put in place in line with the Local Self-Governance Act.

■ All personnel of public service institutions at the local level should be made fully accountable to the local management bodies. These bodies need to have the authority to sanction as well as to manage.

■ The role of existing line ministries should be limited to providing technical backstopping and support to improve the quality of service. They should not interfere with day-to-day management of sectoral service institutions – which should be considered in the domain of local bodies.

■ Local level bodies should be empowered to enter into partnership with NGOs or private groups for the management of local-level public service institutions.

In line with the spirit and provision of the Local Self-Governance Act of 1999, the process of entrusting management of basic social services to locally elected bodies should be expedited

POSITIONING PUBLIC EXPENDITURE FOR POVERTY REDUCTION AND HUMAN DEVELOPMENT



Public spending can play a crucial role in reducing poverty and enhancing human development in a country like Nepal. With poverty reduction at its centre, public finance has to ensure that people have access to productive resources, employment opportunities, health, education, and a clean and safe environment, as well as opportunities to participate in the processes that can improve their lives. During the last decade, some progress has been made in these areas, and social indicators have improved as a consequence. But achievement in terms of income poverty reduction remains low. And, despite increases in social sector expenditure, the poor still lack access to services in many cases, and their educational and health status has not always improved. Social sector spending alone is not enough. Studies have shown that the effectiveness of social services increases when appropriate infrastructure supports them.¹ This calls for reorienting budgetary allocations efficiently and productively.

Sustainability of public spending is equally important for economic stability – which is necessary for sustained economic growth and also a precondition of both poverty reduction and human development. This requires proper resource management and good fiscal governance. These issues must be analyzed in the context of the budgetary system and its implementation mechanisms; community demand for public resources; trends in the allocation of public expenditure; actual flows of expenditure to targeted groups; efforts to establish a people-centered budget; and enhancement of the overall efficiency of pro-poor expenditure. This chapter addresses these issues.

THE BUDGETARY SYSTEM AND IMPLEMENTATION MECHANISM

The Budgetary Process

Participation and ownership, transparency and accountability, equity and efficiency – the major ingredients of good fiscal governance – should be integral elements of the budgetary process. As good fiscal governance is an important component of poverty reduction efforts, it is essential to review the budgetary process, particularly its formulation, implementation, and monitoring

The selection of projects on a constituency basis can undermine the equity and efficiency of public spending

The Ministry of Finance (MOF) has developed guidelines for preparing the budget. Integrated guidelines for formulating the development budget are jointly prepared by the MOF and the NPC.² The budget guidelines and ceilings for each ministry are then forwarded with instructions to the ministries to propose a budget based on the expenditure ceiling and budget guidelines.

A three-year rolling budget has been introduced to improve sustainability and continuity of programmes and projects. Ministries are also directed to furnish three-year rolling budgets for development programmes. However, most ministries and project offices do not do this, protesting that the MOF does not adhere to their budget requests as per the form. The NPC has not been able to provide a three-year budget ceiling to the ministries for the formulation of projects and programmes. Nor has the MOF been able to “chalk out” a budget on this basis.³

Another anomaly of budget formulation is the inclusion of programmes and budget allocations that the ministries have not proposed. Such items are incorporated into the budget at the final stage of preparation, on an ad hoc basis, without sufficient financial, institutional, or legal support – often in anticipation of donor assistance, but without its confirmation.

This leads to non-implementation, lack of ownership and problems like resource transfer from domestic financing, under-financing, and the discontinuation of projects. Another long-standing practice is the allocation of grossly insufficient funds for projects. For this reason, some of the road projects under the Ministry of Works and Transport could take hundreds of years to complete. Most of these miniscule budgets go to salaries, allowances, and other office expenses, making capital expenditure all but impossible. Project implementation thus results in huge cost overruns.

Role of the Parliament and the Parliamentary Committees

Parliamentary procedure requires that the budget be approved by the Members of Parliament. However, they themselves often adversely influence allocations, and budgetary discussions run the risk of following party lines.

Lawmakers also tend – increasingly – to pressure the NPC and MOF to incorporate in the budget programmes or projects for their constituency, and political balance sometimes requires the Finance Minister to yield to such demands. The selection of projects on a constituency basis can undermine the equity and efficiency of public spending. Most of these proposals tend towards populism, and are put forward without any feasibility study. For this reason, they lack financial sustainability and cost-effectiveness.⁴

In response, Parliament has taken a number of initiatives to improve fiscal governance and reduce the corruption associated with revenue collection and public spending.⁵ Parliamentary committees monitor government activities, including budget implementation, and make suggestions to correct anomalies and leakage. The Finance Committee has helped monitor progress made in budgetary policies and programmes, as has the Public Accounts Committee (PAC). The PAC has also participated

actively in monitoring financial discipline, ensuring adequate checks and balances in the public spending process.

One critical lapse in the parliamentary budgetary process is inattention to resources. Allocation dominates discussions, and MPs appear happy to have their programmes approved, even if inadequately backed by resources. Because estimates are passed without regard to shortfall risks, pro-poor programs suffer from inadequate revenues.

Role of the Private Sector

From the standpoint of transparency and accountability in public spending, the private sector, community organizations, civil society bodies, and professional groups have a crucial part to play in the budgetary process – a role that has grown with the emergence of new development partners. Interactions and discussions have raised concerns and created pressure on the government to undertake pro-poor programmes⁶ and the budget has reflected a number of the views voiced by such organizations.

Financial journalism has also emerged as a new force, building opinions, holding interaction programmes, publishing interviews, and raising issues – all of which influence budget formulation and implementation. As a private sector watchdog over public sector activities, it publishes reports and news that pressure the Commission for the Investigation of Abuse of Authority to bring officials involved in questionable activities to court. This has enhanced the sense of accountability and discouraged corruption in public governance.

Role of the Donor Community

In a country where nearly 60 per cent of development spending is donor-financed, the importance of the donor community in the budgetary process is obvious. However, recent strategies to finance government development

programmes have left the host country little flexibility in initiating those that do not fit into the donors' framework. The fact that the government must take donor concerns into account in budget formulation, allocation, and resource mobilization introduces the risk of distorting national priorities and losing national ownership. For this reason, the government should safeguard its leadership role in developing actions that target poverty reduction and thus preserve Nepalese ownership. For their part, donors should move from providing "supply-driven" aid and implementing projects to facilitating financial and technical support that fosters local ownership, institution-building, and long-term sustainability.⁷

Implementation of the Budget

Pro-poor budgetary programmes face serious obstacles in Nepal's fiscal governance. Slow project implementation is frequently attributed to the time required to pass a bill in the House and delays in fund release. To rectify the situation, early budget presentation in Parliament began in 2000/01 to enhance the quality of project implementation.

Delays in project approval, implementation, and delegation of authority lead to non-utilization of resources, as well as cost- and time-overruns. Authorization for expenditure may arrive only at the end of the fiscal year, crippling many anti-poverty programmes. This tendency to spend funds at the end of the fiscal year reveals deep-rooted structural weaknesses in the implementation mechanism itself.

Recently, new initiatives have been taken to ensure transparency in budgeting and coordination in programme implementation. The mid-year budget review process has been regularized. Each agency is now asked to prepare a work plan and submit a bimonthly progress report to the MOF. Foreign aid policy has been drafted and all aid is to be covered by the budget and audited. The PAC has been very

Donors should move from providing "supply-driven" aid and implementing projects to facilitating financial and technical support that fosters local ownership, institution-building, and long-term sustainability

active in monitoring expenditure and the Finance Committee has been holding discussions on fiscal and financial policy matters.

The budgetary process itself is also undergoing reform. The NPC and MOF have introduced a time-bound budget formulation and discussion schedule. The Resource Committee can now provide budget ceilings to the ministries in time. The Public Expenditure Review Commission (PERC) has produced a substantive report on streamlining budget expenditure and the MOF has already started implementing its recommendations (see Box 5.1).

Box 5.1 Reluctant to respond

Constituted in September 2000, the Public Expenditure Review Commission (PERC) suggests ways and means to enhance capability for public resource mobilization and allocation, and to maintain a sustainable level of public expenditure to attain socioeconomic development goals. The non-cooperation of ministries surfaced among many issues. The PERC Report indicates that only 14 of the 26 ministries responded. The rest did not, either because of reluctance or lack of available information – a setback to robust fiscal governance. Further, the Report states that the ministries adamantly opposed objective assessment of their organization and programmes, the curtailment of the cost-ineffective programs, and the reduction of long-vacant positions.

Despite these efforts, fiscal governance remains weak. No criteria exist for office operation expenses. The three-year rolling budget has not yet been implemented. Budget request forms remain unused. Projects are not selected on the basis of cost-benefit analysis. The budget may include projects without feasibility studies or design outlines. Budget allocations may be made without aid agreements or donor commitment or may not include all projects that have received aid approval.

The budgetary process also lacks balance from a gender perspective. Many budgeted programs benefit men more than women. Programmes such as adult literacy, primary healthcare, and rural drinking water, which affect women at

large, are hindered either by limited resource allocation or ineffective delivery of such services. Similarly, agriculture and forestry programmes, which could raise the income levels of most rural women and address rural poverty in general, receive inadequate funding in the budget.

Governance plays a major role in the effectiveness of public spending for poverty reduction: political interference in key appointments in the project cycle; corruption and leakage; lack of accountability, politicization of civil service, and insecurity among public officials who avoid risks by delaying sensitive decisions or referring routine matters to higher levels.⁸ All these weaknesses require a mechanism not only for addressing the deficiencies in budget implementation, but for monitoring and evaluation.

Monitoring and Evaluation

The National Development Action Committee (NDAC) constitutes an institutional means of monitoring public sector development programmes. Although established under the Prime Minister's chairmanship with a member-secretary from the Monitoring and Evaluation section of the NPC, its activities have been sporadic and inadequate and lack focus and priority. The NPC itself has a monitoring and evaluation division, but it is inadequately staffed. Even its capacity in terms of executive authority, staffing, and resources is low. And at the ministry level, there is a follow-up committee and each line ministry has a separate monitoring and evaluation department.

Although the Financial Comptroller's Office monitors the financial flows of development programmes to ensure that the budget is spent for the purposes approved, this function is confined to that process alone. In fact, no strong mechanism or system exists to monitor products, outcomes, physical progress, or impacts (see Chapter 8).

In addition, the mechanism for addressing issues identified by monitoring agencies is weak. Executive agencies respond inadequately to the issues raised by the PAC in budget implementation. The Auditor General's report has identified a number of financial irregularities, but effective legal and institutional arrangements to follow up on the suggestions do not yet exist.

However, the budget for 2001/02 attempts to address a number of issues pertaining to project implementation. It calls for the completion of all administrative work related to tender awards in the first four months and for the start of development and construction works immediately after this; for freezing of the budget if the project does not begin construction work by the end of the eighth month; and for improvement of financial regulations and delegation of higher authority for budget spending. It also commits itself to implementing the recommendations of the PERC Report. All these initiatives point to more effective, accountable, transparent, and sustainable public resource management and good fiscal governance.

TRENDS AND COMPOSITION OF GOVERNMENT EXPENDITURE

Overall Budget Trends

Historically, Nepal's public expenditure has been low: per capita expenditure has ranked below that of most South Asian countries,⁹ with real growth averaging 4.2 per cent in the 1990s (see Annex 3, Table 4). While the real growth of development expenditure improved from -1.1 per cent in the first half of the decade to 3.6 per cent in the second, the growth of regular expenditure decelerated from 12.9 per cent during 1991-95 to 5.6 per cent in the following five years. The share of regular expenditure in total expenditure increased remarkably over the years¹⁰ (see Annex 3, Table 3) and capital formation through public sec-

tor spending remained low, resulting in low economic growth with little impact on poverty reduction.

As a result of the offsetting trend of regular and development expenditures, the size of total public expenditure remained around 18.7 per cent of GDP during the 1990s, lower than the minimum level (25 per cent of GNP) prescribed by United Nations agencies and far below that of other developing economies. Scarce resources as well as lack of implementation capacity remain the major constraints to expenditure growth in Nepal. On the resource front, the size of government revenue did not improve significantly during the 1990s, remaining at 10.7 per cent of GDP, with an average nominal growth rate of 16.7 per cent and real growth rate of 7.6 per cent. Governance remained a major problem in revenue mobilization, along with high leakage, a taxpayer-unfriendly revenue administration, and low tax compliance.

The budgetary figures show a high deficit (more than 5 per cent of GDP), despite comparatively low public expenditure. This calls for massive reform in revenue and aid utilization. Otherwise, public spending cannot grow at the desired rate and even highly efficient governance of the few public resources available will make little impact on poverty.

Growth in Government Expenditure and its Composition by Sector

Compared to other areas, public spending in the 1990s witnessed higher growth in the social sector: nominal growth of 17.1 per cent per year, compared to 15.2 per cent in general services, 10.1 per cent in economic services, 13.2 per cent in defense, and 16.8 per cent in debt servicing (see Annex 3, table 4)). Growth in social sector sub-heads remained noteworthy: in education, 18.6 per cent per annum and in health 18.9 per cent. From the viewpoint of resource allocation, this trend is very encouraging. From 1991 to 2000, more

During the 1990s, governance remained a major problem in revenue mobilization, along with high leakage, a taxpayer-unfriendly revenue administration, and low tax compliance

substantive growth was recorded in drinking water (22 per cent on average) and local development (31 per cent on average).¹¹ Spending efficiency has remained mixed, but again, the trend is encouraging.

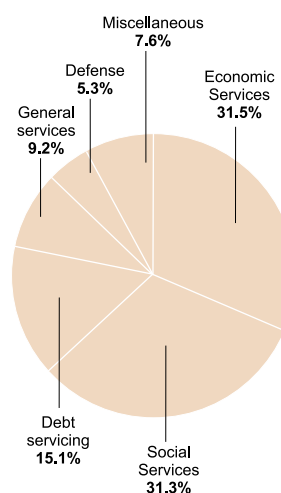
Public resource allocation to economic services, particularly to rural infrastructure, is vital not only for creating income-earning opportunities and poverty reduction, but for enhancing access to basic services and delivering them effectively. In this regard, transportation and communications, the major economic services, recorded an average spending growth of 12.7 per cent in nominal terms.

The ratio of economic expenditure to total expenditure has continuously declined (from 52.1 to 31.5 per cent) after 1990, due to the private sector's increased interest in economic services, and to increased budget allocations to the social sector, debt servicing, and internal security. Within the economic sector, transportation and communication received the largest share (12.2 per cent of total spending) followed by electricity (7 per cent). Although these two sub-sectors play a significant role in rural poverty reduction, their coverage is still low and service quality too poor to make a substantive contribution. Agriculture, which contributes around two fifths of the total national income and accounts for four-fifths of employment, received only 5.4 per cent of the total budget in 2000, a sharp decline from 8.9 per cent in 1991. Irrigation also declined from between 7 and 9 per cent to less than 5 per cent, constraining the extension of irrigation facilities that could otherwise promote productivity and employment in agriculture, key factors in poverty reduction and rural development. All in all, public expenditure in agriculture grew 7.6 per cent in nominal terms, but -0.8 per cent in real terms – which amounts to even less than the average output growth of 2.6 per cent. Forestry, too, was heavily slashed. This points to a prioritization problem in budget allocation

Police and defense witnessed higher growth: 17.7 and 13.2 per cent, respectively. Debt servicing also saw high growth rates: 16.8 per cent (nominal) and 7.4 per cent (real). The latter, in fact, exceeded real GDP growth (5 per cent per annum). Debt servicing has grown so rapidly – from 10.2 per cent of total expenditure in 1991 to 15.1 per cent in 2000 – because of the large depreciation of the Nepalese rupee following the floatation of the exchange rate in the market;¹² the maturation of long-term loans utilized in the 1960s and 1970s; and increased domestic and foreign loans. The need to spend one third of the regular budget and 15 per cent of the total budget on debt servicing has crowded out the limited resources available for human development programmes

The implementation of economic reform since the mid-1980s, particularly the adoption of liberal and market-oriented economic policies after 1990, has led the government to prioritize social sector spending and to reduce fiscal deficit. Social service expenditure increased from 18.3 per cent in 1991 to 31.3 per cent in 2000 (see Figure 5.1 and Annex 3, Table 5).

Figure 5.1
Government expenditure by sector
(fiscal year 2000/01)



Source: MOF 2001.

The need to spend one third of the regular budget and 15 per cent of the total budget on debt servicing has crowded out the limited resources available for human development programmes

Although education receives the largest share of social sector expenditure, the proportion fluctuated during the past decade, with relative growth in health and local development. On the whole, education, health, drinking water, and local development claimed 47.4 per cent, 15.0 per cent, 13.0 per cent, and 17.1 per cent respectively, and welfare activities (the rehabilitation of child workers, women's empowerment, and development programmes for children and women) received around 7.5 per cent. Moreover, the allocation for basic education declined from 79.3 per cent of total education expenditure in 1997 to 54.5 per cent in 2000.

All in all, though allocation to the social sector increased significantly in the 1990s, it remained far below the internationally prescribed norm¹³ (see Annex 3, Table 6). However, in the social sector, under-utilization of the allocated budget is pronounced. Actual spending in relation to allocation declined from 93.8 to 86.4 per cent. The problem was most acute in health, followed by drinking water and local development. This suggests a need to adopt a two-pronged strategy: improving absorptive capacity and increasing allocations.

IMPACT OF ESCALATING POLICE AND DEFENSE EXPENDITURE

Security allocations often stem from the influence of specific interests, irrespective of equity considerations in the social and economic sectors. Once built up, most countries find it difficult to downsize security spending¹⁵ and Nepal is no exception. Expenditure on the police and defense has grown and is overtaking other sectors not only because of the problems largely associated with the Maoist insurgency, but also because of a noticeable increase in crime and general social violence.

From 1991-2000, military spending grew at an average rate of 13.2 per cent per annum.

The budgetary allocation set aside for defense in 2001/02 was Rs 4.52 billion. If this growth rate continues, military spending will rise by another Rs 4.0 billion during the next five years. However, military spending is declining in a number of developing countries to make resources available for the social sector.¹⁶ The Nepali people should also call for a larger "peace dividend" in the future.

The past trend of spending on police is no less alarming. The growth of expenditure on internal policing reached as high as 17.7 per cent in the 1990s, higher than the growth rate of overall expenditure (13.0 per cent). The 2001/02 budget allocated Rs 5.8 billion to police. Continued growth at this rate would mean an additional Rs 6.5 billion after five years. Although deteriorating law and order and an increase in violent crime make reducing police expenses difficult, it must be remembered that social unrest and political instability stem from a variety of factors and that strong defenses lie in safeguarding civil liberties, the spread of democratization, improving social cohesion and reducing economic disparities,¹⁷ conditions that can be achieved only by restructuring the economy and society – and also the polity.

Per capita spending on internal security and defense has been growing over the years. In the 1990s, it nearly trebled nominally and increased by 1.3 per cent in real terms (see Annex 3, Table 1). Although spending on social services went up four-fold nominally and 6.6 per cent in real terms, public expenditure on economic services grew by just 3.3 per cent nominally and declined by 3.9 per cent in real terms. This manifests a crowding out of resources from economic services in favour of security at the cost of economic growth and poverty reduction. More significantly, current police and defense spending combined has outstripped spending on health and drinking water together, as well as three fourths of the education budget.

Current police and defense spending combined has outstripped spending on health and drinking water together, as well as three fourths of the education budget

Given Nepal's resource constraints, a larger budget for the social services and poverty-oriented economic sectors requires strong measures to contain security spending and to prevent siphoning resources from human development programmes to unproductive sectors. Otherwise, higher spending on social services is possible only at the cost of economic services, some of which are essential to optimizing the benefits of social service delivery.

Box 5.2 What happens to decentralized planning in practice?

The Chairman of Kabhre DDC and President of District Development Council of Nepal, Mr. Krishna Prasad Sapkota, says that the NPC and line ministries always violate the minimum norms of decentralized planning in several ways. The NPC sets district budget ceilings that often fall far below the minimum needs of the district, and that even within the total budget ceiling, sectoral ceilings are prescribed so haphazardly that the DDC cannot set its district priorities. He contends that massive changes in district budgetary numbers and programmes occur in the line ministries and NPC, and points out that the NPC sometimes even changes district priorities by allocating a higher amount of the budget to non-priority programmes and substantially reducing the budget for priority programmes. He concludes that there is a lack of full-fledged decentralization – legal, economic/planning, and political decentralization – in budget formulation and implementation.

Source: Interview.

COMMUNITY DEMAND FOR PUBLIC RESOURCES

Community demand for public expenditure exists first for physical infrastructure, followed by social infrastructure. Despite decentralization and entrusting local bodies with many tasks relating to infrastructure, lack of resources and planning skills at the local level result in demands for public resources, even for a small project costing Rs 500 thousand! This is why there is heavy pressure to adjust the central budget to accommodate small projects that could be taken up at the local level. Under-fulfillment of budget requests of local bodies

is often the cause of conflict between the central and local governments (see Box 5.2).

Community demand for development spending is related to geographic location, the perceptions of local elected representatives concerning development needs, and the stage of local development. Some uniformity in demand can certainly be observed (see Annex 3, Table 2). A reading of the District Development Periodic Plans (DDPPs) prepared by the DDCs¹⁸ in the spirit of local self-governance and decentralization reveals the emphasis on infrastructure. About four-fifths of the district-level budget already goes to infrastructure development¹⁹ and this priority is still apparent. As in the central budget, roads constitute the major infrastructure item, followed by irrigation. River training is the next priority, particularly for many districts in the Tarai,²⁰ as floods and soil erosion are increasingly destroying the livelihood bases of agrarian societies and the vagaries of weather create considerable uncertainty in agricultural output. By contrast, the demand for drinking water projects is slowing down because infrastructure has been developed in many districts and NGOs are being massively mobilized.

In the social sector, the demand for schools is obvious. This includes establishing new schools, converting schools initiated by communities to government schools, upgrading schools from the primary to the secondary level, and more teacher postings to run schools smoothly in view of rapidly expanding enrolment. Health posts and health centres rank second, followed by literacy, female education, maternal care, and safe drinking water. The growing emphasis on education and health services reflects the increasing awareness of social sector development among local representatives.

EXPENDITURE FLOW TO TARGETED GROUPS

In discussing flows to targeted groups, this Report must reiterate three points: First, despite higher allocations, actual spending in these areas has been quite low. Second, more resources remain to be diverted to the poor. And third, as some spending programmes address the poor and non-poor alike – among these, free secondary education and health centre facilities – it is necessary to examine the effectiveness, equity, and efficiency aspects of such spending

In 1999/2000, the share of spending directly related to the poor²¹ stood at less than one third of the total (see Annex 3, Table 6), despite higher budgetary allocations to local development, health, and education. Encouraging trends can be observed in spending in some sectors. For instance, about 80 per cent of local development spending targets the poor.²² About three fourths of the health and education spending is also intended to benefit the poor and the non-poor together, as these programmes are universal in nature and do not target the poor alone, in part so as foster social integration. All in all, however, there is further need to reorient the budget towards poverty reduction programmes.²³

In addition, higher allocations will not ensure the desired results as long as budgets are not efficiently utilized. Spending patterns so far show a need for enhancing spending capacity and ensuring desired output. Irrigation, for example, is a key factor in increasing agricultural incomes in poor rural areas, and more resources should be devoted to this sector. But actual investment in irrigation remains very low (see Box 5.3). This is also true of agricultural roads and other rural infrastructure projects. And actual spending on basic social services like primary education, health, and nutrition programmes has also been low in relation to allocations (see Annex 3, Table 7).

Allocation of higher budgets to local governments is a necessary condition for pro-poor public spending and for participatory and decentralized development. Initiatives in this direction began with the introduction of the Local Self Governance Act; local government bodies are now empowered to undertake economic and social development activities for the benefit of the local people (see Chapter 6). But fiscal decentralization needs to be intensified further with higher budget allocations to local governments.

Box 5.3 Allocation-Expenditure: lesson from the Second Irrigation Sector Project (SISP)

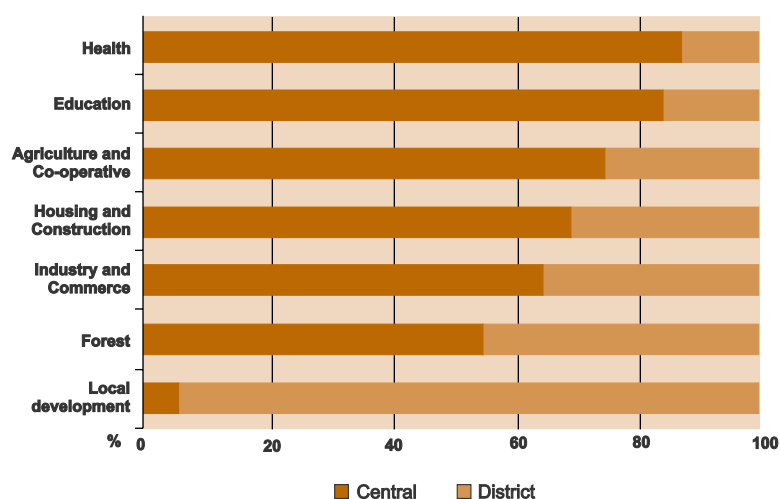
SISP has been implemented in 35 districts of the Eastern and Central Development Regions of Nepal with an ADB loan. Of the total Rs 524.7 million allocated in 2000, about 11 per cent was supposed to be financed by HMG as a counterpart fund, the rest by ADB. But the government put in only two-thirds of its share and ADB less than half. Only about 48.7 per cent of the total budget allocated to SISP was actually spent in 2000. About 21 per cent of this spending was recurrent expenditure and about 79 per cent construction. As capital expenditure remained low, only about 38 per cent of the budget allocated went into investment. The lesson is that budgeting alone cannot lead to poverty reduction. Enlarging the allocations of development budgets to targeted areas is only the first step. More efforts will be needed to enhance spending capacity and efficiency.

Source: Unpublished statistics, Auditor General's Office, HMG.

Budgetary classifications show 82 per cent of the budget in 2000 spent for central level programmes and 18 per cent for those at the district level (see Figure 5.2 and Annex 3, Table 9). The proportion of the budget for district level programmes is quite low in health and education – 12.7 per cent and 15.7 per cent respectively.²⁴ After local development expenditure, which obviously goes through the district level programmes, forestry receives the highest budgetary allocation at the district level.

Within the district development budget, about one third of development expenditure goes to employee benefits and other expenses, and the remaining two thirds to specific targeted programmes. Budgets allocated through the Ministry of Industry and Commerce and the

Figure 5.2
Allocation of development expenditure to central and district level programmes (2000)



Source: Details of Account Expenditure (Red Book), MOF.

Ministry of Agriculture and Co-operatives are of a recurrent nature: just 8.7 per cent and 9.5 per cent of district development expenditure went into capital formation in 1999/2000. On the other hand, expenditure made through the Ministry of Local Development (MLD) has been directed largely to targeted programmes – about 84 per cent of district development budgets went for capital formation in 2000 (see Annex 3, Table 9).

Allocating more resources to district level projects does not necessarily mean higher spending or better service delivery. It must be accompanied by stronger institutional arrangements at the local level with technical support from the centre. With only one clerical staff person for support, locally elected VDC chairpersons may not be able to use the available resources efficiently. This explains under-utilization of the budget allocated, as well as the considerable leakage and wastage of resources in local development.²⁵

MOVING TOWARDS A PEOPLE-CENTRED BUDGET

People-centred budgeting involves both the content and the participatory and transparent process of formulating budgets. Without transparency and accountability, public resources often end up helping only the non-poor. Accountability to the people requires social mobilization of the poor and their participation in the budgetary process.²⁶ A pro-poor budget must not only incorporate the interests and voices of the poor, but must allocate higher budgets to the sectors that directly benefit the poor. To sum up, poverty reduction can be achieved through judicious allocation of the budget to human priority concerns, effective public spending, greater local ownership and participation in public resource management, strengthened institutional capacity, and decentralization.

Among other things, moving towards a people-centred budget calls for reorienting the budget to agriculture, rural infrastructure, basic social services, specific anti-poverty programmes, and the environment. Allocating more funds to these areas requires (i) inter-sectoral restructuring, (ii) intra-sectoral restructuring, and (iii) enhancing the size of budget. This also calls for analyzing the budgetary system and the involvement of stakeholders in the budgetary process. A decentralized budgetary process with devolution of resource mobilization and spending activities to the local level; planning at the district and village level; public participation in planning, implementation, and monitoring of the projects; and public auditing would also be necessary for pro-poor use of public resources and good fiscal governance – the missing link between anti-poverty programmes and poverty reduction.

Inter-Sectoral Budget Restructuring

While the existing amount and structure of public finance does not leave much scope for increasing allocations to the social sector, agriculture, and rural infrastructure, restructuring sectoral allocations could help increase the share of pro-poor spending to some degree. This requires reducing police and defense expenditures, streamlining transfers, reducing debt and debt servicing, curtailing administrative expenses, implementing decentralization policies and programmes, and reforming public enterprises, along with continuing the privatization process.

Economic Services consumed two fifths of the budget during the 1990s. Of this, public sector expenditures on agriculture and irrigation, rural roads and communication, and rural electrification can be justified from the perspective of income-generation and poverty reduction. However, there are activities that can now be undertaken by the private sector. If public spending on electricity generation alone could be contained, the government would have more resources for creating other rural infrastructure. Moving towards a people-centred budget therefore calls for attracting the private sector, including foreign direct investment, to commercially viable infrastructure projects, so that the state can concentrate on the social sector and rural infrastructure, focusing budgetary resources on priority areas for poverty reduction.

Transfers of various types of subsidies consume a large part of government resources, much of which goes to support university education, central hospitals, media/communications, and the operation of public enterprises of lesser importance from the viewpoint of direct impact on poverty. The high level of transfers, which increased from 14 per cent of total expenditure in 2000 to 16 per cent in 2001/02, has to be streamlined by running institutes

of higher education and big hospitals on a cost recovery basis. Other transfers can be streamlined as indicated by the PERC Report, 2001.

General Administrative Expenses absorb a significant amount of public resources. Excluding police and military spending, general administrative expenses increased by 6.1 per cent in real terms during the 1990s, faster than real GDP growth. The pace of administrative and civil service reforms to control unproductive expenses has been rather slow. If general administrative expenses are to be pruned, the number of ministries should be reduced, and unnecessary regional and district offices eliminated. Thought could also be given to reducing the number of administrative districts and VDCs.

Debt Servicing is a matter of serious concern.²⁷ Internal debt servicing needs pruning because it is siphoning off resources that could go to anti-poverty programmes. There is a need to open dialogue with bilateral and multilateral agencies concerning rescheduling debt repayment or converting loans into grants or debt relief. Lobbying on behalf of the least developed countries to qualify for multilateral debt relief and debt amnesty from industrial countries is also called for.

Public Enterprises also receive massive investments from the government in the form of share capital, loans, and operating and transport subsidies, as well as capital subsidies. However, they generate very low returns. The ratio of profit to capital invested is negative for most of these enterprises. The government has now started privatizing, merging, consolidating, and even liquidating public enterprises, and has been pursuing policies to run enterprises on a cost recovery basis. There is a need, too, to streamline major public enterprises that siphon off large state investment through externally borrowed funds. All this could save resources for pro-poor programmes.

Moving towards a people-centred budget calls for attracting the private sector to commercially viable infrastructure projects, so that the state can concentrate on the social sector and rural infrastructure

In addition to restructuring foreign aid by increasing the commitment to the social sector, the efficiency and sustainability of projects must be addressed

Intra-Sectoral Budget Restructuring

Analysis of budget allocation from the pro-people perspective suggests little room for making more resources available for human development and poverty reduction. More than half of the social sector budget has already been allocated for the social priority sector. In recent years, however, it has deteriorated and calls for intra-sectoral budget restructuring to achieve human development goals. Further, where most of the budget for local development, as well as a large portion of the transportation and communication budget, is devoted to rural infrastructure, ensuring the effectiveness of such spending is important.

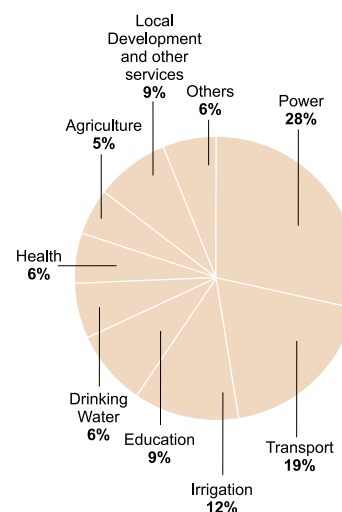
The government has emphasized universal coverage in basic and primary education, together with secondary education. The share going to primary education increased from 36 per cent in 1981 to 56 in 1997, but remained flat at less than 55 per cent afterwards. Spending on secondary education, however, has increased recently. Tertiary education claims about a fifth of the total education budget. Such allocation raises a number of equity and efficiency issues, as higher education facilities are used almost entirely by children from higher-income families.

Restructuring Foreign Aid

In Nepal where two thirds of development expenditure is aid-financed, restructuring the budget in favor of pro-poor programmes will depend on the commitment of donors, as well as the flow, structure, and utilization of aid. Only if more foreign aid is oriented towards agriculture, rural infrastructure, and social sectors like education, health, and drinking water, can the pace of poverty reduction be accelerated. In addition, a qualitative development of the social sector is possible only if most of such aid flows into the basic social services.

At present, foreign aid covers a very wide range of activities – from economic infrastruc-

Figure 5.3
Foreign aid disbursement by sector
(average for fiscal years 1997/98 to 1999/00)



Source: MOF 2001.

ture like transportation and communication to social sectors such as education, health, drinking water, and family planning (see Figure 5.3). In the social sector, only 15 per cent goes to the human priority concerns.²⁸ A reorientation of foreign aid is needed in favor of rural infrastructure and priority social sectors, along with a restructuring of domestic resources in this direction.²⁹ In addition to restructuring foreign aid by increasing the commitment to the social sector, the efficiency and sustainability of projects must be addressed. Many foreign aided projects face problems of sustainability; many such programmes have been discontinued despite their importance.³⁰

The state's commitment and demand for foreign aid in agriculture, rural infrastructure, and the social priority sector should be reflected in the Nepal Aid Group Meetings and other bilateral and multilateral negotiations. Further, along with the prioritization of areas for foreign assistance, externally aided programmes aimed at improving social indicators can be better initiated, formulated, and implemented with local participation to ensure their effectiveness and sustainability. Technical assistance offered in the form of the service of techni-

cians, consultants, training, and seminars abroad must also be properly streamlined so that aid reaches the target groups and areas.

Increasing the Size of the Budget

As indicated earlier, the size of the budget in Nepal is low even by South Asian standards. Per capita spending was Rs 411 in education and Rs 152 in health in 2000. Low investment, coupled with low efficiency, has constrained the effectiveness of social sector spending on human development. In addition, as rural infrastructure like transportation, irrigation, drinking water, and telecommunications are grossly inadequate in terms of transforming the rural economy and reducing the intensity of poverty, huge investment is needed in these areas as well. The above analysis of the budget has revealed that neither inter-sectoral nor intra-sectoral budget restructuring would suffice for the spending that poverty reduction and human development programmes require. Areas like security, civil service, and debt servicing increasingly drain public resources. This calls for increasing the size of the budget in the medium term, along with enhancing resource mobilization and absorptive capacities.

Analysis of the level and structure of recent public spending shows that to meet international expenditure norms – such as the “20/20” Initiative, which calls for allocating 20 per cent of the budget and donor contributions to the social priority sector – the government must restructure public expenditure and reorient foreign aid towards the social priority areas. A yawning gap exists between the desired and actual levels of expenditure in each category of the social sector budget. To meet the 20/20 norm, the budget in 1999/2000 should have equaled Rs 98.2 billion as compared with the actual 66.3 billion, a shortfall of about one third. Of the total desired budget, the social sector expenditure alone should have been Rs 39.3 billion compared with the actual 20.7 billion, and within the social sector, the size of social priority expendi-

ture should have been as high as Rs 19.6 billion – almost the equivalent of the total budget spent in the entire social services sector for that year.

Increasing the size of the budget without disturbing macroeconomic stability and escalating the debt burden requires a vigorous attempt to mobilize higher levels of internal revenue. A number of policy recommendations could be made in this regard: a scientific, transparent, and simple tax system; a clean and taxpayer-friendly tax administration; a widened tax base; and, of course, a built-in mechanism for higher tax compliance to mobilize more resources for social sector spending.

Cost Recovery from Public Utilities

Good pricing policy is a key element of pro-poor policy. Whether utilities are managed publicly or privately, those charging prices to recover costs are most successful in expanding these services. This can increase the access of the poor to utilities and end government subsidies going to the non-poor, thus releasing more public resources for programmes that target the poor.³¹

As in many countries, in Nepal, utilities like drinking water, sewerage, irrigation, electricity, and other services are not only poorly developed, the cost recovery from even the existing utilities is also miserably low. There are huge leakages in the public utilities sector.³² Cost recovery is a problem even in the large rural water systems.³³ Similar problems exist in drinking water, rural electricity supply, and telecommunication services. Even if the poor cannot afford utility prices to the extent of full cost recovery, efforts at cost recovery in operation and maintenance will ensure better use of these services.

A vicious circle of cost recovery problems in the utilities services has made the delivery poor and inefficient.³⁴ To deal with this problem, particularly for sustaining irrigation and rural

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cost recovery
problems in the
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poor and inefficient*

Local governments ought to be entrusted with the authority and responsibility, resources, and technical support needed to formulate, implement, supervise, and maintain local-level development projects

water supply projects, the present policy of transferring completed projects and involving the beneficiaries in new projects should be implemented speedily, along with complementary measures, such as targeting people who need subsidies, formulating affordable tariff rates, building the capacity of users' committees, and penalizing defaulters. Leakage in urban water supply and electricity should be addressed adequately. All this would generate and save some resources for social priority spending

Fiscal Decentralization

Fiscal decentralization is another powerful instrument for improving the efficiency of public service delivery and pro-poor investment. Involving people in the budgetary process at the local level will improve the targeting and execution of projects. Currently, the central government is responsible for numerous petty projects, mainly in infrastructure, scattered throughout the country. Central-level projects in certain economic services often do not figure above a few thousand rupees. The lack of involvement of the local people in execution of such projects results in severe time- and cost-overruns, and faulty construction. Local governments ought to be entrusted with the authority and responsibility, resources, and technical support needed to formulate, implement, supervise, and maintain local-level development projects.³⁵ Emphasizing resource mobilization, as well as undertaking small development activities at the local level, would also increase the overall resources available for basic social services. Progress towards fiscal decentralization under the Local Self-Governance Act is discussed in greater detail in the following chapter.

ENHANCING EFFICIENCY OF PRO-POOR EXPENDITURE

The allocation of a higher proportion of public expenditure on pro-poor programs is nec-

essary for addressing poverty through public spending programmes. Even more important is the attainment of efficiency through good governance and management of resources at both the central and local level.

The previous sections of this Report have revealed that about one third of total public spending goes to pro-poor programmes and one third of that spending to the social services, with more than half allocated to the social priority sector. At the local level, at least half of the VDC budget is spent on social priority concerns³⁶ and about 23 per cent of the VDC grant from the central government on basic education, 6 per cent on primary healthcare, 21 per cent on drinking water and sanitation, and the rest on other activities, mainly infrastructure.³⁷ Budgetary provisions call for spending at least 25 per cent of the grant on human priority concerns. The fact that even 50 per cent of the grant is thus spent is gratifying from a financial point of view. Improved governance is needed to ensure that good financial performance is translated into efficient service delivery.

Resources meant for spending at the VDC level have either not been spent because of weak institutional capacity, or have not been efficiently utilized, or have even been wasted. The VDC chairpersons have the impression that the untimely release of the grants has constrained their capacity to spend the amount entrusted to them. Many also complain about the installment-based grant disbursement and some call attention to shortages of local resources to supplement the grant. Delayed action by the ministry and department concerned is seen as the major reason behind delayed grant release, followed by inability to maintain proper book-keeping and to submit financial statements in time because of limitations in trained personnel at the VDC. Lack of skill in planning and executing development work, technical staff shortfalls, and lack of understanding among political workers all seriously

hamper mobilizing local resources and utilizing the central level grant.³⁸ Improving the efficiency of pro-poor spending therefore calls for duly addressing these constraints.

Nor have DDCs been able to fully utilize the grant provided by the central government or to make use of available resources for human priority concerns. A survey of 15 districts shows that during 1993-97, not even 7 per cent of the DDCs' own resources were allocated to social priority areas. Of the grant received from the central government, only two thirds was utilized, of which 29 per cent went to the social priority sector. The reasons for such poor performance resemble those identified at the VDC level.³⁹ Mobilizing more resources, allocating higher budgets, and capacity-building at the DDC level for planning, programming, executing, and monitoring of pro-poor projects is essential for addressing the problem of poverty and regional imbalances in human development (see Chapter 6).

Notwithstanding the level of spending at the central, district, or VDC-level, service delivery remains inefficient and people view the basic services provided by the government as poor. A survey of 1005 households in 15 districts covering the three ecological regions reveals that only one fifth of the service users perceive existing school facilities as "good", while two-fifths see them as "average", and the rest respond negatively. Perception of health services is similar. While just about half of the households see drinking water service as good, nearly one fifth rate it as "bad". More than one-fifth of the households in the rural areas prefer the traditional healthcare system.⁴⁰ Unless the service delivery system is consolidated with local participation and better governance, the mere creation of social infrastructure will not address human poverty effectively.

So far, the efficiency of local development grants from the centre to the DDCs and VDCs

has remained low from the perspective of poverty reduction for the following reasons:

- The detailed procedures and guidelines for projects, allocation criteria, and processes are not followed;
- Project selection is not based on rational criteria or cost-benefit analysis;
- Awareness of the need for targeting funds to the poor or deprived sections hardly exists;
- Resource allocation is not linked to community needs, as the budget is equally divided among the VDCs and often among wards within the VDC; and
- Resource allocation is not linked to performance and resource mobilization at the local level.⁴¹

Box 5.4 Sustainable pro-poor policies

Sustainable pro-poor policies include the following: (i) starting community participation at the very beginning of project preparation; (ii) ensuring that cost recovery and subsidy rules are clear and transparent; (iii) making formal, long-term arrangements for operating and maintaining systems an integral part of the design; (iv) discussing all feasible technical options and their costs with communities; (v) coordinating projects with the development plans of local governments from the very beginning; and (vi) confirming that the local government has a strong commitment to the project and poverty reduction.

Source: World Bank 2001.

Improving this situation requires:

- Enhancing technical capabilities at the local level for project preparation, design, implementation, and monitoring;
- Ensuring transparency through proper record-keeping; enhancing the monitoring and supervisory capacity of MLD; timely auditing of expenditures;
- Increased accountability to the local community through a public auditing system;
- Monitoring physical output and service delivery, along with financial supervision; and, of course,
- Involving the local people and users from the very beginning in project formulation, design, and costing, and in implementation as well as maintenance (see Box 5.4).

*Strengthening
monitoring and
evaluation systems
is a must for
establishing
accountability and
ensuring the
efficiency of pro-
poor spending
programmes*

Sound governance, competition, and markets – and free entry for multiple agents, whether government, non-governmental or private – are essential for effective service delivery to the poor.⁴² Public-private partnerships can foster access to infrastructure for poor people. Increasing local participation and accountability in education can increase efficiency. Community involvement in planning and managing local infrastructure services can greatly enhance ownership and sustainability, and involving beneficiaries in decision-making is the starting-point for creating local ownership of the infrastructure projects. Requiring beneficiaries to share in the cost of projects can also improve ownership. Making infrastructure projects effective and sustainable, however, requires complementing the demand-based approach by supply-side inputs like capacity-building, information, and outreach. On the whole, balancing a bottom-up identification of projects with carefully selected supply-side inputs will enhance the prospects for sustainable infrastructure services for the poor.⁴³

Bringing all anti-poverty programmes under one umbrella is necessary for better coordination and effective use of available resources. In this regard, the creation of the Poverty Alleviation Fund is a positive step. Targeted anti-poverty programmes, including production subsidies, food for work, skill development, as well as micro-credit need to be mobilized through this Fund. Coordinating government programmes with NGO and INGO programmes is equally important for avoiding duplication, as well as for a judicious distribution of available resources for poverty reduction and regional balance. Minimizing the involvement of expatriate consultants is also essential for cost-effectiveness, sustainability, and increased ownership of the projects by the local people.

Strengthening monitoring and evaluation systems is a must for establishing accountability and ensuring the efficiency of pro-poor spend-

ing programmes. This calls for enhancing monitoring and evaluation capacity at the NPC, in the line ministries, and also at the DDC level (see Chapter 8). Controlling corruption and leakages at all levels is equally important to ensure that the poor benefit from public resources. Strengthening institutional capacity for carrying out development activities at all levels of the government through civil service reform would also help ensure more efficient delivery of public services to the poor.

CONCLUSIONS AND RECOMMENDATIONS

Public financing of services is a core element of poverty reduction policy and practice. But experience suggests that higher public spending on social services and infrastructure may not translate into more or better service for the poor people because programmes are often of low quality and unresponsive to their needs. Even when health, education, and infrastructure services are publicly financed, poor people may fail to benefit from them.

The increasing size of social sector expenditure is no reason for complacency in poverty reduction efforts. Currently, although social priority allocation in relation to the social sector allocation meets the prescribed norm, the size of social priority spending is much lower than the prescribed level. The distribution of meagre resources among multiple activities has undermined the effectiveness of social programmes. This calls not only for restructuring the budget to meet social priority spending norms, but enlarging the size of the budget itself, increasing revenues, and enhancing institutional capacity to absorb public resources.

Weak fiscal governance, from budget formulation to project implementation to monitoring, is the major impediment to ensuring efficient pro-poor public spending. Making public spending more pro-poor also calls for:

- Simplifying bureaucratic procedures;
- Reducing debt servicing through prudent macroeconomic management;
- Reducing security spending;
- Eliminating subsidies to the non-poor;
- Running public utilities on a cost recovery basis;
- Periodic reviews of overall public spending; and
- Privatizing those public enterprises that need not remain in the public sector from the perspective of effective delivery of services and market competitiveness.

In and of itself, the government's social sector spending will not ensure effective delivery of public goods to the poor. Empirical research shows that irrigation provides higher returns to households with higher education levels. Rural electrification increases the returns to education, while access to better rural roads increases primary school enrollment.⁴⁴ In such a context, delivery of social services in rural and poverty-stricken areas has to be supported by infrastructure development and the creation of income-earning opportunities.

While equity and efficiency considerations can be independent, they generally overlap. Among the most effective anti-poverty policies are those that achieve more equity through redistribution and simultaneously enhance the efficiency of markets. Similarly, more equitable distribution of opportunities and resources between men and women leads more directly to higher economic growth and productivity. Cross-country experiences reveal that countries investing more in the education of girls produce higher rates of economic growth. This means that public spending programmes in the social sector have to be targeted to women for better human development results.

Imprudent fiscal policy is one factor that can trigger financial and economic crisis. Prudent

fiscal policy helps to maintain macroeconomic stability and low prices. Lower inflation helps to reduce poverty, as high prices often hurt the poor more than the non-poor. Adjustment of fiscal policy in line with the attainment of macroeconomic stability often call for budget cuts. But care must be taken to ensure that basic education, preventive healthcare, water supply and sanitation, rural infrastructure, agriculture, and targeted subsidies are protected from budget rationalization.

In poor countries like Nepal, domestic actions alone will not suffice. They have to be complemented by the international community to bring about debt relief and expand the government resource base through development cooperation. Low domestic saving capacity and high investment requirements call for foreign assistance in public sector efforts for poverty reduction for some time to come. However, despite reassurances in the budget speeches that aided projects will not suffer from a lack of counterpart funds, shortfalls in revenue collection often result in a lack of counterpart funds in donor-assisted projects. Making the best use of available foreign aid in poverty reduction will therefore demand prudent fiscal governance with adequate provisioning of local components of the aided project cost.

The analysis in this part of the Report clearly shows that policies and programmes of the government have had only limited impact on poverty reduction due to weak governance. The onus of weak governance is reflected in the ineffectiveness of government initiatives to improve the quality of people's lives, in the poor delivery of basic social services, and in the inefficient management of public resources. These weaknesses are responsible for the persistence of poverty. Part III examines some of the prerequisites for improving governance.

Among the most effective anti-poverty policies are those that achieve more equity through redistribution and simultaneously enhance the efficiency of markets



PART III
IMPROVING GOVERNANCE



Chapter 6

DECENTRALIZED GOVERNANCE

Towards Decentralized Governance in Nepal

Assessing Decentralized Governance

Policy Recommendations

Conclusion: The Missing Link

Chapter 7

MOBILIZING PEOPLE

The Concept of Social Mobilization

The History of Community Development in Nepal

Lessons Learned

The Impact of Social Mobilization on Poverty

Reduction, Governance, and Human Development

Recommendations

Chapter 8

MONITORING PROGRESS IN POVERTY

REDUCTION AND GOVERNANCE

A Poverty Monitoring System for Nepal:

Requirements and Reality

Monitoring and Evaluation of Policies and Programmes

Monitoring Governance

Creating a Comprehensive System

Conclusions and Recommendations

DECENTRALIZED GOVERNANCE



uring the 1990s, pluralist democracy replaced long-standing authoritarian regimes in many countries. The notion of governance also changed. The concept of good governance focuses on “humane governance” that transcends the idea of governance as just “methods that societies use to distribute power and manage public resources and problems,” to champion a process that “provides an enabling environment for human development and eradication of human deprivations.”¹

The concept of good governance rests on four pillars:

Ownership: governance processes must ensure participation of people and represent their interests (people must be the owners of governance).

Equity: governance must ensure all members of society equal access to opportunities. It must not serve only those who have a voice.

Transparency and Accountability: governance institutions should embody sufficient mechanisms for transparency and accountability to people as a whole.

Efficiency: governance processes must be as simple as possible and carried out with the minimum cost, time and effort possible to deliver high-quality services to people.

Ownership, equity, transparency and accountability, and efficiency are complex issues. However, the state must ensure that all four considerations are met in the governance process. This requires developing appropriate policy, means, and institutions. For Nepal, like many other

developed as well as developing countries, the most functional means is decentralization and the most appropriate institutions are local governments and civil societies. The phrase now used universally for the conceptual framework that combines both these characteristics is “decentralized local self-governance”.

Decentralization has various definitions and practices. In general, it is defined as “transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to the field units of central government ministries or agencies, subordinate units.” This definition places heavy stress on the manage-

ment of public administration and service delivery through the transfer of specified responsibilities hierarchically downwards from the centre to lower levels of state institutions. However, this emphasis accents the process known as *deconcentration*.

A further distinction becomes necessary to meet the goal of good governance – governance that centers on democracy and human rights. In this context, decentralization focuses more on the *devolution of authority* than on deconcentration and delegation of public administration. In devolution, popularly mandated local governments, civil society organizations, and the private sector become the main actors, and public administration assumes the responsibilities of facilitating, coordinating, and enabling, rather than maintaining the omnipresence of the centre at all levels. The central administration should be present in selected areas – only where it is vital. This framework recognizes subsidiary governance as the guiding principle of decentralization.

The idea of subsidiary governance in decentralization is based on some important lessons:

- State agencies do not provide sufficient access to people in governance; people’s ownership therefore remains weak;
- Without empowering local institutions, equity cannot be addressed effectively;
- People’s participation and contribution in service delivery cannot be mobilized in the absence of transparency and accountability; and
- The effectiveness of all services should be measured from the perspectives of cost, coverage, quality, time, and people’s satisfaction.

Subsidiary governance is thus based upon the following principles:

- Functions/services that can be carried out by citizens or citizens’ institutions should be carried out by them;

Box 6.1 From the Roman Catholic Pope to people the world over

“Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social and never destroy and absorb them.”

Papal Encyclical, “Quadragesimo Anno”, 1931

I have always cast my ballot for Members of Parliament. Whenever they run for election, they come to our village, make us prepare food, share it with us, and promise us everything on earth. Once they win, however, they will not recognize us and never come back to ask how we are doing. We hear from radio – I can not read newspapers, we don’t get them in our village, and I do not have a television – that they have become ministers. But what use is a leader who does not do small things and uses us only to obtain votes? We have *Hakims* (government officials) to serve us, but they are people from outside “using the *Jagir*” (receiving salary) of government. Their family and property are not here. They come here today and leave tomorrow. Their heart is not here with us, so what can we expect from them? They will just do what they are asked, but it is difficult to see them when we need them, and we cannot even complain. Over the last few years, we have formed our own community organizations. We have constructed this building ourselves. Now we have our own programmes. When we invite the chairman of the VDC to the meeting, he comes because he knows he cannot ignore our request. He supports us in our activities, and if he does not, we can compel him to do it, although we also understand he has many things to do.

Chairperson of a Women’s Community Organization, Kushadevi VDC, Kabhre, December 2000.

- If functions/services can be carried out at a lower level, these should be carried out at that level; and
- Essential governance functions should always be carried out as close to the citizens as possible.

Thus, the subsidiarity principle puts people at the centre. Making people the subject of governance, building human capital to articulate demands, and holding governance bodies accountable are essential. The tasks of governance bodies must be defined in specific terms and all governance bodies must ensure the quality of services to people's satisfaction. Otherwise good and humane governance remains the critical missing link in all development and service delivery efforts, including poverty reduction.

Decentralized Governance: Poverty Reduction and Human Development

Experiences of democratic governance in developing nations over the last three decades have yielded mixed results. Democratic institutions have emerged and people's participation in political decisions has increased. But these have often failed to substantially improve the quality of services (health, education, drinking water, sanitation) and to contribute to human development and poverty reduction. Even where elaborate progressive policy and legal frameworks exist, the country's elite continues to control access to resources, the ownership of resources and decisions, along with the distribution of services and opportunities. The situation has increased the gap between the elite and the rest of the population, fueling further the feelings of relative deprivation that stoke militancy and system instability. Unresponsive or corrupt practices of local branches of central government service agencies often grow out their lack of accountability to those they are supposed to serve and have thus denied weaker and poorer sections of the population access to services and participation in

governance processes that make service delivery equitable.

Often, central governments ignore or bypass local governments in efforts to reduce poverty, particularly where donor support – usually channeled through the central government – is involved. While the capacity of the central government institutions to carry out development work and deliver human development services may have improved, funds for poverty reduction often fail to reach the poor. As a result, donors are now turning to civil society organizations, bypassing local governments – “a critical missing piece in the poverty reduction puzzle” – to implement their programmes.² The willingness of donors and international lending agencies to engage civil society groups instead of democratically elected local governments undermines the very efforts at decentralization and sustainability, as well as the institution-building that the poverty reduction processes require.³ One recent UNCDF study of eight country experiences shows that human development and poverty reduction through elected local governments may take longer than the “conventional targeted schemes to benefit the poor – but the eventual benefits would outweigh the costs”.⁴

All donors, external and domestic, should be encouraged to channel their poverty-oriented development cooperation through locally elected governments because of the many links between decentralized governance, on the one hand, and, on the other, poverty reduction and human development, among these the following:

- When the authority to decide on the use of resources and services moves closer to the people it is supposed to serve, accountability to the poor and to people in general tends to increase.
- Local elections take a step further towards heightening accountability because elected local

Often, central governments ignore or bypass local governments in efforts to reduce poverty, particularly where donor support is involved

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leaders can more easily be made to answer directly to voters they encounter frequently in daily life; they are not largely unreachable in capitals that are usually remote from their constituents.

■ Within such a system, communities – including the poor people who often constitute a significant number of the voters – can organize themselves effectively to demand and receive services locally and thus influence the decision-making process.

■ Civil society organizations can then take on a catalytic role to mobilize communities and enable them to make their voices heard.

Taken together, these factors will create an environment more conducive to the effective delivery of human development services to communities – which, in turn, will reduce poverty and improve the efficiency as well as the accountability of virtually all the institutions involved in the local governance process. Increasing people's participation in the local governance process thus works further towards ensuring ownership, equity and efficiency. Humane governance and human development thereby become mutually reinforcing.

TOWARDS DECENTRALIZED GOVERNANCE IN NEPAL

Decentralization in Nepal has to be assessed in terms of the demand for rapid institutionalization of democratic good governance and people-centred development. However, this goal remains elusive because the following constraints persist:

- Top-down management practices typical of low-income countries;
- Centralized planning and budgeting, which follow the blueprint approach and set targets and budgets from above, ignoring local needs;
- Control-oriented financial regulations that impede implementation of activities;

■ Uncoordinated and overlapping activities at the local level; and

■ Lack of horizontal public accountability of service providers, which leads to poor performance, corruption, and abuse of authority.⁵

Decentralized Local Self-Governance under the Pluralist System

Historical Perspective

During the 1960s, the decentralization of governance began in Nepal through the creation of local governments, called Panchayats, at the district, municipal, and village levels. However, there was confusion between heavy deconcentration of functions to line agencies and the delegation of authority to local governments. As a result, line agencies and local governments competed with each other over the same functions and resources and the entire decentralization effort suffered from overlaps and duplication of authority and tasks. The 1984 Decentralization Act brought some changes, but failed to solve the overall problem. Nonetheless, the Panchayat system made important contributions to decentralization by providing for local government revenue and resource bases, a system of local government representation and management, and some role and autonomy for local government in local development and delivery of services.

Constitutional Arrangements

The new Constitution of Nepal, adopted in 1991, makes two indirect references to decentralization. The directive principles of state policy mention decentralization as “the means for ensuring optimum participation of people in governance and hence [letting them] enjoy the benefits of democracy.” Under Article 45-Ga, the Constitution provides for an electoral college of elected chiefs, deputy chiefs, and members of district, municipal, and village bodies, which elects 15 members of the National Assembly. There is no specific constitutional provision for local governments.

The Decentralization Acts of 1992

The first elected government promulgated three separate local government Acts (DDC, Municipality, and VDC), and held local elections in 1993. But the approach was initiated without a proper policy framework, paying little attention to the issues of finance, linkages, management, capacity, and accountability. Also, instead of resolving the issues of local government-line agency coordination and accountability, it further weakened the horizontal accountability of line agencies to DDCs, a process that had begun after the 1984 Act.

Preparation of a New Policy Framework

Local government dissatisfaction with the 1992 Acts became manifest immediately in the following ways:

- They demanded increased autonomy and roles for themselves;
- They opposed overlapping and parallel roles with line agencies;
- They demanded line agency accountability to local government; and
- They opposed central government interference.

The local governments formed associations to put collective pressure on the government for new legislation. Consequently, a High Level Decentralization Coordination Committee (HLDCC) was set up under the Prime Minister in 1995. This Committee's recommendations provided the basis for the Local Self-Governance Act (LSGA).⁶

Present Policy and Legal Framework

The Ninth Plan and LSGA together offer a basic policy and regulatory framework for decentralized local governance. Despite its limitations, LSGA has a number of positive aspects that its predecessors lack. Most significantly, it legally endorses the concept of local self-governance and devolution (see Box 6.2).

Box 6.2 Features of LSGA

LEGISLATIVE/LEGAL PROVISIONS

- A unified act, as opposed to separate acts for each local government.
- Legally defined principles and policies of decentralization, making the policy binding on all.

INSTITUTIONAL PROVISIONS

- Devolution of wider sectoral authority to local governments.
- Decentralization Implementation and Monitoring Committee (DIMC) legally established under the Prime Minister as the key policy-making body on decentralization.
- Capacity-building of local governments made the government's and sectoral ministries' task.
- Local governments (especially DDCs and municipalities) authorized to open their own sectoral units and demand the hand-over of central government's sectoral tasks to them.
- DDCs authorized to hire their own professional staff, and provisions made to allow government civil servants to join the service of local governments.

PLANNING AND FINANCIAL PROVISIONS

- Participatory, bottom-up periodic planning, and resource mapping made compulsory for all local governments.
- Provisional grant from the central government to local governments made compulsory.
- Proposal for the creation of Local Government Finance Commissions and a separate act for local government service.
- Revenue-sharing between local and central governments provided for in specified areas.
- Local government authority over taxation and service fee collection expanded, and some local government rights over natural resources recognized.

EQUITY PROVISIONS

- Compulsory representation of women (20 per cent) in local governments and representation of the deprived and disadvantaged groups through nomination established.

ACCOUNTABILITY AND TRANSPARENCY PROVISIONS

- Increased accountability and transparency in local governments through provisions such as councils, committee systems, and audit committees, as well as a separate chairperson for local government council.

The centrally controlled personnel management system of local governments in Nepal defies both the principles and practices of local government autonomy

Review Process of the Present Policy Framework

Although the LSGA framework has positive aspects, it also has limitations:

- The line agency/local government issue is left unresolved;
- 23 conflicting Sectoral Acts render LSGA implementation difficult;
- No time-bound reform agenda exists to implement LSGA; and
- Even the autonomy issue remains unaddressed.

These issues have been frequently raised by the local governments and the LGFC, Public Expenditure Review, and HMGN-Donors Peer Review. In response, the second meeting of DIMC (March 2001) prepared a 13-point policy review agenda, including

- instruct the government to develop a long-term decentralization implementation plan;
- review the number of and structure of local governments;
- classify the tasks of the central government and the local governments;
- amend sectoral acts in conflict with LSGA; and
- promote HMGN-Donor coordination.

In July 2001, HMGN formed a Task Force comprising various ministries, local government associations, civil society, donors, and the private sector to begin reviewing the situation. The Task Force has identified five thematic areas – sectoral devolution, organization and structure of local governments, fiscal decentralization, institutional development and capacity building, and monitoring and policy feedback. Although the completion of this process was expected by October 2001, it is still ongoing. In addition, the mid-term review of the Ninth Plan has indicated a need for developing an effective strategy on decentralization while preparing the Tenth Plan (2002-2007).

HMGN's annual programme and budget (July 2001-June 2002) has proposed the devolution of education, health, agriculture, and postal services to the local governments. Correspondingly, HMGN has prepared bills to amend ten sectoral Acts that conflict with LSGA and to amend some LSGA provisions, and has submitted them to the cabinet for approval. They will probably be submitted to the Parliament in the near future.

Organizational Structure of Local Governments

Nepal has a two-tier local government system: VDC/municipality and DDC. There are 3913 VDCs, 58 municipalities, and 75 DDCs in the country. Municipal and village bodies are elected directly, and representatives elected by the VDCs and municipalities form an ex-officio electorate for DDC elections. All local governments have councils to approve budgets and programmes; hence they function as legislative bodies. Districts are also divided into sub-districts called *Ilakas* – a cluster of three to five VDCs set up for DDC elections. For regionally balanced development within the district, *Ilaka* level planning meetings are also held.

Management Structure of Local Governments

The centrally controlled personnel management system of local governments in Nepal defies both the principles and practices of local government autonomy in the recruitment, promotion, dismissal, and management of its staff. The Ministry of Local Development (MLD) centrally appoints civil servants as Secretaries of the VDCs, municipalities, and DDCs. They are vertically accountable to the ministry in all respects, but are expected to perform according to the instructions of the respective local government chiefs. Although local governments are legally permitted to recruit, promote, and dismiss staff paid from their own resources, MLD defines the process of recruit-

ment, salary scale, position level, and promotion. This holds even in the case of municipalities that do not receive state grants.

LSGA has made three innovative provisions for the staffing of DDCs: the deputation of sectoral ministry staff to support DDCs in their tasks; the option for civil servants to join local government services; and the issuance of new legislation for local service. Another equally important provision authorizes DDCs and municipalities to open sector units of their own, although they must meet government-prescribed preconditions to open such a unit. Once these units are established, the government is supposed to withdraw its line agency staff and transfer line agency assets to the DDC. These innovations, however, have yet to be put into practice.

Division of Tasks and Responsibilities

LSGA has defined the tasks and responsibilities of both the central and local governments as follows:

The central government

The central government provides grants to local governments, arranges programmes for local government capacity-building, monitors progress and performance, appoints local government secretaries, deposes staff, holds elections, demarcates local government boundaries, and suspends and dissolves line agencies.

The local government

Local governments are now responsible for health, education, quality, and standards; drinking water and sanitation; women's development; services to the elderly, deprived, and children; protection of culture, heritage, and ethnic traditions; education in mother tongue; etc. They must also provide services in agriculture, livestock, and marketing; promote tourism; create income and employment opportunities at the local level; promote cottage industry, handicraft, and small industry; develop commerce;

build and maintain trails, roads, bridges, irrigation, embankments, community buildings, dumping sites, and solid waste disposal sites; and undertake land use planning and zoning. DDCs are also required to work for environmental protection and conservation of cultural sites.

Moreover, the Act has provided a framework for district and village development planning, including the establishment of administrative and financial management systems and the collection of taxes, revenue, and service fees from legally prescribed areas. Mediation and arbitration authority has also been assigned to the VDCs. By its provisions, local governments must coordinate with the line agencies, semi-government local offices, and civil society. The Act also requires local governments to monitor all development and service delivery activities at the local level. DDCs are authorized to report irregularities and inefficiencies of central government programs with suggestions for improvement.

The Act does not specify local government responsibilities regarding poverty reduction and equity, but it does incorporate loose statements regarding their contribution to poverty reduction, launching income and employment generation activities, and prioritizing programmes that target poverty reduction, women and disadvantaged groups through capacity-building, skill development, and income generating activities.

Planning Process

Local governments are to follow a participatory, bottom-up planning process. In doing so, they are mandated to prioritize programmes that contribute to poverty reduction, generate income and employment opportunities for citizens, boost agriculture productivity, and address gender and equity concerns. The planning process, particularly of the DDC, is com-

*Local governments
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contribute to poverty
reduction*

plex and demands high coordination with line agencies, NGOs, and civil society.

Poverty Reduction Functions

Poverty reduction is the main goal of the Ninth Plan. Improvement in irrigation systems, rural roads, agriculture inputs and productivity, and easy access to rural credit are some of the programmes aimed at reducing income poverty. Improvement in the delivery of social services will contribute to human development. The Ninth Plan proposes to raise community participation and management of these services. Enhanced access, infrastructure, productivity, rural credit, and human development services, as well as people's participation in decision-making processes, are some of the government's main strategies to reduce human and income poverty.

All these tasks are also devolved to local governments, but government resources flow through line agencies, making the local government-poverty reduction linkage weak. As a consequence, these programmes have little coordination with the local governments and their planning processes. Poverty reduction programs of political nature – such as *Bishweswar* with the Poor, *Mahila Jagriti*, and *Ganesh Man Singh Abhiyan* — are run outside the sectoral and local government framework.

The poverty reduction programmes supported by the MLD are channeled via the DDCs. Rural infrastructure development, comprising the Agricultural Roads Programme, the Rural Infrastructure Development Programme for rural trails/roads (RIDP), and the Rural Energy Program (REP) are supported by international lending agencies (the Agriculture Roads Programme in particular) and bilateral agencies. The MLD is implementing the Western Tarai Poverty Reduction Programme in 12 districts of western Nepal with support from IFAD. Other programmes supported with government resources are *Praja Bikash* Programme, the Programme for Disadvan-

tagged and Scheduled Castes, and the Programme for Ethnic and Tribal Groups Development. These, however, have little linkage with DDCs.

Fiscal Decentralization

The key objectives of fiscal decentralization are to enable local governments to perform their tasks effectively to the satisfaction of citizens; use scarce resources optimally, efficiently, and effectively; develop skills and competencies to generate and manage resources locally; enhance people's participation; and institutionalize accountable, transparent governance. Common practices in fiscal decentralization, some outlined by LSGA, include the allocation of funds from the national budget, grant and programme assistance by the central government to local governments, and revenue-sharing. Other practices that contribute to the fiscal autonomy of local government include the devolution of tasks and responsibilities for taxation and the collection of service fees and the transfer of ownership of assets, including natural resources, to local governments.

To be effective, grants must be sufficient to perform the tasks devolved, and they should be regular, criteria-based, predictable, and affordable by the citizens. In this context, local governments must themselves be accountable, transparent, and efficient so that citizens are willing to contribute their share.

Fiscal Decentralization Framework

LSGA has made participatory, bottom-up periodic planning, and resource mapping compulsory for all local governments. This should provide the basic fiscal and planning framework for their autonomy in carrying out the work requested by the communities they serve. Conversely, by making grants to local governments a compulsory function of the central government, the Act obliges the central government to enhance the fiscal capacity of local governments to perform the tasks assigned

Enhanced access, infrastructure, productivity, rural credit, and human development services, are some of the government's main strategies to reduce human and income poverty

to them through devolution. The creation of Local Government Finance Commissions, as called for in the Act, will provide a framework for institutionalizing the flow of financing between the two tiers of government. In addition to providing for revenue-sharing between them, the Act also allows local governments to share their funding in specified programmes and, as indicated above, recognizes a local government right to tap some of the natural resources of their geographic area.

Current State of Financial Arrangements

Grants

DDCs, VDCs, and municipalities receive annual grant assistance from the government. DDCs also receive various grants tied to central government programmes, but have no control over how they are used, even though they constitute two thirds of the DDCs' total annual income (in 1998-99, Rs 2.7 million). On behalf of the government, the LDO exercises total control over allocation and utilization of these programme grants.

In addition, DDCs receive MP grants from the central government, which are meant for the respective MPs' constituencies. Although the MP fund is handled by the DDC, its role in using these monies is management rather than substantive decision-making.

The VDCs have authority only for miniscule resources – on average in 1999, according to a survey of ten, Rs 690,000 (per capita Rs 119), while their self-generated resources were Rs 47,000 (per capita Rs 8) (see Annex 3, Table 11). This indicates a wide gap between resources and expenditure at the VDC level. The self-generated resources in the sample VDCs cover only 6.5 per cent of the VDC spending on average (less than even 1 per cent for some), which suggests that the present Rs 500,000 grant to the VDC is unavoidable.

In the case of municipalities, the central government collects the Local Development Tax and distributes the income accruing from this to all the municipalities. Municipalities with less than Rs. 10 million annual income also receive programme grant assistance from the government, which amounts to 7 - 16 per cent of their total.

Internal Revenue

Local governments also have their own sources of revenue. DDCs are authorized to collect taxes from the use of infrastructure handed over by the government, such as roads, trails, bridges, and irrigation systems. They also raise taxes from the private use of lakes, ponds, sand, gravel, bone, turpentine, scrap materials, etc. They generate income from fees and charges to rest houses, libraries, and meeting halls; local development fees; river rafting, boating, and fishing license renewals; and recommendation fees.

Municipalities generate revenue from land and house property tax, rent tax, occupation tax, vehicle tax, integrated property tax and commercial and video tax, parking fees, advertisement fees, service fees (drinking water, electricity, and sewage), public telephones, and fees from waste disposal, guesthouses, etc. VDCs also tax property, markets and shops, vehicles, entertainment, rent, advertisements, occupation, commercial videos, and the use of natural resources. They collect fees and charges for such services as sanitation, sewage, tourist entries, parks and entertainment, and recommendations.

Natural resource utilization fees are by far the most important source of income for the DDCs. In 1998-99, they contributed more than 50 per cent to total internal revenue. However, internal sources contributed less than 10 per cent to total DDC income of Rs. 3 billion. Nonetheless, the absolute amount of internal revenue has been increasing faster than government grants over the last few years.

The current local government share in the national budget is very small, less than four per cent

Internal revenue accounts for 26 per cent of total annual income of VDCs. More than half the total internal revenue comes from taxation alone. However, the average total internal income of VDCs does not exceed Rs 23 million annually and varies greatly from one VDC to another.⁷ Given the uneven opportunities for resource mobilization at the local level, the authority delegated for revenue mobilization may not benefit backward VDCs sufficiently.

A somewhat different scenario prevails in the fiscal structure of municipalities. The average annual income of municipalities is around Rs. 1 billion. Local resources account for 67-77 per cent of the total income. Most importantly, local taxes constitute 56-66 per cent of total internally generated revenue. Unlike VDCs and DDCs, municipalities have been given full authority to impose property taxes. However, great inequalities exist in their capacities to raise revenue.

Revenue-Sharing

Revenue-sharing with the central government and amongst themselves provides another source of income for the local governments. The government shares revenue with local governments from sources such as land, land registration, petroleum, forests, water resources (hydroelectricity), and tourism. Revenues from the sale of sand, gravel and boulders, as well as fallen and flood-swept timber, are also shared. Among the local governments, DDCs provides to VDCs and municipalities 35-50 per cent of the revenue from the sale of sand extracted in their respective territories. Local governments can also raise funds by borrowing from banks and financial institutions against their own assets.

Expenditure

DDCs spend roughly half of their total funds on administrative overheads. Unlike DDCs, VDCs do not make significant capital expenditure from internal income. The main headings of their expenditure are public works, personnel expenditure, miscellaneous expenditure, capital grants, and financial assistance, which collectively account for more than four-fifths of the total VDC income (see Annex 3, Table 10). As most VDC resources are spent on recurrent activities, there is little impact on output growth and poverty reduction.

The average annual expenditure of municipalities on capital investment amounts to 48 per cent, vastly more than DDCs and VDCs. However, despite an absolute increase, the share of capital investment is steadily declining and the share of regular expenditure and non-durable office goods exceeds the instructed limit of 25-40 per cent. Their relative expenditure on social programmes has also been curtailed.⁸

System Anomalies

LSGA has authorized local governments to raise revenue through direct and indirect taxes, service fees and charges, forest royalties, asset sales, and loans. The central government is to provide a minimum annual grant and an additional conditional grant to the local governments. However, the maximum amount of the conditional grant is neither clear nor foreseeable for planning purposes. In addition, there is no equalization scheme to maintain a balance between the rich and poor districts. The current local government share in the national budget is also very small, less than four per cent. The share of local governments in the total national budget was 3.64 per cent during 1999/2000, down from 3.95 per cent in the preceding year.⁹

LSGA provisions have yet to become fully operational, as the local-level fiscal system is still in its evolutionary stage. Moreover, the present fiscal arrangements do not provide a comprehensive, consistent, and clear fiscal framework. Except in the case of municipalities, for example, the Act does not even specify who is responsible for the formulation of the annual budget or what should constitute the budget of a DDC or VDC. Still, local governments do prepare their own budgets. However, in the absence of a common framework, the budget documents differ, many of them missing even important elements such as linkages between objectives, policies, and programmes.

Gender Equity, Disadvantaged Groups, and Decentralization

LSGA makes provisions to ensure representation and access of women and disadvantaged groups in local governance. Two women are to be nominated in each of the three local government councils, and at least one in each of the local government executive committees. In ward committees, only one seat must be filled by a woman. Because of these provisions, almost 40,000 women are now local government representatives. Similar provisions for the nomination of disadvantaged and deprived groups in councils and executive committees have also been made.

In addition, women and disadvantaged groups are represented in local-level community groups related to human development services (housing, health, education, drinking water, and sanitation); programmes for women, children, and disadvantaged groups; employment and income generation; agriculture and livestock development; skill improvement; local infrastructure development; and poverty reduction. The Act also prescribes processes and priority programmes to include targeted groups in the mainstream.

The approach of local governments in addressing gender and disadvantaged group issues varies. Some link the issues with gender-neutral access to basic services and infrastructure, while some have initiated focused programmes. Generally, the DDCs and VDCs concentrate on rural roads and drinking water, working on the assumption that these kinds of development benefit the entire population. At the VDC level as well, significant allocations have been made for human development in the Village Development Programme, using the Rs 500,000 grant from the government. VDCs contribute to teachers' salaries and to the

Box 6.3 Development is more than infrastructure

Our VDC has its own income of almost three million rupees. We have used our money in a planned way. We have graveled all roads, provided electricity to all homes, constructed all buildings and health posts, have a community pharmacy, provided drinking water to all households and, in a short time, all the houses will have toilets. Women here get sewing and knitting training, and poor children scholarships. We thought all this was development. But is that so? We now feel development is more than just infrastructure. I think it is about making people strong and helping them to help themselves. Opportunities should be created and people enabled to use them. If we really knew what had to be done in development, we could lift our people out of poverty and deprivation. And, were it a simple affair, others would have done it a long time ago.

Excerpts from a discussion with the Chairman of Dulari VDC (June 2000).

construction of office buildings for health services. Some better-off VDCs, such as Anandaban in Rupandehi, have started supporting the income generation programme for the poor and for women and have introduced a community health insurance scheme. Dulari and Sundarpur VDCs in Morang are supporting communities in toilet construction and income generation activities (see Box 6.3). However, these are exceptions rather than the rule.

Even if late, DDCs have now begun to give priority to poverty reduction, equity, and hu-

From the perspectives of planning, administration, coordination, cost-efficiency, and service delivery, there are too many local governments in Nepal

man development in their planning processes. Recently prepared District Development Periodic Plans (Achham, Palpa, Kabhre, Bhojpur, Sunsari, and Morang, for example) target the reduction of both human and income poverty through improvement in the quality of services, mobilization of the private sector, and expansion of rural infrastructure. Recently, various donors and INGOs – UNDP, UNICEF, UNCDF, SNV, GTZ, and others – are supporting local government programmes that link poverty reduction with governance and decentralization. These programmes focus on equity and poverty with emphasis on social mobilization, partnership with civil society, and income-generating activities.

Transparency and Accountability

Transparency and accountability are vital for the success of decentralized local governance. LSGA provides the necessary framework in this regard, calling for periodic elections at five-year intervals; a council system for the approval of programmes and budgets; provisions for disclosing decisions, budgets, and programs; criteria for planning and priorities; as well as a separate audit committee, periodic reporting to the government, and internal auditing. Annual plan and budget reports by the VDCs and municipalities for public information are other positive developments.

ASSESSING DECENTRALIZED GOVERNANCE

Based on the framework described in the previous section, as well as on policy statements made in the Ninth Plan and the LSGA, this section assesses government efforts in the decentralization reform process. Particularly since 1990, the government has generally supported decentralization. However, performance in specific areas of decentralization shows mixed results.

Government Policies and Performance

Action is still urgently needed to speed up the decentralization process. A time-bound implementation plan and a programme for the sequence of reforms necessary to effectively put the LSGA into practice must be established. At the central government level, there has been no assignment of clear responsibilities yet for facilitating, managing, monitoring, and coordinating decentralization reform processes. Consequently, various central government institutions pursue divergent approaches and compete for the lead in decentralization. Such an environment risks numerous setbacks for the reform as a whole.

In addition, the absence of a clear, obligatory constitutional provision has made the decentralized system of local self-governance vulnerable to executive arbitrariness, uncertainty, and shifts in the political composition of Parliament. A legal and regulatory framework alone is not sufficient protection against such vulnerabilities.

Security threats arising from the Maoist insurgency have already disrupted the decentralization process seriously, forcing a number of local government representatives to resign and close their offices. In more than ten districts, parallel district and village governments were declared, and in at least seven, the government introduced the Security Act, which shifts all development initiatives away from the DDCs. Such a situation can only derail the process of decentralization and may even halt it altogether.

Organizational Structure

From the perspectives of planning, administration, coordination, cost-efficiency, and service delivery, there are too many local governments in Nepal. The number of representatives is too high, particularly in relation to local government revenue. More than 90 per

Box 6.4 Issues in local government

The VDC officials do not give us responsibilities. They do not invite us to their meetings. If we insist, they tell us they will do it themselves or tell us we do not know about meeting and decisions. Women ask us about programs but we cannot respond as we are not informed. What is the sense in becoming representatives if we cannot get respect from our fellow representatives? Our family members, too, feel we are turning out less work after being elected. It is very difficult to become women's representatives in this male dominated society.

Elected Women Ward Members.

I have 114 VDCs and one municipality and 15 llakas. Altogether, there are almost 250 members in the District Council. The DDC needs to pay for transportation, daily subsistence allowances and also for expensive meals during the council meeting. Sometimes the meeting lasts a whole week. And we have meetings at least twice a year. Holding the council meeting alone consumes almost 30 percent of the DDC income. How can the DDC become efficient in such a context?

Dinesh Yadav, President, Saptari DDC.

We have no desk and chair to work at the DDC. The DDC does not give us funds to finance programs, so people are unhappy with us. The DDC presidents and LDOs do not inform us about the budget and program adequately. The presidents act like kings and the VDCs do not invite us to their programs and do not even listen to us. We, therefore, feel that we are simply wasting time.

DDC members at different forums.

What is the role of the DDC Vice President? The President does everything himself and delegates neither authority nor work to us. We cannot even ask for a dona-

tion of 300 rupees to the people. Nor do we have a separate fund to support the demands of people. The President does not authorize us to officiate for him when he is away for more than a month. We have a political career and we also have people's mandate. But what is the Vice President to do? We will probably be better off without it. Let the President rule all by himself. Maybe that is what he wants!

Vice President, Doti DDC.

It is very difficult to work in the DDC as President. There is no veto power and one cannot work in accordance with a vision and plan. It is a thankless job. People expect a lot, but DDC presidents have more problems at the DDC itself. If they are in minority, there are even more problems. Vice Presidents do not understand their job. They just demand. If one trusts them, they mess up things. Members forget about their jobs! They come to the DDC to collect salary and allowance, and do not go to the VDC for supervision when assigned, but will want an allowance for everything, as well as a fund at their disposal. How is that possible? On top of this, the MPs feel jealous, and the party says do this, do that. What can I do? I have a larger governance responsibility and must face opposition. In such a situation, one ends up making everyone unhappy – the people, fellow members, MPs, the party, everyone. The Government should review the system, make DDC a presidential body, and reduce the number of members to assign full time jobs and let the President appoint his Vice President. Otherwise the President cannot work. The individual fund for MPs for development only adds a burden on the DDC and weakens our participatory planning process.

President Udayapur DDC, October 2000, ADDCN Workshop on Fiscal Decentralization.

cent of the VDCs and 25 per cent of the DDCs are fully dependent on government grants to meet the salaries of elected officials and administrative expenses. This situation, as pointed out by the LGFC report, wastes resources on an unproductive sector, hampering human development and poverty reduction programs. Local government associations also recognize this problem and therefore support a reduction in the number of local government units and of representatives, as well as a rearrangement of elected positions, and their roles and accountabilities, as this would make local governments more cohesive, responsive, competent, and financially efficient (see Box 6.4). The two-tier local government structure seems satisfactory, as it fits well within

the Nepalese administrative and service delivery system. The major challenge lies in designing an efficient and functional local government structure and organization.

Management Structure of Local Governments

Conflicts between the government-deputed Secretary, staff, and political bodies are common and, in many instances, the fact that Secretaries work parallel to the local governments only compromises local government autonomy. There is also a high turnover of staff; approximately 25 per cent of the VDC Secretary positions are vacant. Retention, career opportunities, and job security are other major problems within the local governments, which also

lack competent staff. Partisan biases and favoritism in recruitment and promotion are common charges against the local governments (see Box 6.5).

Box 6.5 How DDC management works

1. DDC secretaries detest being called "secretaries". There are cases of throwing the nameplates out. They prefer the designation LDO.
2. On average, an LDO is transferred every nine months. Some LDOs have, in fact, been transferred every three months.
3. The MLD has not provided a Planning Officer to nearly 40 DDCs. Planning Officers in particular have conflicts with DDC Program Officers.
4. Program Officers prefer to link their identity to a donor agency rather than to the DDC. They do not feel safe with the DDC officials.
5. One-third of the VDCs do not have secretaries; and where they have, almost 50 percent of the VDC secretaries are not available in the office for full time work.
6. HMGN has proposed the merger of district irrigation, drinking water, housing, and rural energy units under an umbrella institution called a 'District Technical Unit' and is trying to make it work under the DDCs. The process is already underway to separate this unit from the DDC and make it an independent unit of DOLIDAR (the MLD engineering department) at the district level. This could create new problems, as MLD-appointed engineers in the DDCs do not want to be accountable to the LDOs, who are civil servants. They prefer to report to an engineer at the MLD DOLIDAR, which means the DOLIDAR works in parallel to, rather than in conjunction with, the MLD civil servants. DOLIDAR could become a most powerful institution, resisting horizontal accountability to the DDCs, and this could in the long run create problems for the MLD.
7. The MLD appointed 3913 persons with a 56-hour training as Village Technicians at the VDCs. But they have no skills, and the VDCs do not want them. The MLD, however, insists that they should be paid from the VDC grant. Despite DDC opposition, the DDC secretariat pays them.

The legal provision for a separate Local Service Act does not exist and the deputation of civil servants to the DDCs has yet to be put into practice. In addition, as the proposed devolution of tasks requires political commitment as well as management competence on the part of the DDC, the risk of failure remains high.

Efficiency of Local Government Capacity

No strategy exists to support capacity-building. This results in uncoordinated and untargeted activities with thin coverage and insufficient focus on specific capacity components. In the absence of a long-term perspective on sustainable capacity-building, local government activities may become experimental and ad hoc, making it difficult to assess the specific achievements of decentralization. Capacity-building is also needed in the central-level agencies to facilitate the process of decentralization reform effectively. Otherwise, inefficiency of the central-level institutions in delivering services may result, as may overt resistance to reform itself.

Coordination

Coordination is generally weak at all levels and between them, particularly between local governments and line agencies. This stems from a number of factors, ranging from central government command structures to the overlapping of functions between local governments and line agencies, and sectoral allocations of budget outside the local government framework. As indicated above, the result is uncoordinated flow and inefficient use of resources in duplicated and overlapping activities. Moreover, the tendency of the central government to tamper with programmes means local priorities often remain unaddressed.

Negotiation

Negotiations to create an interface between national and local priorities are not regular, professional, or institutionalized. It is not even clear which agency can negotiate on behalf of the central government with the local governments. The MLD does not have coordinating authority over the other ministries and NPC recommendations are not binding upon

sectoral ministries. Even the DIMC has not yet become operational. The LSGA has authorized DDCs to negotiate with the concerned sectoral ministries on sectoral programmes, but this has yet to be put into practice.

Monitoring

The LSGA has established the DIMC as an apex monitoring and coordination body. However, it has hardly functioned over the past two years. MLD, which also works as the secretariat of DIMC, tends to perform sectorally rather than as a champion of decentralization. The place and role of the NPC in this regard, other than setting the policy agenda, is still not quite clear.

Local government associations could ease the monitoring responsibilities of the government, especially in the promotion of efficiency, transparency, accountability, and dissemination, but they have not yet been properly included in the framework.

Fiscal Decentralization

Fiscal decentralization, the least focused area in Nepal's decentralization reform process, distinctly lacks a sufficient policy, working strategy, and programme framework. The current share of local governments in the national budget is less than 4 per cent and is declining. Local governments' share of the development budget is less than 10 per cent. Approximately 13 per cent of the total VDC budget goes to local communities through MPs on an individual basis, without any VDC involvement. At the district level, the financial situation varies greatly and no mechanism exists for reducing disparities between the richest and poorest districts. Moreover, the local governments currently do not have sufficient skills and knowledge in financial management.

The LSGA provision for revenue sharing with DDCs is a positive step, but is ineffective due to the absence of procedures to be followed in sharing the revenue generated in specified

areas, such as tourism, forest, natural resources, and electricity. Recently, HMG has started to take initiatives to share electricity revenue royalties with the districts. The recent formation of LGFC and its activities are positive developments.

Negotiations between the central government and local government associations have brought about changes in LSGA regulations. However, problems persist. The government's system of grants to the local governments is not transparent, nor does it follow any criteria. With their acute dependency on state grants, the local governments seem to lack sufficient will to

Box 6.6 Lack of accountability

MLD quietly deducted 25 million rupees from the grant allocated to the DDCs in FY 1999-2000. The minister and secretary gave away this amount to the DDCs and various programs personally.

Auditor General's report.

The ministry also deducted grants allocated to some very poor DDCs, such as Bajhang, and gave them to districts like Kabhre.

Auditor General's report.

The Ministry transferred a fixed amount of money into the account of Lalitpur DDC. The money was used to pay the bills of the minister and his personal assistant.

Auditor General's report.

Some DDCs transferred money from the VDC grant into their account and spent it. The press reports that Saptari DDC spent Rs 700,000 to pay for betel nuts, transferred almost Rs 10 million from the VDC grant money, and spent it on other activities. Now the VDCs want their share, but the DDC does not have the money to pay. Siraha, Udayapur, and Jhapa DDCs have done likewise.

Based on information from the concerned DDC Chairmen.

exercise their taxation authority. In addition, donor support for fiscal decentralization remains inadequate.

Transparency and Accountability in Local Government

A number of shortcomings hinder progress in transparency and accountability (see Box 6.6). Nearly 75 per cent of the ward committees do not hold meetings. Indeed, in most local government meetings, there is no practice

Despite policy frameworks and legislative provisions for addressing access, equity, and empowerment issues, weaker sections of society have inadequate access to resources and decision-making processes

of providing agendas and schedules. Moreover, local government executives often appoint themselves to users' committees, spending budgets at their own discretion, and allocating funds without consultation and, as the local governments have no mandatory tasks with regard to poverty and gender issues, they cannot be made accountable. Elites continue to have ample opportunity to dominate local governments simply because elected officials lack both the capacity and the guidance to carry out their responsibilities.

In some cases, transparency and accountability are compromised at the council level. Irregularities in audit reports are seldom addressed. The MLD is no exception. The current total of advances and other irregularities compounded over the last 40 years reaches almost Rs. 1 billion at the DDC level alone. As the Auditor General's report on DDC audits has not been publicized, this issue has remained outside the public domain. The MLD has not taken action on this matter because lapses of this magnitude can only occur with the compliance of the local government Secretary. No one has been able to study the situation in the levels of municipalities and VDCs, where the officials themselves can appoint the auditor and write off irregularities.

Both MPs and civil servants are raising the issue of corruption in the local governments. Municipality chiefs have not declared their property as per the rules and DDCs have not incorporated audit reports in their annual plans. Distributing programme funds to individual members instead of allocating them to programme activities is common practice (see Box 6.7). HMGN budget networking itself is a major hindrance to transparency and accountability. There is no mechanism for the local government to know about HMGN grants spent through the LDO in the district.

Transparency and accountability practices remain weak at both the central and local levels

of governance. Indeed, in many respects, these weaknesses at the national level contribute to the same faults at the local level. Supervision, monitoring, and evaluation in the central government is inadequate. At the local level, narrow partisan and political considerations persist, undermining the whole system. The faulty organizational structures of the local governments and weak civil society institutions, including the press, aggravate the situation further.

Access, Equity, and Empowerment

Despite policy frameworks and legislative provisions for addressing access, equity, and empowerment issues, weaker sections of society, including women and the disadvantaged groups, have inadequate access to resources and decision-making processes of the local governments. Except in a few cases, their inclusion in participatory arrangements, such as users' committees and COs, is also generally cosmetic (see Box 6.8).

The local government response to gender concerns falls far short of its mandate. The government can scrutinize local government compliance with the law and issue instructions, but has so far taken no initiatives in this regard. Government programmes, including those of the MLD on gender equity, are not coordinated with local governments. Compared to government programmes, donor programmes devote far more attention to gender equity and better linked with the local governments, but their coverage and impact are limited. The performance of all sectors in promoting gender equity in development is thus inadequate.

The overall situation of gender/disadvantaged group equity is hardly better. Women's participation in local elections is very low. The Election Commission report shows that in the case of DDC Vice-President and members, female candidates represented only 3 per cent of the total. Taking into account all positions (a total of 186,817), only 1-2 per cent of the candi-

dates were women, and about 40 per cent of them came from the upper castes.

Role of Civil Society in Local Government Planning and Service Delivery

The participation of civil society, NGOs, and the private sector in local government planning and service delivery is weak and uncoordinated. Civil society institutions, such as users' groups, often become tools of the local elite, which thereby maintains control over resources. Grassroots civil society institutions still do not bargain effectively or significantly influence local governments, while professional civil society groups, NGOs in particular, maintain a certain distance. In districts and villages where social mobilization programmes are promoted by community organizations, the bargaining and negotiating capacity of local civil society has increased. But the process of social mobilization has yet to be effectively incorporated into the governance system as a strategy for empowerment.

Poverty Reduction

The link between decentralization and poverty reduction is missing in the Ninth Plan. Since poverty has local specificities, the government must assess the local situation to design and implement appropriate programmes for its reduction.

If one takes the integrated inter-sectoral approach of the government as a basic strategy for poverty reduction, LSGA provisions complement it. Responsibilities in health, education, drinking water, and sanitation, the four major service areas, have been devolved to local governments, which are also authorized to prepare plans and carry out activities related to agriculture/livestock input and productivity increase, as well as construction of rural roads and irrigation systems. The LSGA instructs local governments to implement programmes that generate local income and employment opportunities. Local governments are

expected to give high priority to poverty reduction programs. Participatory, bottom-up planning, users' committees, and adequate representation of women and weaker members of the community are some of the governance mechanisms that ensure effective and accountable use of resources.

However, in Nepal, all service-related functions are implemented by sectoral agencies, with only nominal linkages to local governments. With resources flowing through line agencies, and their targets set centrally, accountability

Box 6.7 Councillors' bonus!

In FY 1999-00, Rupandehi DDC allocated Rs 1.125 million for a human resource development program. It paid all the District Council members a program monitoring allowance at the rate of Rs 1000 per month for six months. Rupandehi DDC has 69 VDCs and two municipalities and each of them has two representatives in the DDC Council. Hence, a minimum of Rs 852,000, i.e., more than three-fourths of the Rs 1,125 million HRD fund, was distributed to the DDC Councillors as a "bonus"!

Extracted from the Audit Report of Rupandehi DDC.

Box 6.8 Opportunities abused and under-used

1. Dhikurpokhari is a VDC in central Kaski. It nominated a Brahmin district committee member to a VDC seat reserved for a member of the disadvantaged group. Pokhara municipality has similarly nominated a Chhetri in place of a disadvantaged group representative. No questions have been raised so far in this regard!
2. Bhaktapur and Rupandehi are rich DDCs. But in the last three years, Bhaktapur has allocated resources to projects related to women only three times, and Rupandehi not at all.

remains vertical within the sector. Systems of local representation and management of the different basic services are governed by separate sectoral acts and regulations, which either give local governments only a cosmetic role or deny them any role whatever. On the other hand, the policy and legal frameworks fail to state how local government programmes and activities – investments in rural infrastructure and support to human development services – should be accounted for in terms of their

contribution to national efforts in poverty reduction. Nor are incentives given to local governments to contribute to poverty reduction.

The nature of leadership is also important in addressing poverty at the local level. Generally, leadership at all levels is elitist, which means emphasizing infrastructure development with little thought to essential services and poverty reduction. More than 90 per cent of the programmes supported by MPs, DDCs, and VDCs concentrate on infrastructure. In addition, a recent study¹⁰ showed that 88 per cent of the VDC chairpersons interviewed considered construction work the major VDC task; 40 per cent stated that social development was a priority; and 2 per cent felt the VDC has no task. When asked about basic services – water, education, and sanitation – 15 per cent of the DDC Presidents evaluated their education services as good, but could not respond on water and sanitation.

A household survey revealed that 57 per cent of those interviewed considered construction work the main VDC task, while 28 per cent thought the VDC had no function, and only 11 per cent believed sanitation to be a VDC priority. Five per cent felt that VDCs should fund health services, 58 per cent roads, and 55 per cent sanitation. Moreover, the survey shows little leadership sensitivity at any level to individual and institutional roles in poverty reduction and low citizen expectations of local governments in addressing poverty.

In terms of coordination, the lapses are glaring. Within one district, resources to health programmes flow from at least four sources – ministries, local governments, (I)NGOs, and donors. The accountability issue remains unresolved. For example, 8 per cent of the respondents consider the government health services good, while 33 per cent believed them bad, with the remaining 59 per cent saying neither. Programmes that target poverty re-

duction lack coordination among stakeholders themselves. And less than 7 per cent of the poor and deprived even know about the budget and programmes of local governments.¹¹

Fortunately, this scenario appears to be changing for the better. DDCs have already begun to prepare District Development Periodic Plans, most of which now focus sharply on poverty reduction. DDCs have become fully aware of the benefits of social mobilization in planning, delivery of services, and implementation of activities for poverty reduction. DDCs such as Sunsari are now planning to expand social mobilization and CO programmes throughout the district, using their own resources. Similarly, Kabhre DDC has begun to provide agriculture and livestock services through CO-VDC-private sector joint management and is now preparing a public-private partnership package to deliver health, agriculture, and education services. Many DDCs have also put aside matching funds for efforts such as the Village Development Programme and Rural Energy Programme, focusing on poverty alleviation through community empowerment and social mobilization. Local governments thus appear to have started to understand poverty reduction better and to take more responsibility willingly.

Many of the poverty reduction shortcomings outlined earlier, however, may well stem from the central government's inadequate communication with local governments to sensitize them to national poverty concerns. A few local government initiatives with donor support have yielded positive experiences, but these have failed to draw the attention of the centre. The experiences of PDDP show that local governments can address poverty reduction at the grassroots, but that these cannot be sustainable or effective without central government willingness and commitment to providing resources to local governments, pro-

Local governments appear to have started to understand poverty reduction better and to take more responsibility willingly

moting social mobilization, and encouraging local COs and the private sector. Local governments also need far more information about their roles and responsibilities. In short, if effective sectoral devolution takes place, as proposed by LSGA, local governments can contribute substantially. Otherwise, decentralized governance will remain a missing link in poverty reduction efforts.

POLICY RECOMMENDATIONS

Although decentralization reform has been gaining momentum in Nepal, particularly since 1999, maintaining and accelerating the pace requires support. The preceding review has revealed areas where action is required. The following areas are of paramount importance in order to achieve the goals.

LSGA Implementation Plan

The government needs a time-bound national action plan for decentralization reform that assigns clear responsibilities for management, monitoring, and coordination of the process. Contradictory acts need amendment. The tasks of the central and local governments have to be clearly demarcated. The structure of local government needs revision and a suitable decentralized local government fiscal system has to be put in place. The managerial capacity of local governments and their leadership call for improvement. Local government associations have to be closely involved in decision-making related to decentralization.

Local Government Finance

Fiscal decentralization reform must include: cost assessments of the devolved tasks; an increased share of grants to local governments in the national budget; design of a nation-wide local government budget classification system; introduction of an local government grant equalization system; and enhancement of local government financial management, audit, and revenue generation capacity.

Local Government Transparency and Accountability

Enhancing local government transparency and accountability requires sensitization of local government councillors and staff. To do this, the central government could reward those local governments that display “best practices” of open accounts, open decision-making procedures, and information dissemination. Other measures include making financial audit reports of the local governments public; strengthening the central consultation and supervision mechanism of the local governments; a clear devolution of authority and finance to make local governments fully accountable for performance, transparency, and accountability; and promotion of a regular process of dialogue between the government, political parties, local governments associations, and civil society institutions.

Civil Society

NGO-local government partnerships should be encouraged, especially to promote social mobilization and community participation in the development and delivery of services. This can lead to greater demand for transparency and public accountability of local governments.

The role of users’ committees and COs in local government activities must be promoted. Developing the effectiveness of existing users’ committee practices requires a holistic approach. The role of the private sector in that context needs to be encouraged whenever possible.

Donors need to ensure that their support to NGOs does not undercut the centrality of the local government in planning and service delivery. Overlaps, duplication, and competition between local governments and NGOs must be discouraged and local governments must be informed about donor-supported NGO programmes.

The government needs a time-bound national action plan for decentralization reform that assigns clear responsibilities for management, monitoring, and coordination of the process

Gender equity needs to be integrated into all development activities of local governments, with regular follow-up and monitoring

Empowerment and Equity

Two strategies can promote empowerment and equity in decentralization. First, local governments must strictly adhere to LSGA provisions. For this purpose, the government should take seriously the task of monitoring and evaluation of local government performance to ensure that equity is addressed. Sensitization, rewards and sanctions would be good tools to set new trends. Second, compliance would improve if responsibilities were adequately defined and resources provided. Clear devolution of responsibilities and the financial resources needed to fulfill these responsibilities have to complement each other.

Gender equity needs to be integrated into all development activities of local governments, with regular follow-up and monitoring. Support services such as social mobilization, awareness-building, and gender sensitization have to be promoted at all levels. Centrally supported programmes should be fully coordinated with the local governments, and donor support should have a wider geographic coverage.

Poverty Reduction

To fight more effectively against poverty, a number of policy issues should be addressed.

- The government must recognize that certain key determinants of poverty are location-specific, and solutions should be sought at the local level. Local governments and local civil society institutions are best suited for this purpose.

- The subsidiarity principle must be the governing rule in determining local government tasks and functions. Resources must be allocated according to the tasks assigned and local government capacity to perform must be strengthened.

- Local government periodic planning (District Periodic Planning or DPP) provides a

framework within which the central and local governments can initiate and engage in partnerships for poverty reduction, and where local governments can respond to the national priorities and interface their targets with those of the central government. The national plan should be compatible with the DPPs.

- Devolution of functions and accountability must be specific – with no space for duplication and overlaps. Local governments must be supported, through capacity development, so that they can effectively deliver basic services. Line agencies must work with local governments, become accountable to them, and should phase out their operations over the long run.

- The setting of public expenditure priorities, particularly to deliver basic services, must tally with local government plans and budgets. Local government associations should be recognized as representatives of local governments to negotiate the annual budget.

- Local governments should implement poverty reduction programmes in close partnership with COs, civil society institutions, and the private sector, using social mobilization as the prime tool for creating and reinforcing the necessary alliances in close coordination with the donors/INGOs supporting the local programmes.

- The planning and budgetary processes of local governments and community groups must be visible to ensure public accountability. Monitoring process, performance, and progress should be built into the activity plans, including those of community and social mobilization activities.

- The DIMC should assume its designated monitoring responsibilities at the national level. As it includes representatives from the line ministries, the NPC, political parties and local government associations, its role should be further strengthened.

CONCLUSION: THE MISSING LINK

Poverty varies over space and time, and is influenced by different local, social, and environmental factors. As the market does not address it because of inherent structural constraints, intervention is needed. The preceding sections of this Report show what types of interventions are required to address both human and income poverty, addressing the scope and areas of intervention in which the government and other actors can play appropriate roles. The government, through its line agencies, provides basic services such as health, education, sanitation, and drinking water, which help reduce human poverty. It also builds physical and productivity-enhancing infrastructures and undertakes skill improvement programs to address income poverty. Still, the results are not reaching the poor. Certain donor/INGO-supported local community groups working with people at the grassroots level have produced encouraging results in addressing poverty. But their scale of operation makes them isolated cases, which can hardly take on the dimensions of a national campaign.

The missing link in the central government program for poverty reduction is local government. The Ninth Plan establishes no specific linkage between decentralization and poverty reduction, nor does it indicate how local governments can integrate their programmes with overall poverty reduction objectives. In

addition, because of regional and other variations in the scope and intensity of poverty, location-specific poverty reduction agendas and programmes are needed. However, this calls for a complete revision of the government's approach, strategy, programme design, and resource allocation practices, an issue ignored so far in the national effort to reduce poverty. In other words, decentralization remains the "missing link."

Other factors matter no less in poverty reduction. One is the nature and perception of leadership – national *vis-à-vis* local – on governance. The elitist character of leadership is reflected in the choice of programmes implemented at the local level, where failure to comprehend the poverty problem keeps the real issues in the background.

Local governments and civil society can complement each other and perform mutual checks and balances in articulating local needs and ensuring public transparency and accountability. This cannot be achieved without community involvement and ownership; these are imperative. Therefore, in addition to clearly demarcating tasks and responsibilities between the central and local governments on poverty issues, social mobilization is crucial to making people aware, informed, and empowered to express their needs and assert their demands. Further strategies can be built on this base.

Local governments and civil society can complement each other in articulating local needs and ensuring public transparency and accountability

MOBILIZING PEOPLE



ood governance, which embodies and ensures ownership, equity, accountability, and efficiency, cannot develop through institutional reform alone. In and of itself, decentralization does not guarantee good governance. To fully realize the subsidiarity principle, which recognizes that people are at the centre and are the subject of governance, not merely its object or instrument, people themselves must be aware of their rights as citizens and as members of civil society and exercise these rights vigorously, rigorously, and regularly. In Nepal, where a strong patrimonial culture and patriarchal political system have long existed, socioeconomically disadvantaged groups may require guidance or encouragement to recognize their potential to contribute to their individual and community development and to translate this potential into action and, eventually, benefits that accrue to them. In this kind of sociocultural setting, social mobilization becomes a powerful tool for setting in motion a “virtuous circle”, in which poverty reduction efforts begin contributing to improved governance and better delivery of social services – which, in turn, help reduce poverty.

THE CONCEPT OF SOCIAL MOBILIZATION

Broadly, social mobilization means organizing people living in a community to bring about elements of change, whether in the realm of economics, politics, religion, culture or even health practices. That concept has long been associated with the movement from “traditional to modern ways of life” and the concomitant processes of change.¹ However, in recent years, social mobilization has also come to refer to a new approach to local development efforts, in which local people are no longer seen as ignorant, passive or reluctant recipients of outside

*Social mobilization
is seen as a
catalyzing process
by which people are
organized to become
more active
participants in the
decision-making
processes that affect
their lives*

aid, but as competent actors possessing vital knowledge about their situation. Social mobilization here is seen as a catalyzing process by which people living in a community are organized into groups to share and discuss problems, to seek solutions by mobilizing their own and outside resources, and to become more active participants in the decision-making processes that affect their lives as individuals, households and community.

Social mobilization efforts may target one specific aspect of daily life, such as consumption of iodized salt or reduction of child labor, or may constitute a key element of a holistic poverty reduction programme. This chapter will focus on the latter, with a brief introduction to the major components of most social mobilization efforts that can be launched for poverty reduction, followed by a review of the history of social mobilization in Nepal and some of the lessons learned from these experiences. The next section will evaluate the impact of social mobilization on poverty reduction, human development, and governance in the country, with an analysis of some of the limits to social mobilization. The final section offers recommendations for the future.

Social Mobilization for Poverty Reduction

Social mobilization for poverty reduction may be initiated by a member of the community (see Box 7.1) or by an institution (Social Mobilization Agency or SMA) through an individual (Social Mobilizer) to bring about change in society. The social mobilizer, however, does not tell people what to do, but works in partnership with them, listening to their concerns and their aspirations, while at the same time exposing them to new ideas. Social mobilization for poverty reduction is thus based on the premise that the poor are willing and capable of doing many things themselves to improve their situation, but that they often need initial assistance to reveal hidden resources and

discover the potential of working together. In that context, while there is often a great deal of debate about the “best” way to start social mobilization, there are basically two packages for implementing the process: (i) a conceptual package that is universally applied, and (ii) a location-specific programme package, that follows the first package and that involves specific activities undertaken by the people. The conceptual package generally involves three main elements:

- **Organization.** Social mobilizers encourage the target population to organize into groups, whether it be a group of five housewives or an entire village, to generate discussion, share experiences, identify needs, pool resources, and evaluate possibilities for action. The social mobilizer brings new ideas and suggests new ways of doing things, but the group itself identifies the sources of the main problems it faces and decides what actions should be taken. The people select group leaders from among themselves who then manage the organization, transmit the development vision to citizens at large, and act as a driving force for group activities.

- **Generation of Capital.** Social mobilizers help the group members to pool resources, often in the form of a group savings plan where each member contributes a small amount of money on a regular basis to build up capital. The fund can then be used to provide loans, assist members in an emergency, or finance a group enterprise. Social mobilizers and community group leaders may also arrange, secure, and facilitate the flow of outside resources to supplement the community fund; for example, to provide micro-credit for income-generating activities or to finance larger-scale community infrastructure projects.

- **Development of Skills.** Social mobilization agencies play an important role in helping the community organizations develop the skills necessary to undertake the projects identified. Skills are enhanced through training organized

for leaders and members of community organizations and other stakeholders, such as local government officials. Trainers may be social mobilizers, line agencies, NGOs, or private sector enterprises. Initially, the social mobilizers share their vision with the community group leaders and perhaps arrange for their training in a particular area. Then both the mobilizers and the group leaders help in developing the skills of the group members, whether it be in terms of managing credit portfolios, a technical skill related to an income-generating activity, or in some other field.

Within this framework, different social mobilization agencies then adopt different programme packages, tailored to the local situation, which may be characterized as being targeted or broad-based in terms of the intended beneficiaries, or single or multi-sectoral in terms of the activities proposed (see Table 7.1).

Further, social mobilization agencies may work according to two models that can be characterized as “staff-based” or “cadre-based”. In the “staff-based” model, the social mobilizers are employees of the social mobilization agency and are active at all levels, from mobilizing individual households to pursuing outside funding, from managing relationships with the local government to undertaking evaluation processes. In the “cadre-based” model, the social mobilizer works at the community level, and helps the community organization identify and select from amongst themselves community leaders or “genuine cadres”, who become directly accountable to the community

organization. These genuine cadres, who are members of the community itself, work to mobilize individuals and households, and become a link between the people and the social mobilization agency. In this way, a single social mobilizer can cover more territory, as the local community leaders do much of the “groundwork”.

Social Mobilization and Governance

Generally, social mobilization is conducted in four stages: institutional development, project planning, implementation, and evaluation. The initial stage, institution-building, is the most important, as it lays the foundation for all further activities. The initial goal of social mobilization is the creation of democratically self-governed community organizations, which then take responsibility for and gain control over the development of the community. To be successful and have the greatest impact on poverty reduction, these organizations must meet the criteria for good governance at any level, that is:

- Ownership, or genuine participation by all group members;
- Equity, or the sharing of benefits of development among all members, especially the most deprived;
- Transparency, ensured through consensus-based decision-making and transparent accounting systems; and
- Accountability, whereby every member takes responsibility for decisions made by the group.

To be successful and have the greatest impact on poverty reduction, community organizations must meet the criteria for good governance

Table 7.1
Approaches to social mobilization programmes in Nepal

| SECTOR (ACTIVITIES) | BENEFICIARIES | |
|------------------------|--|---|
| | TARGETED | BROAD-BASED |
| Single Sector | Example: Vegetable farming as an income-generating activity for poor farmers (implemented by NGOs such as CEAPRED, MADE, etc.) | Example: Rural Drinking Water Supply and Sanitation Program |
| Multi-Sector | Example: Small Farmers Development Program | Example: Village Development Program |

Experiences with governance within these community organizations, as well as the empowering experiences that may arise through the planning and successful implementation of social service delivery or other development projects, can positively influence governance at the local government level. Community organizations can learn to work in partnership with local government; community organization leaders or members may gain new confidence to run for election, bringing to their new

THE HISTORY OF COMMUNITY DEVELOPMENT IN NEPAL

Social mobilization existed in Nepal long before the concept was articulated in these terms. However, new approaches have evolved, and the history of community development using social mobilization can be divided into four stages – the period before 1955, the period between 1955 and 1974, the period between 1975 and 1993, and finally, the post-1993 era.

Box 7.1 Pioneers in educational mobilization

Komal Nath Adhikari of Duradada, a remote area in Lamjung district, came to Kathmandu in 1899 to study. He returned to his village in 1913 with the aim to raise awareness among the illiterate villagers of the benefits of education. He motivated many people, and started teaching enthusiastic youngsters in an open space. His successor, Tika Ram Poudel, established a primary school. The number of volunteers increased and they started adult literacy classes, primary schools, and schools for the lower castes. As a result, there were 12 primary schools in this area by 1951. By 1952, the people had established a middle school by making contributions in cash or kind. Some young people committed themselves to teach free of cost until the school generated enough income to pay them. This was a considerable sacrifice as these educated youth had attractive job opportunities outside the village. Later on, a high school was also established in the area. In the mid-nineties, the literacy rate of Chandreshwar VDC in the Duradada area was 74 per cent. The educated people of this VDC can be seen today working at different levels in civil service and many work abroad.

Similar success stories can be heard in Syangja, Palpa, Tanahu, and other parts of Nepal. Civil service records indicate a concentration of people coming from a few pockets in Nepal. These are the pockets where someone like Komal Nath had mobilized the community at some point in time to develop education.

Source: Adhikari 1995.

role their experience in transparent practices; community members learn that they can make a difference in their own development, and so bring pressure on local governments to deliver services; and so on. Thus, social mobilization may initially address a problem directly related to income or human poverty. However, the lessons learned will contribute to the overall empowerment of the local people. More specific examples of how this has happened in Nepal will be explored below.

Prior to 1955

Before planned development was initiated in 1955, the development history of Nepal was founded on social participation, which was often initiated to promote education, build roads, trails, drinking water or irrigation systems or manage forests. There are numerous success stories, all of which invariably attest to the driving force of an individual who mobilized the community to achieve a goal (see Box 7.1). However, such personal efforts were sporadic, limited in scope, and therefore inadequate from a national development perspective. Nevertheless, they did influence the vision of policy-makers and had a bearing on the course of development in the country.

1955-1974

In 1955, Nepal began planning its development centrally. The major social mobilization efforts from the mid-1950s to the mid-1970s include the Compulsory Savings Scheme introduced by the government in the late 1950s, the state-driven Cooperative Movement, and the Back to Village National Campaign, both of which were launched in the 1960s. These nation-wide efforts involved three main actors – the state, elected representatives, and the people. All failed basically because of the lack of ownership by the beneficiaries, domination by the state and the elite, ambitious expansion without adequate preparatory work at the grassroots level, and lack of transparency and accountability. Nevertheless, in ad-

dition to contributing to social and economic progress in the country, these movements laid the foundation for group-based approaches in the decades to come. A large number of Nepalis in all parts of the country learned the art of undertaking cooperation-based activities within a legal framework.

Other efforts in the 1960s and early 1970s included the promotion of self-help groups and users' groups to create and maintain public assets such as drinking water, forest, road, and irrigation systems. Sectoral agencies promoted the creation of functional groups and built capacity to undertake pre-defined activities in their areas of interest. This modality still continues. Often, these groups take the form of a cooperative or association with federations extending up to the national level. Despite active participation by the people, these efforts suffered from an inadequate focus on the deprived sections of the population, frequent transfers of staff and little sense of ownership, and lack of transparency and accountability. The focus on a single sector also limited their scope for wider coverage of households and impact on human poverty.

Community Development between 1975 and 1993: A Focus on the Deprived

The limitations of the sectoral approach to poverty reduction revealed a need to make social mobilization efforts more pro-poor and multi-dimensional. In response, a number of targeted social mobilization approaches emerged, such as the Small Farmers Development Programme (SFDP) initiated in 1975 (see Box 7.3), Production Credit for Rural Women (PCRW) launched in 1982, and the Grameen Bank approach started in 1991. They all operate nationally and have gained state support. SFDP targets small farmers, whereas PCRW and Grameen Bank focus exclusively on poor women. The purpose of these approaches is to increase the access of

the poor to resources such as credit, build the absorptive capacity of the poor, and improve the outreach of line agencies.

Hundreds of NGOs and dozens of INGOs emerged during this period, particularly after 1990, many using social mobilization in their drives to reduce poverty. It is estimated that all the NGOs have together mobilized more households than government-sponsored poverty reduction programmes.² One advantage of

Box 7.2 The targeted model

Under the targeted model, target households (small farmers, poor women, and occupational caste groups or tribal communities) are organized into small informal self-help groups (SHGs) led by group leaders selected by and from the target population itself. SHGs form the basis for pooling individual resources (savings) and providing collateral to extend credit to individual members. The skill of the members is enhanced through training. With credit and increased efficiency, members undertake various social/economic activities of an individual or community nature. These activities ultimately improve their living conditions. Very often, SHGs federate into ward/VDC-level bodies for the purpose of advocacy, linkage, and financial intermediation. The SMA facilitates the process with the help of a social mobilizer and shifts the management to federations once they become mature.

most NGOs is that they tend to function within a less hierarchical structure than do government-supported social mobilization agencies. However, they generally have constraints that have led to criticism. Often, they lack capital to fund the activities they promote at the grassroots level. Most of them depend on contributions from donors, as banks are reluctant to provide financial support for these activities.

In general, the social mobilization approaches adopted through the early 1990s had a low target coverage rate, often failing to include deprived sections of society. Similarly, few target members participated in management functions, among these savings and credit activities. Nor did community groups participate in local government planning processes, with the result that their programmes evolved in isolation from their local government.

Box 7.3 SFDP Kumroj, Chitwan

Until 1982, Kumroj VDC of Chitwan was poverty-stricken. Of the 750 households in the VDC, 65 per cent were small farmers and 18 per cent landless. The VDC was surrounded by rivers and cut off from the rest of the world during the rainy season when intra-VDC transport systems also were blocked due to poor road conditions.

SFDP, launched in 1983, organized the small farmers and extended technical and credit support to carry out various activities to improve their living conditions. Irrigation schemes and livestock enterprises constituted the central activities. The participants benefited enormously in terms of both their income and their confidence — which led villagers to undertake community and private forestry activities, run additional primary schools, and upgrade the existing schools at their own cost. They also rehabilitated the road to ensure year-round transportation within and beyond the VDC, built a bridge on the river, adopted improved rural energy systems (e.g., improved stoves, biogas plants), created livestock insurance, and settled 16 landless families. Cash and labour contributions from the beneficiaries, along with credit, grants, and encouragement from SFDP were the key driving force for all this activity. Additional technical and financial support was made available by the local government, INGOs like CARE/Nepal, and some line agencies. In six years, visible transformation took place in the VDC. The major indicators related to human poverty — housing, clothing, food intake, education, health, and environment — all testified to significant improvement.

1993, however, was an unfortunate year. Unprecedented floods caused heavy devastation in the VDC. Irrigation systems, roads, paddy fields, community and private forests, as well as private and public buildings,

were all badly damaged. Many families were left homeless. However, the confidence and self-esteem of the village people remained high. They did not ask for emergency support (like food) from the government, nor did they criticize it — as is typical in such cases.³ They reported that their community had enough to feed its have-nots and provide them with other support. They had a capital of Rs 500,000 generated through group savings and livestock insurance. They also had the skills to rehabilitate infrastructures such as roads and irrigation systems that they themselves had built. Their solidarity bore fruit. All they needed was technical support to guide the rehabilitation work. With the support of GTZ, in less than two years (compared to the projected three years), the people were able to fully rehabilitate the village and infrastructure. The power of social mobilization was effectively demonstrated.

In 1996, full control of the Programme was handed over to the participants. Their SHGs federated into a VDC-level Small Farmers Cooperative Limited (SFCL) that successfully run as a micro-finance institution with its own office and staff. The success of SFDP at Kumroj has been lauded both within Nepal and abroad.

The household coverage pattern was slow, however, as only 50 per cent of the target population was reached in the first six years. Moreover, during this time, large numbers of poor, low caste or tribal ethnic groups were left out. Nonetheless, by 2001, 95 per cent of the small farmers had joined one group or another. Thus, it took 17 years to attain full coverage. All in all, more than Rs 50 million was invested (including turnover of credit) in this VDC through this programme.

Source: Sah 1991, Interviews.

Social Mobilization in the Post-1993 Era

From 1993 onward, significant changes in social mobilization have been observed, notably in three areas:

- Linkage of social mobilization with decentralization, which considers the poor as partners in development rather than passive recipients of services;
- National efforts to reach the poorest of the poor;
- National recognition of social mobilization as a tool for poverty reduction.

Linking Social Mobilization with Decentralization

The Village Development Programme (VDP), implemented by the Local Trust Fund Board and introduced in 1994 with initial support from South Asia Poverty Alleviation Programme (SAPAP), is one of a number of efforts that ushered a holistic approach into social mobilization, coupled with decentralization, ultimately for reducing human poverty. Other such schemes include the Sustainable Community Development, Rural Energy Development, Rural Urban Partnership, Parks and People, and SNV-supported Social Mobilization Programmes.

Together, all these programmes have organized more than 277,000 men and 253,000 women coming from 386,000 households belonging to 785 VDCs and 12 municipalities of 72 districts. Coverage is significantly higher than in the past models because the programmes embody the aspirations of all classes of people. Because they are cadre-based, a small number of social mobilizers are able to enlist a large number of households in a short period of time. It is commonly observed that about 90 per cent of the households in a VDC can be organized in 6-12 months, in comparison with earlier staff-based models, which generally covered only 50 per cent of the households in a given VDC.

The model shows the potential for spurring social integration, improving bottom-up planning processes, empowering the deprived sections of society, and reducing human poverty. However, it has yet to gain recognition from banks, which withhold funding on the assumption that these ventures are linked with political bodies, which are not mandated to carry out financial intermediation.

National Efforts to Reach the Poorest of the Poor

The government launched two national programmes in the late 1990s geared to the deprived sections of society – women and the ultra-poor. Whereas the Women Empowerment and Income Generating Programme closely resembles the Women Development Programme, *Bishweshwor* with the Poor Programme focuses on the ultra-poor, who account for about 17 per cent of Nepal's total population. *Bishweshwor* with the Poor targets the poorest 100 families in 205 VDCs (one VDC in each electoral constituency) in the country. Since these programmes are still in their infancy, their strengths and weaknesses remain to be assessed.

Box 7.4 Empowerment of a backward community

Backward Society for Education (BASE) was established in 1991 in Dang, with a vision of creating a society free of exploitation. This district is inhabited by a large indigenous *Tharu* community, which faced social and economic exploitation by non-indigenous migrants. Recognizing lack of education as the main cause of exploitation, this NGO undertook a massive awareness and literacy drive, bringing education to more than 55,000 people, most of whom were girls and women between 14 and 45 years of age. Mobilization and empowerment of local communities through education soon brought other elements of poverty to the forefront, which led to various social activities related to health, protection of human rights, culture and environment, as well as economic, notably income-generating, activities, supported through government initiatives to abolish the system of bonded labor. Within a decade, the network expanded to five adjoining districts in far western Nepal and its focus broadened to cover non-*Tharu* deprived households. More than 100,000 deprived households in the region are estimated to have benefited from BASE's various activities. BASE is fully managed by the local people. Monitoring has become a challenge with this expansion and wide coverage; in order to maintain quality and efficiency, BASE is in the process of introducing a participatory monitoring system in the community.

Source: Normose 2001.

Box 7.5 The holistic approach to social mobilization

The Village Development Programme considers community and local government as partners of development initiatives. It targets the settlement/community and facilitates broad-based organizations of men and women through a partnership arrangement. The organizations are self-governing and are managed by village cadres, selected by people from amongst themselves. Transparency, accountability, and equity are the norms of governance. The organizations and their VDC-level federations are registered with the local government. Through a participatory planning process, they identify household-level portfolios of opportunities and develop community investment plans for physical infrastructure development. The plans are linked with the planning process of local government. They implement saving-credit activities to help the members carry out their social/economic plans. They also maintain sectoral service delivery systems through a set of village specialists (para-technicians) trained in different sectors. These broad-based organizations are useful in promoting functional (sectoral) groups as their offshoots and linking functional activities with the related agencies. The system is designed to ensure that each level of the process is managed and sustained by the members of the community organizations themselves. VDP is implemented by a support organization called Local Trust Fund Board, which is an offshoot of the DDC.

National Recognition of Social Mobilization

Following the spirit of the Ninth Plan, HMG announced the establishment of a Poverty Alleviation Fund (PAF) in 1999 and started an annual budget allocation. PAF is a statutory body mandated to act as an umbrella organization for efforts based on social mobilization for poverty reduction. It will promote efforts to extend social mobilization activities to the entire country, and monitor the achievements brought about by all SMAs in poverty

Box 7.6 VDP makes a difference

Laxmi Kanta Regmi, Chairperson of Kewarebhanjyang VDC (Syangja), has expressed his satisfaction with the effectiveness in planning and allocation of development grants. He no longer becomes tense when the time comes for planning. He just asks the COs to plan for themselves. The COs' plans are discussed in their VDC-level federations and prioritized/finalized with help of the members of the VDC Council.

Laxmi Pati Poudel, Vice-Chairperson of Syangja DDC, finds a remarkable difference between the 22 VDP-supported VDCs and the remaining 38 VDCs in the district. The plans forwarded by the VDP-supported VDCs are more realistic and people-centered. VDC officials from these VDCs are more sensitive, logical, and neutral (in terms of political/personal interest).

The Chairperson and Vice-Chairperson of Parbat DDC are happy to find time to think about the development of their district. "Before the VDP was implemented", they say, "the DDC compound was filled every day with people coming from different parts of the district. The job of the people's representatives like us was to keep interacting with one agency or another in the district to make sure their job was done. We could not annoy them because they were our voters. Very often, we ended up on bitter terms with the line agencies. But our compound is empty now. The people solve their credit needs through their COs and get sectoral services through the village specialists. Now, we have ample time to think about the real development of the district."

Source: Interviews.

reduction. The modern form of social mobilization that started in two VDCs in 1975 has ultimately received national recognition. Acknowledging that social mobilization is indispensable for people-centred development and the strengthening of decentralization is in itself a significant positive step.

LESSONS LEARNED

The experiences of social mobilization agencies over the years, which have encountered both success and failures in the drive towards poverty reduction and human development, can be summarized with respect to the following lessons:

Targeted versus Holistic Models

One ongoing debate is the question of targeted versus holistic models. As indicated above, social mobilization may focus on one specific area of intervention or on one specific group. Efforts in social mobilization that focus on a single activity have certain advantages. People readily understand the goal of the organization and will join if it corresponds to their perceived needs. Because there is little divergence between the interests of the organization and those of the individual, such an organization can also be fairly easily sustained. A specific approach can be relatively inexpensive, as a small amount of relevant training can be effective, and management needs are simple.⁴ However, targeted activities are often short-lived. Once the goal has been reached (such as the establishment of a specific type of infrastructure), other needs arise. In addition, targeted activities often do not address the poorest of the poor, unless they themselves are the targets.

Holistic approaches are often more appropriate in addressing the multi-dimensional nature of poverty. It is easier to mobilize an entire community if the activities are not part of a preconceived package. People of different classes, ethnic groups, and sex find room to work together, even though their needs and interests differ. Through a holistic approach, each member may improve his or her situation in a gradual fashion, maintaining social harmony. In addition, there is less scope for conflict between the "organized" and the "non-

organized” when a whole community is mobilized. However, even holistic programmes have not always been able to address the needs of the ultra-poor. Social mobilization approaches need to be flexible, incorporating separate activities or organizations where necessary, for the most deprived sections of a community, or for women, if their participation in community organizations remains marginal.

Targeted approaches can also be flexible, beginning with a single entry point or group and then bringing both the “organized” and “non-organized” together or expanding activities, if appropriate, to the entire community, or moving on to other activities once the initial goal has been reached.

Targeted and holistic approaches can also complement each other. Holistic approaches are particularly appropriate in the context of decentralization, as community organizations and local governments learn to work with each other to plan and provide basic service delivery. They are also particularly effective in overall poverty reduction in a community. However, as communities improve their standards of living, more targeted activities may be appropriate to develop specific market niches.⁵

Staff versus Cadre-Based Approaches

Another organizational difference in social mobilization approach arises when it comes to staffing. In the “staff-based” approach, social mobilizers are employees of the social mobilization agency and tend to intervene at several different levels in programme implementation, from actual social mobilization in the community to various administrative tasks within the social mobilization agency. This range tends to reduce the number of households that can be mobilized per staff member within a target community. In some cases, the success of the programme depends so much on

the presence of the staff member that the community finds it difficult to sustain the processes initiated once the social mobilization agency withdraws.

In the “cadre-based” approach, members of the community are motivated to act by group leaders, who manage a part of the process and take on many of the activities that would be carried out by a staff member in the first approach. This reduces costs. In addition, as members of the community, these leaders have vested interests in the success of programmes and are much more likely to remain in the community when a donor-funded effort comes to an end. This increases the chances of sustainability.

Individuals Make a Difference

The success of social mobilization efforts depends on a number of factors that are difficult to quantify and monitor. First, social mobilization can be successful only if the people in the community are willing to participate. Second, in a “cadre-based” approach, social mobilization efforts will be successful only if the community is able to identify genuinely committed leaders. Further, regardless of the organizational approach adopted, social mobilizers and cadres must be dedicated and must also demonstrate strong moral character so as to maintain the respect of the community and to function as role models. They must, moreover, be sensitive to the deprived sections of the community, as well as to gender issues, and should demonstrate neutrality in terms of partisan politics, religion, and ethnicity, if the programmes are to be fully successful.

Participation by Women

Women are often enthusiastic participants in social mobilization efforts. Joining an organization can in itself prove to be an empowering experience, especially in areas where women

Social mobilization approaches need to be flexible

*Social mobilization
raises the skills and
the efficiency of its
beneficiary
households*

are rarely encouraged to leave the domestic sphere. It has been observed that women tend to be sympathetic to the poor and often push for funding projects for the poor first. In addition, they have a better record than men in repaying loans and are less likely to be involved in corrupt practices. However, in many cases, focused support is necessary to substantially improve women's level of human development.

Expansion of Programmes

It is estimated that more than 1-1.5 million households have been socially mobilized by various SMAs. Generally, SMAs tend to expand their model nationally, working in a few VDCs in one area and in a few VDCs in another. Such an approach makes social mobilization efforts costly, as potential economies arising from demonstration effects on neighbouring areas are lost, staff is dispersed or lose time in travel, and the sharing of experiences becomes more difficult. As monitoring is weak, the quality of the effort frequently suffers. Replication of a model by another agency in another part of the country is a better option than expansion.

THE IMPACT OF SOCIAL MOBILIZATION ON POVERTY REDUCTION, GOVERNANCE, AND HUMAN DEVELOPMENT

As stated in the introduction to this Report, human development concerns widening the range of economic, social, cultural, and political choices that people may pursue by enhanc-

ing their capabilities to shape their lives according to their desires and enabling them to lead lives of dignity. The basic objective of social mobilization is just that: organizing people in order to reveal their potential and increase the choices available to them so that they may promote their own development and improve their own lives and their communities. This section will examine the positive impact of social mobilization on poverty reduction, governance, and human development – and also address its limitations.

Social Mobilization and Income Poverty

Social mobilization efforts often focus on enabling target groups to attain economic self-reliance by forming savings and credit groups, thus reducing dependence on local moneylenders, by raising economic activities, and by enhancing access to information, technology, and external resources. Through these and other activities, group members strengthen their capacity to withstand the pressures of market forces and other risks.

Studies evaluating poverty reduction programmes using social mobilization indicate that the income of poor households has increased during the programme period. Social mobilization raises the skills and the efficiency of its beneficiary households as capital to buy inputs becomes available. As a result, production and income increase. Increases in incomes generally lead to increases in consumption and the kinds of improvement in living conditions that require cash purchases and/or investments.

Table 7.2
Economic improvement through SFCL

| Improvement | Better-off Poor (%) | Poor (%) | Total (%) |
|---------------------|---------------------|----------|-----------|
| Improved | 53.7 | 39.5 | 48.3 |
| Moderately Improved | 32.0 | 41.1 | 35.5 |
| Not Improved | 11.8 | 19.4 | 14.7 |
| Not Applicable | 2.5 | 0.0 | 1.5 |
| Total | 100.0 | 100.0 | 100.0 |
| Sample Size (No.) | 203.0 | 124.0 | 327.0 |

Source: IMU/GTZ 2001.

However, such programmes do not always reach the poorest of the poor. For example, an evaluation of the Small Farmers Cooperative Limited has shown that the “better-off poor” benefited more than the “poor” (see Table 7.2). Similarly, an evaluation of seven VDCs mobilized under SAPAP (1994-1999) showed that overall living conditions improved for 83 per cent of the better-off poor, but for only 44 per cent of the very poor. Some of the difficulties faced in mobilizing the poorest of the poor are discussed below.

Social Mobilization, Socio-Political Empowerment, and Human Development

Social mobilization focuses not only on enhancing economic capabilities, but also on broadening the scope of social and political choices available to the people involved. Through organization and participation in community groups, solidarity increases, involvement in decision-making processes grows, awareness improves, management skills are developed, and deprived members of society are also encouraged to participate. Participants discover a new assertiveness, sense an improvement in social status, and learn to make their voices heard.

In some cases, social mobilization may directly address the questions of social status and empowerment in a targeted effort (see Box 7.7). In more holistic approaches, socio-political empowerment is a slower process that emerges without specific external intervention (see Box 7.8). Either way, individuals and groups realize their potential to take an active role in their own development.

Social mobilization may also lead to a remarkable improvement in sectoral service delivery within a community (see Boxes 7.3 and 7.9). In such cases, the role of village cadres and para-technicians is of paramount importance: they serve as a bridge between the community and sectoral development agencies. These

cadres and technicians continually improve their own skills and knowledge base by remaining in contact with the respective line agencies, and also keep agencies informed of realities in the field. This is a “win/win” situation, which has yet to win policy recognition.

Social mobilization is thus an effective tool for poverty reduction and human development. Interventions may be designed to increase income or access to education or health

Box 7.7 A community liberates itself

Occupational caste groups are often found to be amongst the most deprived sections of society. Poor, oppressed, passive, fatalistic, and reluctant to change – these are some of the characteristics that may describe them. However, the *Chamar* of Lahan in Siraha mobilized themselves in 2000 to improve their lot.

Better environment and better opportunities had enabled the *Chamars* to earn more and become better informed relative to such groups elsewhere. They were thus able to lead a decent life, like the high caste people. However, unchanged social relations triggered communal conflict when a member of the *Chamar* community refused to perform the traditional task of disposing of a carcass. High caste members imposed social and economic sanctions, but a human rights NGO gave the *Chamars* support that helped them hold their ground on this issue. Political parties exploited caste differences and the agitation spread to other villages as the men and women of the community united and refused to remain scavengers. The administration worked hard to resolve the conflict and the final verdict went in favor of the *Chamar* group. As a result the *Chamars* of Lahan are now free of their age-old burden.

Source: Interviews.

Box 7.8 Women sway majorities in their favour

Bent on social mobilization, citizens of village Kurumche (Nibuwakharka VDC) of Syangja organized to form a mixed organization. The group did quite well. Upon maturity, they were involved in making community-level plans for infrastructure development. Possible plans were identified, but because of resource constraints, they were asked to prioritize their needs. The men chose an irrigation scheme. However, this was not acceptable to women, who preferred a drinking water scheme. The struggle continued for months and, finally, the village opted for the water scheme. In comparable situations in other villages, women have voted for “biogas plants” above irrigation schemes and have succeeded in obtaining a majority in favour of their preference.

services, or to accelerate the pace of human development. More indirectly, social mobilization builds confidence, thus opening the range of choices available to the local people, and contributes to the development of participatory governance, which in turn can lead to reduction in human poverty.

Box 7.9 Relief for the people of Dhapuk

For the residents of Dhapuk, a VDC in Syangja, child delivery meant a 3-4 hour hazardous journey to the nearest health facility. After the VDC was socially mobilized, the COs began to participate in planning. They identified maternity service as their priority. Based on the topographical conditions and feasibility of reliable service delivery, the VDC was divided into five blocks and the CO members of each block identified one woman for training in maternal health.

After training, the village maternity specialists started delivering maternity service at the doorstep. They sensitize the people, especially women and expectant mothers, to conditions of safe delivery, nutrition, and family planning. They also undertake regular pre-natal visits, attend normal births and, in complicated cases, refer the case to a health centre, and often accompany the expectant mother on her trip to one of three hospitals (17-60 kilometers). They also keep in touch with the local health centres.

The citizens of Dhapuk now feel relieved. The village specialists receive fees for their service, but the community decides the amount to be charged for pre-natal visits and maternity services. The principal remuneration, however, is the satisfaction they receive in serving the community.

Source: UNDP/UNOPS 1998.

Social Mobilization and Governance

Social mobilization is inextricably linked to governance. As we have seen, good governance ensures equitable access to resources without regard to gender, social class, ethnicity, or religion, and underlies the process of realizing real freedoms and capabilities. Social mobilization increases the capacity of communities to expand access to resources and leads to wider participation by the more deprived sections of society in making decisions that affect the whole community. The Local Self-Governance Act has created a legal basis for the devolution of authority to local governments, and calls for participatory, bottom-up periodic planning, financial decentralization,

and increased equity through compulsory representation of women in local government. Grassroots social mobilization efforts can play a critical role in building capacity at the local level, so that, as the provisions of the LSGA become operative, local governance starts becoming effective. Through social mobilization, members of community organizations learn to identify and prioritize their needs as well as to plan for their own development. Experiences within a community organization may push individual members, who would not otherwise have done so, to participate in local government, and community organizations may work with local government bodies and/or line agencies in planning activities for local development. In this way, ownership, one key requirement for good governance, becomes more widespread. Some examples of how community groups can influence policy at the local and central level are presented in Box 7.10.

Increased equity may also arise from social mobilization efforts. Many social mobilization efforts specifically target groups that have had restricted access to resources and little voice in decision-making processes (such as women in general and dalits, both men and women) resulting in rapid improvement in their status, such as in the case of the Chamar community in Siraha (see Box 7.7). Through more holistic approaches, the status of all the involved groups may improve, as in the case presented by Box 7.8, where women, while not specifically targeted by the programme, developed enough confidence to convince the male members of their community organization to adopt their choice. Social mobilization efforts often encourage women to become full participants in community organizations and in society as a whole. As a result, women who are elected, whether under the provision for the compulsory representation of women or in addition to the quota, are more likely to be active and not remain “tokens”.

Transparency and accountability, two other aspects of good governance, are also promoted by social mobilization. Social mobilization efforts emphasize transparency and accountability within community organizations (see Box 7.11). Experiences within these community organizations may positively influence transparency and accountability in the local government bodies, as participatory planning processes are developed and as community members become assertive and demand accountability from their elected officials. It is also expected that local activists in community organizations will be elected to government bodies, bringing their experience of transparent and equitable practices to their new positions. For example, in 1997 in Syangja, in the six VDCs covered by SAPAP, 24 chairpersons and 14 managers from community organizations were elected to local government bodies, among them eight women as ward representatives or chiefs. Training, received as part of the social mobilization effort, and experience gained through leadership within the CO were instrumental in their election. However, entry into the political scene by CO cadres raises another governance issue: How can a CO leader, officially elected to a public post as a representative of one political party or another, continue to guide the organization in a non-partisan manner?

Limits to Social Mobilization

In spite of the overall positive impact of social mobilization on poverty reduction and human development, in many socially mobilized communities, improvement in human development indicators is not always satisfactory for a number of reasons. To take only one example, there is a tendency for social mobilization agencies to focus their efforts on one specific sector, such as education or income, leaving aside other areas that contribute to human development. It has been shown that the financial and health condition of the poor correlate closely. Efforts to promote

income-generating activities may be only moderately successful if community health issues are not also addressed.

Another problem is the failure of social mobilization agencies to reach the ultra-poor. Part of the reason lies with the ultra-poor them-

Box 7.10 Federation to be reckoned with

In 1995, the Federation of Community Forestry Users (FECOFUN) was established, and by 2000, 4584 Forest Users Groups (FUGs) from 63 districts had become members. By grouping together in a network, FUGs gained strength and have today become a force that local and central government must reckon with when it comes to forestry management policy. For example, in Bara district, the government prepared an Operational Forest Management Plan without consulting local governments or FUGs, and contracted an international agency to manage the project against the spirit of the 2049 BS Forest Act. When FECOFUN learned of the situation, it started sensitizing the local communities and government. Under pressure, the government initiated a local consultation process. The original plan was changed and the contract was annulled.

In another case, in 2051 BS, the Department of Forestry, and FECOFUN worked together to revise the prevailing Forestry Act. In particular, both groups agreed upon two particular clauses. However, these paragraphs disappeared from the proposal tabled in the House. FECOFUN lobbied with the MPs, and the proposed act was sent back for revision. Although it took the Department several years, the bill was passed.

FECOFUN Annual Report 1999/200, October 2000.

Box 7.11 Awareness pays

The members of Langkhoriya CO in Daraun VDC of Syangja were very happy the day the CO received a grant for an irrigation scheme. The day the first installment was released in front of all the villagers, the CO members committed to being accountable for any misappropriation of the resource. The check of Rs 65,000 was handed over to the rural technician (village specialist), as proposed by the CO members. According to the work plan, this person went to buy construction material, but returned empty-handed to say that the money was given to a supplier in advance. The material did not arrive, and, for a while, the CO members pressured the technician, but without success. A year passed. The members were reminded of their commitment and were asked to pay back the money. The CO members mobilized all the COs in the VDC and applied great pressure. Finally, the money was recovered along with an 18 per cent interest on the amount. A new technician was appointed as village specialist and did the work in six months. The SMA did not have to go through legal proceedings to recover the money. Making the people aware of their accountability worked well.

Care needs to be taken to ensure that the deprived population segments are not marginalized within the COs

selves. They tend to avoid risk, given their precarious situation. Sometimes the norms established by the community group – such as the rate of savings or odd meeting times, or even the domineering character of group leaders and elite members – keep the ultra-poor away. In other cases, a slow approach to social mobilization or a lack of staff sensitivity results in their exclusion.

In other cases, the ultra-poor may either be perceived – or may feel that they are perceived – by the other members of the community as untrustworthy in repaying the loan. As a consequence, they do not participate in income-generating activities. One solution to this problem is incorporating a form of insurance into the loan agreement. Agencies like SFDP, for example, have made efforts to run community-managed livestock insurance systems that have proved effective in safeguarding the poor farmers, encouraging them to adopt large scale income-generating activities and bringing down the mortality rate of animals.⁶

Yet another reason is the trickle-down approach of some programmes, such as the introduction of a new “pro-poor” technology. Often, the relatively better-off or progressive households are chosen for the demonstration of a new technology to induce the poorer households to adopt it. However, technology transfer often proves to be a more complex or rigid process than assumed and deprived sections of society remain bypassed.

In other situations, the ultra-poor do not benefit from mobilization approaches because they lack basic capital – such as land for farming or grazing – necessary to implement the proposed agricultural activities. In Syangja, a solution was proposed to address this problem: give the poor access to public assets such as land, pastures, or forest areas with a long-term lease to help them to develop income-generating activities and build their own capital base. However, this proposal revealed another con-

straint. In order to grant such leases, cooperation was needed from the local government and line agencies, which were sympathetic but indicated that they needed written authorization. Their response may have been technically correct, but their attitude reflected a lack of sensitivity and responsibility. This shows that, for social mobilization to be effective, community groups should be mobilized along with society at all levels.

Even where initial social mobilization efforts have been successful, threshold issues often emerge. For example, savings and loan groups may stagnate as the target households complete implementation of subsistence level activities, and then request less credit. It becomes necessary to encourage the commercialization of economic activities and enhance the absorptive capacity of the poor. However, in cases where goods and services are produced, markets are either too distant or too poorly developed to absorb new production. This calls for further development of secondary and tertiary sectors.

Moreover, all social mobilization efforts for poverty reduction run the risk of being hijacked by the relatively better-off members of the community or by political interests. Thus, care needs to be taken to ensure that the deprived population segments are not marginalized within the COs. If necessary, separate organizations for the deprived households should be formed.

In some cases, the legal validity of grassroots institutions developed through social mobilization is questioned, especially when they deal with microfinance. There is a need to give them legal recognition such that their autonomy and flexibility is maintained, with a simple registration procedure. The existing NGO Act and Cooperative Act are beyond the reach of the poor and illiterate people living in remote areas. Another impediment related to microfinance activities is that, while credit sup-

port is usually a strong element in poverty reduction efforts, most agencies involved in social mobilization are non-bankers and face difficulties themselves in accessing capital.

Finally, in spite of the fact that social mobilization efforts should theoretically lead to improved governance, inefficiencies in social mobilization efforts arise from questionable governance practices. Where more than one social mobilization agency is operating in the same VDC, the agencies may end up competing with each other and/or duplicating their efforts. This comes about when SMAs do not comply with LSGA and decide where they want to operate without consulting the local government. In other cases, DDCs may fail to prioritize VDCs for social mobilization, allowing several SMAs to operate in a single VDC. Or a VDC may accept the offers of all SMAs to operate in its area while many poor VDCs in the district remain unattended. Often, an SMA itself opts to cover accessible and semi-remote, but not the most remote VDCs in a district. Improved coordination and communication within and between DDCs and SMAs would allow either more than one SMA to operate in an area without duplication of efforts, and/or to better distribute resources so that more communities can be mobilized.

The solution to many of these problems lies within social mobilization itself. If social mobilization agencies understand that their role is not limited to the forming of groups and establishing savings-credit schemes, but recognize that they can also mobilize local and central government officials, local and central service delivery institutions, the private sector and even lawmakers, then the impact on poverty, human development, and governance will be substantial. If community organizations as well as local government bodies admit that poverty is their problem and that it is their responsibility to help the poorest members of their community out of poverty, results will follow. Such a scenario is most plausible if the

central government and line ministries support social mobilization.

This is particularly important, given the evidence that social mobilization will have an effect *only once*. If hopes and expectations are raised, but aspirations are not met, enthusiasm on the part of the poor dies and is difficult to rekindle. Social mobilization thus needs to occur at several levels simultaneously in order to be most effective.

RECOMMENDATIONS

Social Mobilization, Institutional Linkages, and the State

Social mobilization is a long-term process of education and awareness-building. Effective social mobilization requires investment in various forms to build the capacity of local communities to take action and to form effective functional linkages with local government and line agencies. Poor understanding of social mobilization on the part of local representatives, policy-makers, and other civil servants make it difficult to establish such linkages. For example, many models of social mobilization demonstrate that community physical infrastructures, such as irrigation systems or drinking water schemes, can be built with significant contributions from the beneficiaries. However, sectoral agencies often hesitate to form alliances with socially mobilized community organizations.

In addition, there is a growing demand to cover the entire country with social mobilization efforts and, at the same time, to link such efforts with local governments, line agencies, and other development organizations. For these reasons, social mobilization can no longer be seen as a local intervention at the grassroots level, but an overall effort requiring coordination at several levels. In order to achieve this, national level guidance is required to:

If community organizations as well as local government bodies admit that poverty is their problem, results will follow

Traditional cost comparisons in terms of input and output may be inadequate to evaluate long-term impact on the qualitative aspects of life in a community

- Harmonize social mobilization concepts and practices;
- Undertake social mobilization mapping and inventory for the whole country;
- Promote the incorporation of social mobilization into the curricula of intermediate to masters degree level courses in the faculties of social sciences, engineering, medicine, agriculture, forestry, and other fields where future practitioners are likely to come into contact with common people. Currently, social mobilization agencies develop their own staff power as needed. However, to upscale social mobilization efforts, the next generation of civil servants and other development workers need to have some understanding of the concept.
- Sensitize existing policy makers on the importance of social mobilization;
- Provide pre-job and on-the-job training in social mobilization for all civil servants in the key development agencies working in fields such as livestock, agriculture, health, education, cottage industry, drinking water, irrigation, and forestry;
- Develop budgetary allocation and policy support for special interventions for the ultra-poor. For example, local governments should be strongly encouraged to use a part of their income and block grants in favor of the ultra-poor. Policy support should be directed towards local governments, forestry departments, resettlement companies, the Commission for the Landless, and other such agencies, in order to better link their resources with efforts at social mobilization so that the poorest households can have access to public resources through long-term lease arrangements.
- Encourage sectoral agencies to forge functional linkages with social mobilization agencies;
- Encourage the private sector, especially banks and insurance agencies, to link their services to social mobilization efforts; and
- Develop a simple legal framework for grassroots institutions with particular attention

to the relationship between such institutions and local governments.

The PAF should oversee this upscaling of social mobilization efforts to cover the remaining VDCs and municipalities throughout the country. However, PAF has yet to be implemented. The annual budget allocation for this umbrella fund has to be increased to enhance its effectiveness.

Monitoring Social Mobilization

One of the weaknesses of many social mobilization efforts is the lack of a comprehensive monitoring system. Most monitoring done by social mobilization agencies reflects inputs (such as the amount of credit provided and the number of persons trained) and processes (for instance, the number of groups formed, the number of members, and participation by men and women). However, little attention is paid to output-oriented evaluations. As a result, it is difficult to know what percentage of the target population has “graduated” out of poverty through social mobilization support, and how much such efforts have cost.

Cost is of particular concern in the context of upscaling social mobilization efforts to a national level, which will involve a diversity of actors in many different areas. Cost obviously depends on the tools and techniques employed, types of activities carried out, duration of the efforts, geographical location, quality and quantity of staff members, and also the degree of poverty to be addressed. However, traditional cost comparisons in terms of input and output may be inadequate to evaluate long-term impact on the qualitative aspects of life in a community, on empowerment, on knowledge, on skills, and on improved governance. The question is therefore: How can such qualitative gains be captured in terms of costs and benefits? How can the costs and results of different social mobilization approaches be compared?

Developing innovative and effective monitoring systems is a necessary step towards answering these and other questions. Participatory poverty monitoring systems, such as the one used by VDP (see Box 7.12), should be explored and expanded, and all monitoring efforts should include the following information:

1. Who participated?
2. Who benefited from program activities (training, credit, community infrastructures, etc.) and by how much?
3. What changes (in education, health and sanitation, rural energy, capital base, nutrition, housing, etc.) took place?

All this information (inputs, participation, and outputs) should be broken down by poverty profile, ethnicity, and gender to make it possible to evaluate the effectiveness of programs in reaching the targeted population. This will be helpful for the field staff, local government, and the community organizations to determine the direction of future efforts and resource allocation to reduce poverty. One example of such evaluation done according to poverty profile is shown in Table 7.3.

Reporting such information should be coordinated with local governments, from which the information should flow to the central level. This proposal, however, requires building the capacity of VDCs and other bodies to effectively gather and use information for planning purposes, using computerized

Box 7.12 How a participatory poverty monitoring system (PPMS) works

The Village Development Programme encourages community organizations (COs) to assess their status periodically. They use a chart with pictures showing the various aspects of community life. This helps the members of community organizations assess their status in terms of institutions, poverty, education, health, environment and empowerment of deprived population segments such as women. Scores for each sector help them understand where they stand and also make plans for the future.

The SMA, on the other hand, maintains a record of each household and community member. The benefit received by each member/household is recorded and updated. The self-assessment done by CO members helps social mobilizers to update the change in the overall poverty status of each household in the community. The result indicates that the households move from lower status to a higher level as a result of tangible support provided by the programme and resources mobilized from other sources, such as households themselves, local government, government agencies, and NGOs/INGOs.⁷

databases. Furthermore, a standard set of easy-to-understand indicators should be developed, through a consultative process from the grassroots up to the central level, to facilitate comparisons and the tracking of progress over time throughout the country. The diversity of actors in the field of social mobilization and poverty reduction demands strong coordination, particularly in monitoring and evaluation. A nation-wide institutional poverty monitoring system is lacking. The important issue of monitoring and evaluation deserves further probing and is pursued in more depth in the concluding chapter of this Report.

Table 7.3
Change in poverty status over time through social mobilization

| POVERTY PROFILE | VILLAGE (CO)-LEVEL | | HH LEVEL DATA AGGREGATED AT VDC-LEVEL | | PROGRAM-LEVEL | |
|--------------------|--------------------|-------|--|-------|---------------|-------|
| | 1995 | 1999 | 1995 | 1999 | 1995 | 1999 |
| Very Poor | 7.7 | 0.0 | 17.6 | 9.0 | 16.5 | 9.8 |
| Poor | 20.5 | 10.2 | 18.6 | 13.1 | 25.7 | 22.9 |
| Capable Poor | 23.1 | 15.4 | 27.0 | 28.9 | 21.7 | 23.2 |
| Better-off | 48.7 | 74.4 | 34.3 | 40.8 | 33.8 | 37.0 |
| Well-off | 0.0 | 0.0 | 2.5 | 8.2 | 2.4 | 7.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| N = | 39 | | 1089 | | 5915 | |

Source: UNDP/UNOPS 1999.

MONITORING PROGRESS IN POVERTY REDUCTION AND GOVERNANCE



he preceding chapters have traced progress in poverty reduction, as well as impediments to it. Poverty reduction is a complex task, requiring intervention at a number of levels, by and on behalf of many different actors. Good governance, which is indispensable for poverty reduction and human development, also requires monitoring and evaluation at many different levels. Without monitoring, there is no way to know if policies and programmes are having the desired effects, if the actual consequences are those intended, and if not, why. In the absence of such evaluation, it is impossible to effectively manage, change, adapt, and fine-tune poverty reduction efforts to increase their impact. Monitoring is also a tool for ensuring transparency and accountability, whether it be in the management of a single small-scale project or of national accounts. Put simply, monitoring is a process of following up the course of an event or process towards a pre-determined destination or target. The purpose of monitoring is to detect any deviations from the desired path. Early detection of such deviations enables relevant actors to take corrective actions to steer the event or process back on course and towards the planned objective.

Monitoring something as complex as poverty reduction and human development requires the use of different complementary methods adapted to each level and type of intervention. This chapter will simply touch on some of the key aspects of monitoring and evaluation mentioned in earlier chapters and will sketch out some of the necessary components of a poverty monitoring system for Nepal.

The first section will address the need for systematic surveys, both quantitative and qualitative, to monitor poverty. The second section will discuss the importance of monitoring and evaluation of programmes and policies designed to reduce poverty and improve human

development. The section that follows will introduce the importance of monitoring governance. The fourth section will provide a preliminary framework for the development of a comprehensive poverty monitoring system. The chapter concludes with recommendations for the future.

It is essential to monitor welfare indicators to track progress in human development and to evaluate the effectiveness of policies and programmes designed to reduce human poverty

A POVERTY MONITORING SYSTEM FOR NEPAL: REQUIREMENTS AND REALITY

Monitoring Income Poverty

Traditionally, poverty has been measured by monetary income or consumption, using definitions of minimum requirements (such as caloric intake) and information collected through national household income and expenditure surveys to establish poverty lines. Such an approach allows inferences about the conditions and evolution of poverty at the national level,¹ and as such, remains a useful policy tool. In Nepal, as Chapter 2 has shown in detail, a number of large-scale household surveys have been conducted since the 1970s, providing estimates of the incidence of income poverty in the country:

- 1976/77 – the first large-scale household survey on employment, income-distribution, and consumption patterns, overseen by the NPC;
- 1984/85 – Multi-Purpose Household Budget Survey conducted by Nepal Rastra Bank;
- 1991– Nepal Rural Credit Survey; and
- 1996-97 – Nepal Living Standards Survey (NLSS) undertaken by the Central Bureau of Statistics (CBS).

These surveys used different methodologies, definitions, and sampling procedures, rendering comparisons of poverty incidence over time difficult. For example, the 1976/77 survey based calculations on a minimum caloric requirement of 2250 calories; the 1991 NRCS identified a poverty line without reference to

caloric requirements; while the 1996/97 NLSS used yet another methodology. Each survey thus identified a poverty line, and reported the percentage of the population living below that line. Attempts have been made to evaluate the different sets of data according to common criteria in order to compare poverty incidences over time. However, such results are constantly debated.

To reduce such debate in the future, Nepal needs to institutionalize a system of national household surveys, undertaken at regular intervals using standardized definitions and sampling procedures, in order to obtain comparable time-series data on the level of poverty. The Nepal Living Standards Survey is scheduled to be repeated in 2002, and then again every five years, which should satisfy this requirement.

Monitoring Human Development

It has long been recognized that poverty is a complex phenomenon with multiple dimensions that cannot be captured simply through a measure of income or consumption levels. To improve human development, people must be able to develop their capabilities, increase their knowledge, maintain good health, and live without fear. It is essential to monitor welfare indicators to track progress in human development and to evaluate the effectiveness of policies and programmes designed to reduce human poverty.

Data on human development are available from a number of sources in Nepal. To take only one example, a Demographic Health Survey is conducted every five years under the umbrella of the Ministry of Health. The MOH also conducts ad hoc surveys on various issues and provides regular information on health services, immunization, contraceptive prevalence rates, etc. The Ministry of Education provides annual statistics on net enrollment figures. The Nepal Multiple Indicator Surveillance (NMIS), transformed re-

cently into the Between Census Household Information, Monitoring and Evaluation System (BCHIMES), furnishes survey data on a regular basis. But each of these studies has a different focus. The Nepal Labour Force Survey, conducted at irregular intervals, includes some social welfare indicators. The NLSS, while focusing on income and consumption, also gathers information on social welfare. Donor agencies, too, conduct independent surveys for their own purposes, as do (I)NGOs.

While a good deal of information is already collected on human welfare indicators, many surveys are conducted on an ad hoc basis. There may be no provision for a follow-up later in time, or they may cover only a limited geographical area or certain groups. Definitions and methodologies vary according to the interests of the agency conducting the survey, and results may not be widely disseminated. And, even when results are disseminated, there are often questions about the legitimacy of the data. In order to monitor progress in human development effectively, household surveys – based on a set of core, widely accepted, standardized social welfare indicators – should be conducted on a regular basis. In addition, a coordination mechanism should be developed to improve collaboration between the various agencies conducting ad hoc surveys to reduce duplication, improve comparability, and facilitate communication of data and results to all concerned actors.

Qualitative Assessment

A system of regular, standardized household surveys would provide a great deal of vital information about the progress, or lack thereof, made in poverty reduction and human development. However, this type of monitoring simply indicates whether or not a goal has been achieved. Little information is gleaned as to how and why progress has been made or, perhaps more significantly, why, in spite of intervention, no improvement in liv-

ing conditions has been observed. This is of particular importance in Nepal where the general consensus holds that most of the development efforts over the past decades have failed to achieve the desired results.

In order to better understand the “hows and whys” of poverty and development, a participatory approach to monitoring and evaluation is necessary. This entails qualitative studies, which may use any number of techniques – for example, loosely structured questionnaires or focus-group discussions – to encourage people to express their opinions on the state of development in their community, the particular problems they face, and what they see as the root causes of poverty in their lives. The same techniques can be used to allow stakeholders to evaluate the usefulness of a project or policy and its results, to reveal why or why not an intervention has had the intended impact, and whether unexpected consequences, positive or negative, have come about as a result of the activities. These studies do not generate data that can be compared across the country and the results cannot be translated into quantitative indicators. Yet, they are an essential complement to a national indicator-based monitoring system, as they may reveal the gaps in policy or project approaches.

Until now, the central government has made little use of qualitative studies for poverty monitoring and evaluation. However, the term “participation” has been used in development policy in Nepal since the 1970s, for example in the Small Farmers Development Programme, which began in 1975, and organized cooperative farmers’ groups. Community participation in forest management has been encouraged since the late 1970s. NGOs began using participatory assessment methods in the 1980s, one example of which is *Samubik Bhraman* or Joint Treks, where scientists and farmers went out to collect and analyze information together.² In 1990, Participatory Rural Appraisals (PRA) were introduced in Nepal,

In order to better understand the “hows and whys” of poverty and development, a participatory approach to monitoring and evaluation is necessary

It is necessary to systematically review the relevance, efficiency, effectiveness, and impact of activities in progress in order to guide future planning, programming, and decision-making

and since then various networks advocating PRA-type assessments have been created, such as Nepal Participatory Action Network (NEPAN), Forum for Community Empowerment (FORCE), and Eastern Region Participatory Action Network (ERPAN). Programmes such as VDP and SAPAP have also introduced participatory monitoring mechanisms into their frameworks.

Recently, the government has called for extensive participatory consultations with stakeholders in the development of the I-PRSP and the forthcoming Tenth Plan (2002-2007). Participatory planning and monitoring will most likely be integrated into the Tenth Plan.

Nepal does indeed have considerable experience in qualitative, participatory assessments. However, much of this experience is at the local level. Best practices should be identified, and central and local governments should be encouraged to incorporate qualitative methods into their poverty monitoring systems.

MONITORING AND EVALUATION OF POLICIES AND PROGRAMMES

Project Monitoring and Evaluation

The previous section has considered poverty monitoring primarily as a system of surveys, whether qualitative or quantitative. However, another major component of an overall poverty monitoring system is the assessment of individual programmes or projects designed to reduce poverty and improve human development. Here, a programme or project may be defined as an organized set of activities designed to achieve specific objectives, whatever their scope, magnitude or diversity, and can be taken to include the regular activities of the line ministries in providing basic public services, as well as specific programmes sponsored by the government or by any other agency.

Monitoring in this case is a continuous or periodic review at every level of implementation of an activity, which checks whether or not input delivery, work schedules, targeted outputs, and other actions are proceeding according to plan. However, it is not enough to verify inputs and outputs; it is also necessary to systematically review the relevance, efficiency, effectiveness, and impact of activities in progress in order to guide future planning, programming, and decision-making.

Monitoring and evaluation should be incorporated from the outset into project preparation or periodic planning by a line agency. To monitor progress and results, measurable objectives need to be established from the beginning. In general, the activities of a line ministry or agency are designed to pursue long-term development goals. However, in the short-term, immediate, measurable objectives need to be defined. For example, one of the goals of the Ministry of Health may be reduction in child mortality. An immediate, measurable objective would be the provision of more equitable access to healthcare.

The need to clarify objectives and state them in measurable terms may also help guide the formulation of the project itself, as abstract goals must be revisited in practical, concrete terms. Once measurable objectives have been stated, indicators need to be defined. Indicators should be relevant, simple to collect, understood by all those involved, easy to analyze, and useful for tracking changes over time. It may be useful to work with the beneficiaries to identify indicators that are meaningful to them, as well as to project management or the concerned ministry. Box 8.1 describes different types of indicators that should be used in monitoring and evaluation of project activities.

In Nepal, the monitoring of projects and programmes of line agencies remains weak. Before the Eighth Plan (1992-1997), monitoring

of line agency activities was limited to annual expenditure reports. During the Eighth Plan, monitoring of programmes was strengthened by the introduction of the Annual Action Plans and line agency progress reporting. In addition, a Monitoring and Evaluation Division was established in the NPC, with a National Development Problem Solving Committee headed by the Prime Minister. Ministerial Development Problem-Solving Committees, headed by the respective ministers, and Central Monitoring and Evaluation Departments in each ministry were also created. Monitoring cells were introduced in each of the ministries in 1995 and specific indicators were identified to measure achievements of individual projects. However, in spite of these efforts – largely because of a lack of political commitment and limited administrative effectiveness – no project-screening mechanism was instituted and monitoring and evaluation did not extend beyond programme implementation.

The Ninth Plan (1997-2002) calls for the collection of reliable data on development projects to implement poverty reduction strategies effectively and, with greater political commitment, new institutions are being established. However, these various monitoring bodies still monitor only inputs and, to a limited degree, outputs. Input indicators are often simply budget allocations, but there is often a significant gap between budget allocation and actual disbursement and expenditure (see Chapter 5). Output indicators are usually limited to infrastructures, such as the construction of a building or a bridge. As there is no comprehensive mechanism for measuring these physical outputs, such reporting does not provide much information. There is no institutionalized mechanism for measuring outputs and impacts. In fact, such elements are not even integrated in the planning process.

Box 8.1 Project monitoring indicators

Effective monitoring and evaluation of a project, or the activities of a line agency, requires several indicators.

■ **Input indicators** set forth in time-bound statements the resources, whether financial, physical, or others (such as training), that will be provided. This kind of information is gleaned from accounting and management records and is necessary for cost-benefit analysis.

■ **Process indicators** are used to track implementation of a project. They may take the form of a list of specific activities to be completed by a certain date or milestone events extracted from the work plan. They may be reflected in records of expenditure, procurement records, the appointment of staff, the completion of training by beneficiaries, or the number of people using a facility during a given time period. This kind of information should be reflected in the management records at the field level, and reported periodically to the central management (line ministry).

■ **Output indicators** are used to judge whether or not specific project goals are being achieved and are generally expressed as numbers. For example, in an education project, the output indicator may be the number of textbooks produced or the number of teachers trained in textbook use or another pedagogical technique. In the case of infrastructure development, the number of kilometres of road built in a given period could be an indicator. In the realm of health, the number of consultations at a family planning center would be a useful measure.

■ **Outcome indicators** measure the results of the output; for example, in the case of textbooks, the textbook-student ratio in schools or the number of teachers using the new textbooks. In the case of a family planning centre, outcome indicators might include the contraceptive prevalence rate in the community.

■ **Impact indicators** are used to measure the long-term effects of a project or sectoral activity. In the textbook example, improved test scores over time would be an indicator of success. Positive impacts of interventions in the field of education could also be measured by continuation rates from primary to secondary or the proportion of girls completing primary or secondary school. At another level, more complex socioeconomic statistics based on data from periodic household surveys, or indices such as the Human Development Index, are often used to measure the long-term impacts on poverty reduction. However, it is more difficult to link changes in these types of indicators with specific interventions.

It is necessary to monitor governance so as to ensure that progress is being made towards increased ownership, equity, transparency, accountability, and efficiency in all domains

Clearly, there is a need to strengthen existing mechanisms for project and programme monitoring and evaluation. A framework for identifying outputs, outcomes, and impacts during the planning process, as well as a mechanism for monitoring during and after project implementation, should be created. At the same time, the mechanisms for monitoring the budgetary process need to be reinforced.

Further, identifying indicators and collecting data is only one element of any monitoring and evaluation process. Data need to be analyzed and reports need to be prepared. Most importantly, such reports then need to be shared with both the stakeholders and investors, whether the latter be donors or government bodies. Good monitoring implies actively learning from experience to improve future endeavours. Ideally, such reports should be shared with as many stakeholders as possible, so that all may learn from the successes as well as the failures of poverty reduction efforts.

MONITORING GOVERNANCE

Effective monitoring of programmes and projects contributes to good governance, as inputs can be measured against outputs, outcomes, and impacts. It is possible to evaluate whether or not resources are being efficiently used, as well as whether or not target populations are benefiting from the policies and programmes. This is essential for effective poverty reduction efforts. However, it is also necessary to monitor governance so as to ensure that progress is being made towards increased ownership, equity, transparency, accountability, and efficiency in all domains – not just in the administration of projects.

Measuring governance is a relatively new concept. Often, policy-makers and people rely on anecdotal evidence to evaluate the quality of

governance.³ However, it is possible to develop a systematic approach to evaluating governance, in part by tracking progress in decentralization, ownership, equity, accountability, transparency, and efficiency.

One can begin evaluating governance through an analysis of policy, legislation, and political commitment to improving governance. Chapter 6 has evaluated the progress made in regard to decentralization. However, other legal questions also influence overall governance in a society, in particular those concerning equity. The Constitution of Nepal ensures equal treatment to all citizens irrespective of sex, caste, class, creed, or color. However, different codes of conduct for men and women have resulted in the persistence of women's subordinate position in society. The *Muluki Ain* still contains 26 laws that discriminate against women, ranging from denial of citizenship to property rights. Women are still subjected to beating and forced prostitution, child marriage, and polygamy. Such discrimination is reflected in the poverty, marginalization, and deprivation of women in the country. One condition for realizing gender equity would be the elimination of discriminatory laws.

Even where a legal system theoretically guarantees equal rights, effective enforcement of those rights may vary considerably. Thus, measuring governance calls for developing a system of indicators, both quantitative and qualitative, to evaluate actual practices and perceptions. Quantitative indicators can be used to establish objective, comparable measures of governance. As an illustrative example, the degree of ownership could be assessed by participation in local government, which can be measured through participation at ward, VDC, or DDC meetings. Equity could be evaluated by the number of women and/or disadvantaged group ward committee members, VDC members, etc.

Transparency and accountability can be estimated by keeping track of the number of local governments in which fair elections are held regularly; the number of local governments holding a certain number of meetings a year with the participation of more than a designated number of participants; whether or not budgets or financial reports of a local government body are made available to committee members, media, or the public in a timely fashion; and so on.⁴ The efficiency of public services can be measured by such indicators as the time and cost required to obtain a particular service from a line agency office.

However, while such quantitative measures may give more information about the day-to-day reality than an analysis of legislation in place, qualitative indicators may offer an even more detailed picture as to people's perceptions of governance. For example, attendance by a large number of people at a meeting does not guarantee that all are given the same opportunity to speak. The number of women or disadvantaged group ward committee members says little in itself about whether or not these particular members are active, respected members of the committee. Whether or not quality service can be readily obtained from an office is as important as the actual time required for a given process. This kind of information requires qualitative methods of investigation, such as participant observation, or surveys that allow people to express their opinions and their perceptions.

Thus, a systematic mechanism for monitoring governance should include regular reviews of legislation; regular surveys of different government bodies to track their progress in decentralization, ownership, transparency, and accountability as well as efficiency; and, finally, regular evaluations of governance by independent civil society organizations. This last type of evaluation could take the form of surveys of individuals, private enterprises,

(I)NGOs, and government officials at all levels about their perceptions of the accountability and responsiveness of elected representatives, of transparency of government proceedings, of the level of corruption and security, and of "other vulnerabilities within the country's institutions".⁵ While such surveys are based on subjective perceptions, it is possible to design them in such a way that results are comparable; governance indices could be constructed for the different levels of government bodies and/or different parts of the country. For example, rating scales can be used, so that a respondent can answer a question such as, "Is your local government sensitive to your needs?" on a scale of 1 ("not at all") to 5 ("very sensitive"). Scores can then be combined to give an overall rating by a community; a series of questions can even be used to create a composite index. This kind of approach is essential, since perceptions are as important as "objective" realities – perhaps more so, since people base their actions on their subjective assessments of a given situation.

Monitoring governance makes it possible to target reforms where they are most needed. Integrating "objective" and "subjective" evaluations may highlight hidden problems or contradictions. In areas where progress has been made, but perceptions remain negative, improved communications may improve confidence in governance processes, thus encouraging future efforts, investments by the private sector, renewed interest in participation in local government bodies, and so on. While this type of evaluation may not appear directly related to poverty monitoring efforts, good governance is a key factor in increasing human development.

In Nepal, several studies have been undertaken to evaluate governance. For example, the *Good Governance Assessment 1998*⁶ sponsored by DFID analyzed such aspects of govern-

*Monitoring
governance makes it
possible to target
reforms where they
are most needed*

Although mechanisms for monitoring programmes and projects exist, these need considerable strengthening

ance as electoral arrangements, rights and representation, rule of law, and access to the judiciary and basic social services. The report indicates that there is virtually no system for monitoring and assessing governance. Another publication, *Good Governance in Nepal, Perspectives from Panchthar and Kanchanpur Districts* (2000)⁷, assesses local level perceptions of governance. ActionAid Nepal, in their *Local Governance Strategy* (2001), has developed a list of indicators to monitor governance processes at the VDC and DDC levels.

Nepal can hardly be faulted for not having a system for the monitoring of governance, as the concept is new even in international circles. However, as so much evidence points to the necessity of good governance in reaching the goals of poverty reduction and human development, the government should consider including the monitoring of governance in its overall poverty monitoring efforts. In addition, civil society must play an active role in the monitoring of governance to promote increased ownership, equity, transparency, and accountability, as well as efficiency, in poverty reduction programmes and in every other realm of public life.

CREATING A COMPREHENSIVE SYSTEM

The NPC has recognized the importance of establishing a comprehensive poverty monitoring system and is in the process of introducing and institutionalizing one. The existing institutional framework is being reevaluated with a view to creating an internal poverty monitoring entity. This unit would gather and analyze four main types of data for use in policy, planning, monitoring the Tenth Plan/PRSP, and the publication of annual reports:

- programme and project indicators;
- routine macroeconomic data;
- census and survey data; and

- qualitative poverty assessments.

Although mechanisms for monitoring programmes and projects theoretically exist within the ministries and the NPC, these need considerable strengthening. Monitoring and evaluation mechanisms need to be incorporated at the initial planning stages, then followed by data on all the necessary types of indicators. These, in turn, have to be effectively gathered, analyzed, and reported.

Routine macro-economic data are already provided to the NPC by the Nepal Rastra Bank, the Ministry of Finance, the Financial Comptroller General's Office, and other such institutions.

Census data, including periodic national surveys such as the Agricultural Census and the Manufacturing Census, is already produced by the Central Bureau of Statistics. Other surveys are conducted by various line agencies, NGOs, United Nations agencies, etc. (often on an ad hoc basis). Further, in accordance with current plans, the Nepal Living Standards Survey will be conducted every five years.

However, even institutionalizing the NLSS will not meet the need for data on poverty and human development in Nepal. The PRSP and Tenth Plan call for the publication of *annual* reports on progress in poverty reduction. In addition, Nepal will be reporting regularly on progress made towards the Millennium Development Goals. New data are therefore needed on a yearly basis. Furthermore, in the move towards decentralization, and pursuant to the LSGA, all 75 districts are now required to prepare their own development plans. To monitor poverty reduction and evaluate projects and programmes, local governments also need access to information on income and human poverty indicators.

Because of its national sampling framework, the NLSS does not provide data valid at the

district level. To address these limitations, the NPC is currently designing a system of household surveys whose central tool, a short questionnaire, will permit a rapid and cost-effective gathering of information on a set of core human welfare indicators, in each of the years between NLSS. The NPC is exploring the possibility of developing a sampling framework within which roughly one fourth of the districts would be surveyed each year so as to provide statistically valid data for 17-20 districts in any given year. Aggregated, these data would produce national estimates for key poverty and human development indicators. After a four-year cycle, the NLSS would be conducted in the fifth year, and then the four-year cycle would be repeated, thus providing any given district with valid time-series data at five-year intervals.

Finally, as indicated above, qualitative poverty assessments are an important complement to more quantitative household surveys. However, as this type of monitoring is relatively new in Nepal, and methods for institutionalizing such assessments need to be more fully explored. Increasing awareness of the utility of qualitative approaches among policy-makers and planners is a necessary first step. As the skills required to conduct this kind of analysis differ significantly from those required for quantitative surveys conducted by the CBS and its local branch offices, other institutions (such as NGOs or research centers) should be given the responsibility of undertaking these kinds of surveys. In addition, integrating different types of data, both qualitative and quantitative, into a comprehensive analysis that can be used by policy-makers and project planners adds yet another challenge to the complex task. Capacity-building may be necessary to ensure that the coordination units responsible for integration have the capacity to undertake such analyses.

To ensure that a comprehensive national poverty monitoring system functions effectively, it will be necessary to clarify the institutional tasks and responsibilities for information gathering, analysis, and dissemination at and between the local and central levels. Further, to increase comparability between surveys undertaken by different agencies and institutions, definitions and indicators should be standardized as far as possible. While the NPC should take the lead in developing standard definitions and core indicators for poverty monitoring purposes, it should do so in consultation with the concerned stakeholders at the central and local levels, including policy-makers and villagers, line ministries and other agencies including NGOs, and both women and men. In this way, definitions and indicators that are appropriate to the poverty context of Nepal can be identified and the sense of ownership increased, so that all partners will be willing to adhere to the system.

Such coordination is all the more important because of the expense of conducting surveys. Any poverty monitoring system requires a compromise between the amount of information to be collected and the costs to be incurred. It is therefore essential to avoid duplication of efforts and reach consensus on definitions and indicators, so that each survey brings new and comparable information to the fore.

All in all, then, creating an efficient and effective poverty monitoring system

- involves coordinating a large number of actors;
- identifying indicators that all actors can agree on;
- exploring innovative methods for low cost surveys;
- integrating qualitative and quantitative data sets; and

To ensure that a comprehensive national poverty monitoring system functions effectively, it will be necessary to clarify the institutional tasks and responsibilities between the local and central levels

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- analyzing and disseminating results in a timely fashion.

All these steps require developing capacity in the institutions responsible for gathering, processing, analyzing, and reporting data, as well as in those bodies that are to use the data for policy and planning purposes. In addition to creating capacity, awareness of the utility of poverty monitoring needs to be built among all stakeholders so that participants at all levels can and will benefit from the whole process.

CONCLUSIONS AND RECOMMENDATIONS

Currently, Nepal does not have an effective poverty monitoring system. Poverty estimates are often drawn from household surveys undertaken for other purposes, and are generally available only at the national and sub-national levels, but not at the district level. Such estimates are not comparable over time, as methodologies and definitions differ from one survey to another. Project and programme monitoring indicators, which often do provide district level data, are in many cases limited to specific regions or districts.

The NPC is seeking to remedy these problems by institutionalizing a poverty monitoring system that will simultaneously address the need to:

- monitor progress of the Poverty Reduction Strategy/Tenth Plan;

- monitor progress towards the Millennium Development Goals; and

- provide local level data to guide and monitor decentralized planning efforts.

However, making such a system effective requires coordination and communication among all actors; stronger linkages between and within the central and local governments, line ministries, and agencies; increased capacity to gather, analyze, and disseminate many different kinds of data relating to poverty and human development; and a commitment on the part of leaders at both the central and local levels to use the information gathered to critically examine and reorient development policies and programmes.

Finally, it is important to note that many actors in addition to the state bear the responsibility of monitoring poverty and human development. Civil society has a particularly important role when good governance is posited as the “missing link”, for it is the stakeholder best positioned to participate actively in the monitoring of governance processes to ensure:

- that elected representatives are indeed accountable;
- that public services are equitably and efficiently delivered;
- that budgetary processes are transparent; and
- that programmes, policies, and budgetary allocations reflect the needs of the people, especially the poorest and the most deprived.

ENDNOTES

Chapter 1

1. UNDP, 1995.
2. World Bank, 2000.
3. UNDP, 2000c.
4. Chambers, 1983.
5. World Bank, 1988.
6. UNDP, 2000b.
7. UNDP, 1997.
8. UNDP, 2000b.
9. HDC, 1999.
10. Haq, 1999.

Chapter 2

1. Based on 1999 data.
2. UNDP, 2001.
3. The main difference between the HDI in the global *Human Development Report 2001* (HDR 2001) and that in the present Report is in the educational index. The adult literacy rate used in the present report is 50.7 per cent, which is considerably higher than the figure used in the HDR 2001 (40.4 per cent). However, HDR 2001 uses combined primary, secondary, and tertiary gross enrollment, whereas the present Report uses mean years of schooling (see Annex 1 for details), to calculate the educational index. The HDR 2001 educational index for Nepal is 0.47; the index in the present Report is 0.40. The life expectancy used in the present Report is slightly higher than in HDR 2001 (59.5 and 58.1 years respectively), and the income indices are calculated using the same figure. The result is an HDI that is slightly lower in the present Report than in the HDR 2001.
4. MOH et al., 2001.
5. UNDP, 1995.
6. NPC, 1997.
7. UNDP, 2001.
8. CBS, 1996a, 1997a.
9. Based on the mid-term evaluation of the Ninth Plan conducted by the National Planning Commission, the latest estimate of the head-count index of poverty in Nepal is 38 per cent. This latest estimate of poverty follows the World Bank projection method (World Bank, 1999), according to which projection for the

head-count index has been made based on the per capita GDP growth rate and population growth rate (NPC, 2001b).

10. World Bank, 2001.
11. World Bank, 1999.
12. NESAC, 1998.
13. CBS, 1995.
14. NPC, 1983.
15. NRB, 1988.
16. Chhetri, 1996.
17. World Bank, 1999.

Chapter 3

1. World Bank, 1990.
2. ADB, 1999.
3. Kakwani, 2000; Dollar-Kraay, 2000.
4. Kakwani 2000; Dollar-Kraay 2000.
5. Ravallion, 2000.
6. Kakwani, 2000.
7. The selection of this period depends primarily on data availability. Although the secondary data for the head-count poverty index and Gini coefficients are available for the years 1976/77, 1984/85, and 1995/96 onwards, the Gini coefficients for 1976/77 and 1984/85 were not comparable. For instance, the Gini coefficient for 1976/77 was estimated as 0.59, while that for 1984/85 as 0.31 thereby casting severe doubts on their reliability.
8. World Bank, 1999.
9. NPC, 2001.
10. NEFAS, 1996.
11. World Bank, 1999.
12. Recently, a total of 45 districts of Nepal were officially declared as food-deficit districts.
13. NEFAS, 1996.
14. NPC, 2001b.
15. NPC, 1998b.
16. NPC, 1998b.
17. Sharma, 2000a.
18. Nepal has one of the lowest ratios of internal revenue generation to GDP, about 12 per cent.
19. CBS, 1996a, 1997a.
20. Chhetri, 1996.
21. World Bank, 1999.
22. Chhetri, 1996.
23. World Bank, 1999.
25. Panday, 1999:75.
25. Kaufmann et al., 1999.
26. Sharma, 2000b.

Chapter 4

1. CBS, 1997a.
2. The source for figures in this Chapter is the governance survey carried out by UNDP/PDDP in 2000, which examined the level of participation of various groups in the rural areas in developmental activities. The survey interviewed 754 persons in 29 districts.
3. MOE, 2000b.
4. Calculated by the World Bank in 1993.
5. CBS, 1997a.
6. NPC/UNICEF, 1998.
7. CBS, 1997a.

8. CBS, 2001.

9. MOH et al., 2001.

10. BCHIMES 2000 estimates that 33 per cent of households own toilets and that 80 per cent have access to piped or tubewell drinking water (CBS, 2001).

11. Reported in SAPPROS-Nepal, 2001a.

Chapter 5

1. World Bank, 2001.
2. There is one Resource Committee in the NPC, chaired by the vice-chairman of the NPC and consisting of members like the Governor of the central bank and the Finance Secretary. This Committee works out the magnitude of the resources, including the domestic and foreign borrowing limits and places a ceiling on development spending for the proposed fiscal year based on the resource estimates.
3. The budget for 2001/02 proposes the development of a system that would ensure such a budgetary system.
4. The number of projects has already risen from 622 in 1998 to more than 700 in 2001.
5. In this context, a Revenue Leakage Investigation (Joint Parliamentary) Committee was constituted in 1999 and a Finance Committee has been working as a follow-up to the implementation of the recommendations made by the Committee.
6. The Federation of Nepalese Chambers of Commerce and Industries, Chamber of Commerce, Management Association of Nepal, Public Administration Association of Nepal, and Economic Association of Nepal hold pre-budget and post-budget discussions to urge the government to adjust the budget to public needs and expectations.
7. World Bank, 2000.
8. World Bank, 2000.
9. In 1999, per capita public spending in Nepal at US \$ 38 was half that of India and Bhutan and one fifth that of Sri Lanka. The per capita public spending was US\$ 69 for India, US\$ 82 for Bhutan and Pakistan, US\$ 203 for Sri Lanka, and US\$ 757 for Maldives (calculated from IFS, July 2001, IMF).
10. Its share in total expenditure, which was 38.6 per cent during 1991-95, successively rose to 49.3 per cent during 1996-2000, mainly due to the rise in public spending on debt servicing, police, and defense.
11. From 1994/95, a lump sum of Rs 300,000 was allocated to the VDCs, and later revised to Rs 500,000. Budgetary allocations to DDCs and municipalities were also increased substantially.
12. The Nepalese rupee has depreciated against US dollar by 86 per cent during the last two decades.
13. Public allocation ratio (ratio of total public expenditure to GNP) increased from 16.1 per cent in 1991 to 19.2 per cent in 1993 and to 19.7 per cent in 2000. Yet it has failed to meet the international norm of 25 per cent, even in recent years. The social allocation ratio, suggested as 40 per cent of the budget, is still only one third.

14. Human priority allocation (prescribed at 50 per cent of social spending) includes primary healthcare, basic and non-formal education, rural water supply, essential family planning services, and nutrition programmes for the most deprived groups in society.
 15. NESAC, 1998.
 16. World Bank, 2001.
 17. NESAC, 1998.
 18. Based on the sample of Jhapa, Sunsari, and Morang District Development Periodic Plans prepared by the respective DDCs, 2000/01.
 19. DDPP Sunsari, 2000.
 20. The District Development Periodic Plans (DDPP) of Jhapa, Sunsari, and Morang focus on river training as one priority.
 21. The selection of such projects reflects an individual perception.
 22. These programmes are not exclusively for the poor only; some serve the non-poor as well.
 23. Investment in public enterprises, physical planning and construction, and agriculture needs to channel more resources towards the targeted areas.
 24. The budgetary classification of regular expenditure between central and district level is not available. Thus, much of the social sector expenditure that goes to salaries of schoolteachers and health workers is not reflected in this expenditure.
 25. World Bank, 2000.
 26. Cagatay et al., 2000.
 27. The proportion of debt servicing in the total budget has been more than 14 per cent during the last decade and is growing over the years. The share of debt servicing in total expenditure increased from 8.1 per cent in 1985 to 11.6 per cent in 1990 and further to 15.1 per cent in 2000.
 28. NPC, 1998.
 29. In fact, total ODA in basic social services has to be reemphasized, because to date, the flow of aid to basic social services has been less than 10 per cent of the global ODA flow to developing countries (Mehrotra 2001).
 30. Shrestha, 1996.
 31. World Bank, 2001.
 32. It is estimated that 25 per cent of the electricity generated and 40 per cent of the water is diverted in the course of distribution.
 33. The cost recovery in irrigation projects ranges from 9 per cent to 33 per cent for pump systems and almost zero in many gravity systems of irrigation (The World Bank, "Implementation Completion Report of Sunsari Morang Irrigation II Project", 1996).
 34. While low cost recovery leads to a low O&M budget for public utilities, an insufficient O&M budget allocation precludes regular O&M activities, resulting in inefficient and unreliable delivery of services to the consumers (WRSF, 2001).
 35. NPC, 1999.
 36. A survey of the expenditure patterns of 201 VDCs from 1992-97 shows that an average of 46 per cent of the total VDC budget was spent on social priority concerns (16 per cent on education, 3 per cent on health, 12 per cent on drinking water, and 15 per cent on local development) (NPC, 1998).
 37. NPC, 1999.
 38. NPC, 1998a.
 39. NPC, 1998a.
 40. NPC, 1998a.
 41. World Bank, 2000.
 42. World Bank, 2001.
 43. The *World Development Report 2000/2001* discusses this extensively.
 44. World Bank, 2001.
- ### Chapter 6
1. UNDP, 2000c.
 2. UNDP, 2000c.
 3. Pope Pius XI.
 4. UNDP, 2000c.
 5. Chambers, 1983; Bista 1993, and Martinussen, 1993.
 6. HMG, 1999.
 7. NPC, 2000.
 8. NPC, 2000.
 9. ADDCN, 2000.
 10. CBS, 1997b.
 11. UNDP, 2000c.
- ### Chapter 7
1. Deutsch, 1968.
 2. NESAC, 1998.
 3. Derived from the experience of a member of the Flood Rehabilitation Task Force of HMGN.
 4. Atwood, 2001b.
 5. Atwood, 2001b.
 6. Sah, 1998.
 7. UNDP/UNOPS, 1999.
- ### Chapter 8
1. World Bank, 2001.
 2. Pratt, 2001.
 3. Kaufmann et al., 2000.
 4. Center for Democracy and Governance, 1998.
 5. Kaufmann et al., 2000.
 6. Shrestha, S, 1998.
 7. Shrestha, BK, 2000.

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Chapter 2 draws on the following: CBS 1997a, 1997b, Meier 1989, NESAC 1998, NPC 2001a, Richards 2001, Sharma et al. 2001, UNDP 2000b, UNDP 2001.

Chapter 3 draws on the following: ADB 1999, Bajracharya et al. 1999, CBS 1995, CBS 1996, 1997, Chhetri 1996, Dollar and Kraay 2000, IFAD 1999, Kaufman et al. 1999, Kakwani and Pernia 2000, MOF 2001, NESAC 1998, NEFAS 1996, NPC 1983, 1997, 1998a, 2001b, NRB 1988, Panday 1999, Ravallion 2000, Sharma 2000a, 2000b, UN 1999, UNDP 2000a, 2000b, World Bank 1990, 1999.

Chapter 4 draws on the following: CBS 1996, 2001, Citizen's Poverty Watch Forum 2000, Human Development Center 1999, MOF 2000, MOE 2000a, 2000b, MOH 1997, New ERA 2001, NPC 1992, NPC-UNICEF 1998, SAPPROS 2001a, UNDP 2000b, UNICEF 1996a, World Bank 2001.

Chapter 5 draws on the following: ARPOSC and JMA 1995, Catagay et al. 2000, CBS 1994, HMG 2000, House of Representatives 2000 and various, Metcon 1996, MOE 1997a, 1997b, 1997c, MOF 2001b, NESAC 1998, NPC 1997, 1998a, 1999, NPC-UNICEF 1994, Oxford Policy Management 2000, PERC 2000, Shrestha 1996, UNDP 1996, UNICEF 1997, World Bank 1993, 1994, 2000, 2001.

Chapter 6 draws on the following: ADDCN 2000, Bista 1993, Chambers 1983, HMG 1992, 1991, 1992a, 1992b, 1992c, 1999, 2000, Martinussen 1993, NPC 2000, Pope Pius IX 1931, UNDP 2000c.

Chapter 7 draws on the following: ADB/N 2000, 2001, Adhikari, Atwood 2001a, 2001b, Bhattarai 1997, Dahal 2001a, 2001b, Deutsch 1968, FECOFUN 2000, Gautam, MWCSW 2001, Green Valley Consult 2001, HMG-UNDP 1999, 2000a, 2000b, 2000c, HMG-UNDP-NORAD 2000, HMG/VWPP 2058 BS, ICIMOD 1999, IIDS 2000a, 2000b, IMU-GTZ 2001, Khan 2001, Ling, MOF 2001a, New ERA 2000, NPC 2001a, RMDC 2058 BS, Regmi et al. 2000, Sah 1991, Sah et al. 1998, SAPAP 1999, SAPPROS 2001a, 2001c, Swar et al. 1999, SWC 2001, UNDP-UNOPS 1999, UNDP-UNOPS-SAPAP 2000, UNDP 2000c, World Bank 2001.

Chapter 8 draws on the following: ActionAid Nepal 1998, 2001, APROSC-IDRC 1996, BIDS 1999, Kaufmann et al. 2000, Center for Democracy and Governance 1998, New ERA 2000, NESAC 1998, Shrestha 2000, Pratt 2001, SAPPROS 2001b, Sharma 1997, Shrestha 1998, UNDP 2000c, UNICEF 1996a, World Bank 1990.

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ANNEXES



Annex I
HUMAN DEVELOPMENT MONITOR

Annex II
POVERTY AND PRO-POOR GROWTH

Annex III
PUBLIC EXPENDITURE AND
FISCAL DECENTRALIZATION

annex I

HUMAN DEVELOPMENT MONITOR

Table 1
Human development index (HDI)

| REGIONS | HUMAN DEVELOPMENT INDEX (HDI) VALUE 2000 | LIFE EXPECTANCY AT BIRTH (YEARS) 2000 | ADULT LITERACY (% AGE 15 AND ABOVE) 2000 | MEAN YEARS OF SCHOOLING 2000 | GDP PER CAPITA (PPP US \$) 1999 | LIFE EXPECTANCY INDEX 2000 | EDUCATION INDEX 2000 | GDP INDEX 2000 | RATIO TO NATIONAL HDI |
|-----------------------|--|---|--|---------------------------------------|---|-------------------------------------|----------------------------|----------------------|--------------------------------|
| Nepal | 0.466 | 59.5 | 50.70 | 2.8945 | 1237 | 0.576 | 0.402 | 0.4198 | 100.00 |
| Rural | 0.446 | 58.7 | 48.00 | 2.5047 | 1094 | 0.562 | 0.376 | 0.3993 | 95.65 |
| Urban | 0.616 | 71.1 | 69.00 | 4.8651 | 2133 | 0.769 | 0.568 | 0.5107 | 132.18 |
| Mountains | 0.378 | 49.8 | 44.50 | 2.5217 | 898 | 0.414 | 0.353 | 0.3664 | 81.05 |
| Hills | 0.510 | 65.1 | 55.50 | 3.0402 | 1262 | 0.668 | 0.438 | 0.4231 | 109.36 |
| Tarai | 0.474 | 62.4 | 46.80 | 2.8108 | 1267 | 0.624 | 0.374 | 0.4238 | 101.73 |
| Eastern | 0.484 | 62.0 | 56.60 | 2.7641 | 1073 | 0.617 | 0.439 | 0.3961 | 103.89 |
| Central | 0.493 | 61.3 | 49.80 | 2.9805 | 1713 | 0.606 | 0.398 | 0.4741 | 105.75 |
| Western | 0.479 | 62.8 | 51.67 | 3.3285 | 1022 | 0.630 | 0.418 | 0.3879 | 102.76 |
| Mid-west | 0.402 | 53.2 | 47.80 | 2.6857 | 861 | 0.470 | 0.378 | 0.3593 | 86.37 |
| Far west | 0.385 | 52.1 | 43.00 | 2.1908 | 899 | 0.452 | 0.335 | 0.3665 | 82.52 |
| Eastern mountains | 0.424 | 52.4 | 55.30 | 2.8302 | 1003 | 0.457 | 0.432 | 0.3848 | 91.09 |
| Eastern hills | 0.513 | 66.7 | 59.10 | 2.7948 | 1012 | 0.696 | 0.456 | 0.3863 | 110.03 |
| Eastern Tarai | 0.488 | 62.9 | 55.50 | 2.7437 | 1109 | 0.632 | 0.431 | 0.4016 | 104.80 |
| Central mountains | 0.437 | 57.2 | 48.00 | 2.9746 | 1023 | 0.536 | 0.386 | 0.3881 | 93.75 |
| Central hills | 0.510 | 58.5 | 58.90 | 3.3722 | 2059 | 0.559 | 0.468 | 0.5049 | 109.54 |
| Central Tarai | 0.462 | 63.1 | 36.30 | 2.5709 | 1502 | 0.634 | 0.299 | 0.4522 | 99.14 |
| Western mountains | 0.414 | 55.5 | 50.60 | 2.8728 | 731 | 0.509 | 0.401 | 0.3320 | 88.86 |
| Western hills | 0.487 | 64.8 | 55.30 | 3.2164 | 858 | 0.664 | 0.440 | 0.3587 | 104.62 |
| Western Tarai | 0.435 | 53.5 | 49.10 | 3.5220 | 1276 | 0.476 | 0.406 | 0.4250 | 93.45 |
| Mid-western mountains | 0.322 | 45.9 | 33.80 | 2.7577 | 731 | 0.348 | 0.287 | 0.3320 | 69.12 |
| Mid-western hills | 0.433 | 58.3 | 52.20 | 2.7413 | 741 | 0.555 | 0.409 | 0.3343 | 92.84 |
| Mid-western Tarai | 0.458 | 60.0 | 50.70 | 2.7123 | 1040 | 0.584 | 0.398 | 0.3909 | 98.21 |
| Far western mountains | 0.286 | 41.6 | 36.90 | 1.2470 | 629 | 0.276 | 0.274 | 0.3069 | 61.29 |
| Far western hills | 0.393 | 56.9 | 40.90 | 1.8554 | 744 | 0.531 | 0.314 | 0.3350 | 84.41 |
| Far western Tarai | 0.425 | 53.5 | 48.70 | 3.0457 | 1144 | 0.475 | 0.392 | 0.4068 | 91.14 |

Table 2
Gender-related development index (GDI)

| REGIONS | GENDER-RELATED DEVELOPMENT INDEX 2000 | LIFE EXPECTANCY AT BIRTH (YEARS) 2000 | | ADULT LITERACY RATE (PERCENT) 2000 | | MEAN YEARS OF SCHOOLING 2000 | | ESTIMATED EARNED INCOME 2000 | | RELATIVE VALUE NEPAL=100 2000 | GDI/HDI (PERCENT) 2000 |
|-----------------------|--|--|------|---|------|------------------------------------|--------|------------------------------------|-------|--|------------------------------|
| | | FEMALE | MALE | FEMALE | MALE | FEMALE | MALE | FEMALE | MALE | | |
| Nepal | 0.452 | 59.8 | 59.3 | 35.4 | 65.8 | 2.2527 | 4.4522 | 0.369 | 0.459 | 100.00 | 96.92 |
| Rural | 0.426 | 59.3 | 58.2 | 32.3 | 63.6 | 1.6658 | 3.3979 | 0.339 | 0.444 | 94.42 | 95.68 |
| Urban | 0.605 | 70.8 | 71.4 | 56.9 | 81.2 | 3.8011 | 6.0085 | 0.444 | 0.555 | 133.94 | 98.21 |
| Mountains | 0.355 | 51.1 | 48.6 | 26.6 | 61.9 | 1.3310 | 3.7168 | 0.336 | 0.391 | 78.70 | 94.11 |
| Hills | 0.494 | 64.7 | 65.4 | 39.5 | 72.3 | 2.1860 | 3.9783 | 0.389 | 0.450 | 109.43 | 96.99 |
| Tarai | 0.456 | 63.2 | 61.7 | 32.5 | 60.2 | 1.9355 | 3.7071 | 0.356 | 0.473 | 101.05 | 96.27 |
| Eastern | 0.465 | 65.6 | 58.6 | 39.8 | 70.4 | 2.0342 | 3.6001 | 0.330 | 0.443 | 102.90 | 98.48 |
| Central | 0.476 | 63.2 | 59.6 | 34.1 | 63.7 | 1.9735 | 3.9629 | 0.426 | 0.510 | 105.35 | 96.56 |
| Western | 0.463 | 63.6 | 62.1 | 37.7 | 66.0 | 2.6421 | 4.1395 | 0.323 | 0.438 | 102.55 | 89.73 |
| Mid-west | 0.376 | 57.7 | 48.9 | 28.2 | 65.6 | 1.6103 | 3.7575 | 0.305 | 0.400 | 83.30 | 93.48 |
| Far west | 0.356 | 54.0 | 50.3 | 21.2 | 67.0 | 1.0944 | 3.4060 | 0.360 | 0.373 | 78.87 | 92.64 |
| Eastern mountains | 0.399 | 53.1 | 51.8 | 34.9 | 66.3 | 1.9633 | 3.8345 | 0.360 | 0.407 | 88.43 | 94.09 |
| Eastern hills | 0.497 | 66.5 | 67.0 | 43.6 | 74.9 | 2.0916 | 3.5354 | 0.331 | 0.429 | 109.98 | 96.88 |
| Eastern Tarai | 0.473 | 63.0 | 62.9 | 41.0 | 70.0 | 2.0084 | 3.7229 | 0.335 | 0.448 | 104.67 | 96.80 |
| Central mountains | 0.425 | 58.9 | 55.6 | 34.9 | 66.3 | 1.7287 | 4.0550 | 0.345 | 0.423 | 94.16 | 97.35 |
| Central hills | 0.499 | 59.5 | 57.6 | 44.8 | 73.5 | 2.4149 | 4.2922 | 0.466 | 0.535 | 110.51 | 97.78 |
| Central Tarai | 0.443 | 64.3 | 61.9 | 22.1 | 48.7 | 1.5635 | 3.5842 | 0.397 | 0.491 | 97.99 | 95.80 |
| Western mountains | 0.405 | 58.1 | 53.1 | 34.9 | 66.3 | 2.6517 | 3.3182 | 0.309 | 0.350 | 89.61 | 97.75 |
| Western hills | 0.472 | 64.7 | 64.9 | 41.8 | 70.3 | 2.6240 | 3.9741 | 0.291 | 0.413 | 104.40 | 96.72 |
| Western Tarai | 0.411 | 49.1 | 57.7 | 36.3 | 61.5 | 2.6108 | 4.4285 | 0.358 | 0.472 | 91.00 | 94.39 |
| Mid-western mountains | 0.287 | 45.1 | 46.6 | 14.9 | 56.2 | 0.8073 | 4.5174 | 0.327 | 0.337 | 63.50 | 89.05 |
| Mid-western hills | 0.408 | 59.5 | 57.1 | 31.9 | 73.2 | 1.6645 | 3.8625 | 0.290 | 0.371 | 90.43 | 94.41 |
| Mid-western Tarai | 0.439 | 62.4 | 57.7 | 34.1 | 65.6 | 1.9482 | 3.4576 | 0.330 | 0.435 | 97.10 | 95.83 |
| Far western mountains | 0.246 | 42.2 | 40.9 | 14.9 | 56.2 | 0.1929 | 2.3443 | 0.275 | 0.335 | 54.54 | 86.25 |
| Far western hills | 0.355 | 58.1 | 55.7 | 16.4 | 67.5 | 0.7355 | 3.4413 | 0.324 | 0.346 | 78.55 | 90.20 |
| Far western Tarai | 0.407 | 57.7 | 49.4 | 31.3 | 65.8 | 2.0889 | 3.8810 | 0.378 | 0.431 | 90.14 | 95.87 |

Table 3

Gender empowerment measure (GEM)

| REGIONS | GENDER EMPOWERMENT MEASURE (GEM) | WOMEN'S PARTICIPA- TION IN LOCAL ELECTIONS (PERCENT) 1997 | WOMEN IN PROFESSIONAL JOBS 1999 | WOMEN IN ADMINISTRATIVE JOBS 1999 | RATIO OF ESTIMATED FEMALE TO MALE EARNED INCOME 1999 |
|-----------------------|---|--|--|--|---|
| Nepal | 0.385 | 19.3 | 19.51 | 10.65 | 0.369 |
| Rural | 0.333 | 19.4 | 16.38 | 4.20 | 0.339 |
| Urban | 0.443 | 18.1 | 25.19 | 17.88 | 0.444 |
| Mountains | 0.295 | 19.8 | 9.50 | 3.24 | 0.336 |
| Hills | 0.408 | 19.9 | 21.30 | 13.40 | 0.389 |
| Tarai | 0.368 | 18.6 | 18.61 | 8.91 | 0.356 |
| Eastern | 0.346 | 19.2 | 14.92 | 7.62 | 0.330 |
| Central | 0.417 | 19.0 | 23.43 | 13.22 | 0.426 |
| Western | 0.397 | 20.3 | 20.86 | 11.81 | 0.323 |
| Mid-west | 0.318 | 19.2 | 10.72 | 6.76 | 0.305 |
| Far west | 0.329 | 18.6 | 18.61 | 3.47 | 0.360 |
| Eastern mountains | 0.369 | 19.5 | 28.01 | 3.19 | 0.360 |
| Eastern hills | 0.326 | 19.7 | 13.31 | 5.30 | 0.331 |
| Eastern Tarai | 0.355 | 18.8 | 15.23 | 9.28 | 0.335 |
| Central mountains | 0.376 | 19.9 | 21.69 | 6.87 | 0.345 |
| Central hills | 0.452 | 19.6 | 28.38 | 16.10 | 0.466 |
| Central Tarai | 0.372 | 18.3 | 18.27 | 9.59 | 0.397 |
| Western mountains | 0.427 | 28.7 | 16.67 | 8.20 | 0.309 |
| Western hills | 0.413 | 21.1 | 21.64 | 14.28 | 0.291 |
| Western Tarai | 0.377 | 18.4 | 20.20 | 9.70 | 0.358 |
| Mid-western mountains | 0.273 | 19.3 | 4.28 | 4.93 | 0.327 |
| Mid-western hills | 0.315 | 19.3 | 8.46 | 8.65 | 0.290 |
| Mid-western Tarai | 0.364 | 19.0 | 19.58 | 7.35 | 0.330 |
| Far western mountains | 0.322 | 19.0 | 16.67 | 3.64 | 0.275 |
| Far western hills | 0.278 | 18.4 | 9.40 | 3.33 | 0.324 |
| Far western Tarai | 0.381 | 18.7 | 28.71 | 5.26 | 0.378 |

Table 4
Human poverty index (HPI)

| REGIONS | HUMAN POVERTY INDEX | CHRONIC MALNOURISHMENT AMONG CHILDREN (UNDER 5 YEARS OF AGE) PERCENT 1998 | ADULT ILLITERACY RATE 2000 | PROPORTION OF POPULATION WITH LIFE EXPECTANCY < 40 YEARS (PERCENT) 2000 | POPULATION WITHOUT ACCESS TO SAFE WATER 2000 | RELATIVE VALUE NEPAL=100 |
|-----------------------|------------------------|---|-------------------------------------|---|--|-----------------------------|
| NEPAL | 39.2 | 54.1 | 49.3 | 21.80 | 20.10 | 100.00 |
| Rural | 41.4 | 56.3 | 52.0 | 22.90 | 21.90 | 105.43 |
| Urban | 23.9 | 36.1 | 31.0 | 8.20 | 7.70 | 60.85 |
| Mountains | 46.1 | 66.1 | 55.5 | 34.50 | 20.80 | 117.50 |
| Hills | 37.2 | 55.5 | 44.5 | 15.00 | 23.80 | 94.68 |
| Tarai | 40.2 | 50.7 | 53.2 | 18.20 | 16.60 | 102.42 |
| Eastern | 42.0 | 42.8 | 56.6 | 18.70 | 22.34 | 107.06 |
| Central | 40.7 | 56.9 | 52.9 | 19.60 | 14.89 | 103.65 |
| Western | 39.9 | 55.9 | 51.7 | 17.80 | 16.23 | 101.67 |
| Mid-west | 43.4 | 57.0 | 49.6 | 30.00 | 34.45 | 110.51 |
| Far-west | 45.3 | 59.5 | 57.6 | 31.40 | 17.74 | 115.54 |
| Eastern mountains | 38.8 | 64.0 | 44.7 | 31.00 | 12.70 | 98.93 |
| Eastern hills | 34.1 | 53.3 | 40.9 | 13.10 | 19.60 | 86.94 |
| Eastern Tarai | 33.8 | 47.7 | 44.5 | 17.60 | 8.40 | 86.09 |
| Central mountains | 41.1 | 62.2 | 52.0 | 24.80 | 12.70 | 104.76 |
| Central hills | 35.3 | 51.3 | 41.1 | 23.10 | 22.50 | 89.97 |
| Central Tarai | 46.7 | 51.8 | 63.7 | 17.50 | 17.70 | 119.05 |
| Western mountains | 51.7 | 70.3 | 49.4 | 26.90 | 59.50 | 131.63 |
| Western hills | 36.5 | 55.8 | 44.7 | 15.40 | 19.10 | 92.94 |
| Western Tarai | 41.9 | 51.7 | 50.9 | 29.50 | 27.70 | 106.69 |
| Mid-western mountains | 53.6 | 63.0 | 66.2 | 40.00 | 32.20 | 136.61 |
| Mid-western hills | 42.5 | 62.6 | 47.8 | 23.40 | 32.60 | 108.25 |
| Mid-western Tarai | 40.1 | 52.8 | 49.3 | 21.20 | 27.30 | 102.22 |
| Far western mountains | 54.1 | 65.8 | 63.8 | 46.00 | 32.20 | 137.85 |
| Far western hills | 47.9 | 62.3 | 59.1 | 25.20 | 32.90 | 122.14 |
| Far western Tarai | 39.6 | 48.5 | 51.3 | 29.60 | 10.70 | 101.02 |

The values HPI are calculated excluding Population without Access to Health services as was suggested in the HDR 2001.

TECHNICAL NOTES

Human Development Index

The HDI is based on three indicators: longevity, as measured by life expectancy at birth; knowledge as a combined measure of adult literacy rate (two thirds weight) and the combined gross primary, secondary, and tertiary enrolment ratio (one third weight); and standard of living, as measured by GDP per capita (PPP US\$). The methodology, along with the definition of variables and their measurement, adopted in calculating the HDI for Nepal, is illustrated below.

Life Expectancy Index

Life expectancy at birth has been estimated based on the IMR and population growth rate estimate provided by the preliminary reports of NDHS 2001 and Census 2001 and Coale-Demeny West Model Life Table (1966). The expectation of life at birth for the year 2001 is estimated to be 59.7 years for both sexes, 60.0 for females, and 59.5 for males. This figure is quite close to the figure used for the corresponding period in the Population Projection for Nepal carried out by the Ministry of Population and Environment. Since the human development indicators in this report refer to 2000, an adjustment in the life expectancy at birth was needed. Accordingly, the adjustment was carried out, taking the growth in the life expectancy at birth used for the period 1988 and 1999 in the HDR 2000 and 2001.

The life expectancy estimates for each region and sub-region were first calculated using indirect demographic techniques applying the reported number of children ever born and surviving, employing Nepal Family Health Survey (NFHS) 1991, 1996 and Migration, Employment, Birth, Death, and Contraception Survey, and the age-sex distribution of the population of the 1991 census data. Since these figures referred to the period earlier than

1996, it was necessary to carry out certain adjustments so that compatible figures for 2000 could be obtained. The life expectancy at birth for each region and sub-region for the corresponding year 2000 were thus extrapolated by using the growth in life expectancy estimates obtained from the survey and census data. In addition, pro-rating was applied using the national estimates of life expectancy at birth on the sub-regional estimates derived to make these figures compatible with the national level estimates. For eco-development regions in which the results appeared absurd, appropriate average proxy values were used from the corresponding development region or ecological region. It should be noted here that the original survey data, used to estimate various input values at regional disaggregated level, may reflect selection bias in the survey because the survey was actually designed on the basis of national representation rather than regional representation.

Educational Attainment Index

The *Human Development Report* uses two measures for educational attainment. First, it uses adult literacy rate, i.e., the proportion of population 15 years and over who are literate, and, secondly, gross enrolment ratio (primary, secondary, and tertiary level). However, because of limitation and quality of data, mean years of schooling have been used for the calculation of the Human Development Index (2000) in this report. In addition, the mean years of schooling also capture the educational quality of the literate adult and the educational attainment of young people (combined enrolment ratio) which is not possible when the gross enrolment ratio is used.

The data on mean years of schooling come from the Nepal Labour Force Survey 1998/99, a nationally representative sample survey (CBS 1999). Data for the literacy of adult population come from BCHIMES 2000, another nationally representative survey. Both

of these data sources provide estimates at sub-regional levels. BCHIMES 2000 provided only two estimates for the mountain region. To obtain five estimates for the mountain region the BCHIMES raw data file was used and literacy rates were calculated. As the number of cases for the western mountains was very small, data on literacy were unreliable for this sub-region. In this case, previous data have been used instead. In addition to all these, as in the case of the estimation of life expectancy at birth, the mean years of schooling for the year 2000 were extrapolated by applying the growth in the means used in the NHDR 1998 and the mean obtained from the Nepal Labour Force Survey 1998/99.

Income Index

Lack of an efficient information system, which forms a sound basis for GDP calculations, is a major challenge currently faced by the National Accounts Statisticians in Nepal. The pace of efforts in CBS is not very encouraging. Moreover, the existing scenario is likely to continue in the near future, too. The available data do not provide us with GDP at the sub-national level and an independent exercise has therefore been carried out to obtain it.

The procedure is largely based upon production approach (supply side) and generates suitable indicators for each industry. The respective indicators (table A-2) are mostly sectoral outputs wherever available and, in some cases, proxies of outputs are used. The disaggregating procedure takes all sectors one at a time and has apportioned GDP to the desired sub-national level (tables A-3 and A-4). The sub-totals of all the sectors resulted in the GDP at the sub-national level. Population figures provided by CBS for 2001 have been used to interpolate the population of 1999, which has thereafter been used to obtain per capita GDP. Per capita GDP is then converted to PPP US \$ with the help of ratio of per capita GDP in PPP US \$ of Nepal established by the *Human Development Report 2001*, to the per capita GDP in rupees thus estimated. As sectoral GDPs are not available by Rural/Urban locality, a different approach, which utilizes the relative shares of these areas in total income, has been used. Further, it is assumed that such relative shares do not change significantly in a short period of time (2-3 yrs) and therefore the shares established by the NLSS survey (1996) have been used to disaggregate the GDP at the rural/urban level.

Gender-related Development Index (GDI)

The GDI uses the same variables as the HDI. The difference is that the GDI adjusts the

Illustration of HDI Methodology: Nepal

Country: Nepal

| | |
|--|----------------|
| Life Expectancy at birth (Years) | 59.5 |
| Adult Literacy Rate (percentage 15 and above) | 50.7 |
| Mean years of education | 2.9 |
| GDP per capita | 1,237.0 |

Life Expectancy Index:

$$\frac{59.5 - 25}{85 - 25} = \frac{34.5}{60.00} = 0.5750$$

Adult Literacy Index:

$$\frac{50.7 - 0}{100 - 0} = \frac{50.7}{100} = 0.5070$$

Mean Years of Schooling Index:

$$\frac{2.8945 - 0}{15 - 0} = \frac{2.8945}{15} = 0.1930$$

Educational Attainment Index:

$$\frac{\log(1237) - \log(100)}{\log(40000) - \log(100)} = 0.4198$$

Adjusted GDP per capita (PPP US\$) Index

$$[2(0.5070) + 1(0.1930)]/3 = 0.4023$$

Human Development Index for Nepal

| | |
|-------------------------------|--------|
| Life Expectancy Index | 0.5750 |
| Educational Attainment Index | 0.4023 |
| Income Index | 0.4198 |
| Sum | 1.3971 |
| Human Development Index (HDI) | 0.466 |

average achievement of each region/sub-region in life expectancy, educational attainment, and income in accordance with the disparity in achievement between men and women. For this gender-sensitive adjustment, the present Report, as suggested in the *HDR 2000*, has used the weighted formula that expresses a moderate aversion to inequality, setting the weighting parameter e equal to 2, a harmonic mean of the male and female values.

GDI also adjusts the maximum and minimum values for life expectancy, to account for the fact that women, tend to live longer than men. For women, the maximum value is 87.5 years and the minimum 27.5 years; for men, the corresponding values are 82.5 and 22.5 years (UNDP 2000).

The calculation of GDI requires an equally distributed index for income, which calls for separate income indices for males and females. The income indices for males and females further demand per capita income in PPP\$ for both sexes. The procedure therefore begins with disaggregating of the per capita income by sex using the standard set of formulae being applied in HDRs. The calculation of the equally distributed income index then follows using separate formulae. The set of formulae are given below.

Gender Empowerment Measure (GEM)

The GEM uses variables constructed explicitly to measure the relative empowerment of men and women in political and economic spheres of activity. The percentage share of men and women in administrative and managerial positions and in professional and technical positions is used to reflect their economic participation and decision-making power. Men's and women's percentage shares in the House and participation of men and women in local elections at VDC and municipality levels are used to reflect their political participation and decision-making power. The

Illustration of GDI methodology: Nepal

Percentage share of population

| | |
|--------|-------|
| Female | 0.502 |
| Male | 0.498 |

Step One: Computing the equally distributed life expectancy index (Nepal)

| | |
|--------|------|
| Female | 59.8 |
| Male | 59.3 |

Life Expectancy Index

| | |
|--------|-------------------------|
| Female | $(59.8-27.5)/60=0.5383$ |
| Male | $(59.3-22.5)/60=0.6133$ |

Computing Equally distributed Life Expectancy Index=
 [Female population share X (female life expectancy index)⁻¹
 + Male population share X (male life expectancy index⁻¹)⁻¹
 $[(0.502 * (0.5383)^{-1}) + (0.498 * (0.6133)^{-1})]^{-1} = 0.5732$

Step Two: Computing equally distributed Educational Attainment Index

Adult Literacy Rate (percentage age 15 and above)

| | |
|--------|------|
| Female | 35.4 |
| Male | 65.8 |

Mean Years of Schooling

| | |
|--------|--------|
| Female | 2.2527 |
| Male | 4.4522 |

Adult Literacy Index

| | |
|--------|------------------------|
| Female | $(35.4-0)/100 = 0.354$ |
| Male | $(65.8-0)/100 = 0.658$ |

Mean Years of Schooling Index

| | |
|--------|--------------------------|
| Female | $(2.2527-0)/15 = 0.1502$ |
| Male | $(4.4522-0)/15 = 0.2968$ |

Educational Attainment Index

| | |
|--------|---------------------------------------|
| Female | $[2/3(0.354)+(1/3(0.1502))] = 0.2861$ |
| Male | $[2/3(0.658)+(1/3(0.2968))] = 0.5376$ |

Equally distributed Educational Attainment Index=
 [Female population share X (female educational attainment index)⁻¹
 + Male population share X (male educational attainment index⁻¹)⁻¹
 $[(0.502 * (0.2861)^{-1}) + (0.498 * (0.5376)^{-1})]^{-1} = 0.3730$

Step Three: Computing the equally distributed Income Index

Percentage share of the Economically Active Population

| | |
|--------|-------|
| Female | 0.522 |
| Male | 0.478 |

GDP per capita

| | |
|--------|---------|
| Female | 911.00 |
| Male | 1565.00 |

Adjusted GDP per capita (PPP US\$) index

| | |
|--------|---|
| Female | $\frac{\log(911) - \log(100)}{\log(40000) - \log(100)} = 0.3688$ |
| Male | $\frac{\log(1565) - \log(100)}{\log(40000) - \log(100)} = 0.4591$ |

Equally distributed Income Index=

[Female population share X (female income index)⁻¹
 + Male population share X (male income index⁻¹)⁻¹
 $[(0.502 * (0.3688)^{-1}) + (0.498 * (0.4591)^{-1})]^{-1} = 0.4088$

Gender-related Development Index (GDI) Nepal

| | |
|--|--------|
| Equally distributed Life Expectancy Index | 0.5732 |
| Equally distributed Educational Attainment Index | 0.3730 |
| Equally distributed Income Index | 0.4088 |
| Sum | 1.355 |
| Gender-related Development Index (GDI) | 0.452 |

income variable is used to reflect power over economic resources. It is calculated in the same way as the GDI, except that the unadjusted rather than adjusted GDP per capita is used. The three indices – economic participation and decision-making, political participation and decision-making, and power over economic resources – are averaged to derive the final GEM value (UNDP 2000). For all the variables, the equally distributed equivalent percentage (EDEP), as in the calculation of GDI, has been calculated assuming a value of 2 for ‘aversion to inequality’.

The calculation process for the equally distributed income index for GEM is similar to that for the GDI. The only difference lies

in the formula used in calculating separate income per capita indices for both sexes.

Human Poverty Index (HPI)

HPI, a multi-dimensional measure of poverty introduced in the *Human Development Report 1997* (UNDP 1997), is a reverse image of the HDI that focuses on human deprivation instead of human achievement. It brings together in one composite index the deprivation in three basic dimensions of human life: longevity, knowledge, and access to overall economic provisioning. Deprivation of a long and healthy life (P_1) is measured by the percentage of people born alive today not expected to survive to age 40; deprivation in knowledge (P_2) is measured by the adult illiteracy rate; and deprivation in economic provisioning (P_3) is measured jointly by the unweighted composite value of the percentage of people lacking access to safe water (P_{31}) and the percentage of children under five who are moderately or severely underweight (P_{32}); that is, $P_3 = [P_{31} + P_{32}] / 2$. HPI is calculated as outlined in HDR 1997 with the assumption of a generalised mean of order 3 ($a = 3$).

The formula for HPI =
 $\{1/3(P_1)^a + 1/3(P_2)^a + 1/3(P_3)^a\}^{1/a}$.

In this year’s report (and as in the global *HDR 2001*), deprivation in overall economic provisioning is measured by two rather than three indicators because recent, reliable data on the access to health services, the usual third indicator, was not available.

Primary Statistical References

The Human Development Index (HDI) is computed using three basic elements: longevity, educational attainment, and standard of living. Longevity is expressed by life expectancy at birth. Educational attainment is calculated as a weighted average of the adult literacy rate (with a weight of 2/3) and the mean years of schooling (1/3). As a measure of the standard of living, the Gross Domes-

Formulae for disaggregating income:

$$S_i = \frac{(w_i/w_m) \times ea_i}{[(w_i/w_m) \times ea_i] + ea_m} \quad 1A$$

$$Y_i = \frac{S_i Y}{N_i} \quad 1B$$

$$Y_m = \frac{(1 - S_i) Y}{N_m} \quad 1C$$

Formulae for calculation of Income Index:

$$W(Y_i) = \frac{\log Y_i - \log Y_{\min}}{\log Y_{\max} - \log Y_{\min}} \quad 1D$$

$$W(Y_m) = \frac{\log Y_m - \log Y_{\min}}{\log Y_{\max} - \log Y_{\min}} \quad 1E$$

Equally Distributed Income:

$$\text{Index } I_{GDI} = \{P_i \times W(Y_i)^{-1} + P_m \times W(Y_m)^{-1}\}^{-1} \quad (2)$$

Where

| | |
|--|--|
| W_i = Female wage rate | W_m = Male wage rate |
| ea_i = Proportion of economically active females | ea_m = Proportion of economically active males |
| Y = GDP in PPP \$ | N_f = Female population |
| N_m = Male population | |

$$P_i = N_i / (N_i + N_m) \text{ and } P_m = N_m / (N_i + N_m)$$

The data source for S_i , W_i , W_m , ea_i , ea_m is the most recent Nepal Labour Force Survey 1998 undertaken by CBS. The data sources for P_i and P_m are the preliminary reports of the Census 2001.

Illustration of GEM methodology : Nepal

Percentage share of population

| | |
|--------|-------|
| Female | 0.502 |
| Male | 0.498 |

Step One: Calculating indices for parliamentary representation, Administrative and managerial, and professional and technical positions

Percentage share of parliamentary representation

| | |
|--------|------|
| Female | 19.3 |
| Male | 80.7 |

Percentage share of administrative and managerial positions

| | |
|--------|-------|
| Female | 10.65 |
| Male | 89.35 |

Percentage share of professional and technical positions

| | |
|--------|-------|
| Female | 19.51 |
| Male | 81.49 |

Equally distributed equivalent percentage (EDEP) for parliamentary representation

[Female population share X (female share in parliamentary representation)⁻¹ +
Male population share X (male share in parliamentary representation⁻¹)⁻¹]
[[0.502 * (19.3)⁻¹] + [0.498 * (80.7)⁻¹]]⁻¹ = 31.11

Equally distributed equivalent percentage (EDEP) for administrative and managerial positions

[Female population share X (female share in administrative and managerial positions)⁻¹ +
Male population share X (male share in administrative and managerial positions⁻¹)⁻¹]
[[0.5024 * (10.65)⁻¹] + [0.498 * (89.35)⁻¹]]⁻¹ = 18.97

Equally distributed equivalent percentage (EDEP) for professional and technical positions

[Female population share X (female share in professional and technical positions)⁻¹ +
Male population share X (male share in professional and technical positions⁻¹)⁻¹]
[[0.5024 * (9.5)⁻¹] + [0.4976 * (90.5)⁻¹]]⁻¹ = 31.39

Indexing parliamentary representation

$$31.11/50=0.62$$

Indexing administrative and managerial positions

$$18.97/50=0.3794$$

Indexing professional and technical positions

$$31.39/50=0.628$$

Combining indices for administrative, managerial, professional, and technical positions

(Index of administrative and managerial positions
+ Index of professional and technical positions)/2
(0.3794 + 0.628)/2 = 0.504

Step Two: Calculating index for male and female income

$$S_i = \frac{W_f/W_m \times ea_i}{W_f/W_m \times ea_i + ea_m} \quad 3A$$

$$Y_i = \frac{S_i Y}{N_i} \quad 3B$$

$$W(Y_i) = \frac{Y_i - 100}{40,000 - 100} \quad 3D$$

$$Y_m = (1 - S_i) Y / N_m \quad 3C$$

$$W(Y_m) = \frac{Y_m - 100}{40,000 - 100} \quad 3E$$

Equally distributed Income Index for GEM

$$I_{GEM} = \{P_f W(Y_f)^{-1} + P_m W(Y_m)^{-1}\}^{-1} \quad (4)$$

Where the symbols have their usual meanings, for example, in Nepal,

$$Y_f = 911 \$ \quad Y_m = 1556 \$$$

$$W(Y_f) = (911 - 100) / (40000 - 100) = 0.0203$$

$$W(Y_m) = (1556 - 100) / (40000 - 100) = 0.0367$$

Equally distributed Income Index

$$[[0.502 * (0.0203)^{-1}] + [0.498 * (0.0367)^{-1}]]^{-1} = 0.0261$$

Step Three: computing GEM

GEM=1/3 (index of parliamentary representation
+ combined index of administrative, managerial, professional, and technical positions
+ equally distributed income index)

$$GEM=1/3 (0.622 + 0.504 + 0.026) = 0.385$$

Illustration of HPI methodology: Nepal

| | | |
|--|--------------------|------|
| Percentage of people not expected to survive to age 40 | (P ₁) | 21.8 |
| Adult illiteracy rate (percent) | (P ₂) | 49.3 |
| Percentage of people without access to safe water | (P ₃₁) | 20.1 |
| Percentage of malnourished children under age 5 | (P ₃₂) | 54.1 |
| $\{(P_{31}) + (P_{32})\} / 2$ | (P ₃) | 37.1 |

$$\text{HPI} = [1/3 \{P_1^3 + P_2^3 + P_3^3\}]^{1/3}$$

$$\text{HPI Nepal} = [1/3\{(21.8)^3 + (49.3)^3 + (37.1)^3\}]^{1/3} = 39.2$$

tic Product (GDP) per capita computed in US dollars on the basis of the purchasing power parity (PPP\$) is used.

This report makes use of various secondary sources of information, collected mostly by government agencies, for purposes other than the investigation of human development. Both raw and published data were used depending upon the need of the nature of indices of interest. Thus, some of the information, particularly disaggregated information, used in the report to calculate human development indices, has not been published elsewhere, even in the publications of institutions, which collected the data.

The major data that are used to produce various indices related to human development measures come from the preliminary report of Nepal DHS 2001; BCHIMES 2000, HMG/N Central Bureau of Statistics report as well as its raw data; the Nepal Living Standard Survey (NLSS) 1996, HMG/N, Central Bureau of Statistics; Nepal Family Health Survey (NFHS) 1991 and 1996, HMG/N, Department of Health; Nepal Labour Force Survey 1998, HMG/N, CBS and NPC Secretariat; National Census Report 1991, HMG/N, CBS; Local Election Data Tape, HMG/N, Election Commission Nepal; Migration,

Birth, Death and Contraception Survey Report 1997, Central Department of Population Studies (CDPS); and Education Statistics of Nepal (in Nepali) 1997, HMG/N, Ministry of Education. The original objectives of the data collection exercise, sample size, data collection procedures, and limitations of most of these surveys are presented in the respective reports. Besides, a brief methodology of the selected studies mentioned here is also presented in the first Human Development Report (NESAC 1998). The data sources and its use in this report are shown in table A-1 below.

From the demographic surveys and census data, this report has used information on childbirth and child loss experience of the women for calculating life expectancy for all desegregations. A growth rate was estimated to derive the appropriate life expectancy at birth corresponding to 1998, a measure of health in the human development index, at the desegregation level. This procedure has to be used to meet the need of the input-data for producing human development indices because of data gaps in this area. Due to the limitation imposed by sample size, this report has used information disaggregated up to only 15 eco-development regions.

Table A.1
Major sources of data

| PUBLICATION | SOURCE | CALCULATED INDICES FOR HDR USE |
|--|--|--|
| Preliminary data, Census 2001 | HMG/N, CBS | Life expectancy index; Deprivation in longevity |
| Preliminary Report, Nepal DHS 2001 | HMG/N, Department of Health | Life expectancy index; Deprivation in longevity |
| BCHIMES, 2000 Draft Report | HMG/N, CBS | Literacy, coverage of drinking water |
| Nepal Micro-Nutrient Status Survey 1998 | HMG/N, MOH; UNICEF; WHO; The Micronutrient Initiative; and New ERA | Nutritional status of children under 5 yrs of age |
| National Census Report 1991 | HMG/N, CBS | Life expectancy index; Deprivation in longevity |
| Nepal Family Health Survey (NFHS) 1991 | HMG/N, DOH | Life expectancy index; Deprivation in longevity |
| Nepal Living Standard Survey (NLSS) 1996 | HMG/N, CBS | Income index; Health deprivation index; Income deprivation index |
| Nepal Family Health Survey (NFHS) 1996 | HMG/N, DOH | Life expectancy index; Deprivation in longevity |
| Nepal Labour Force Survey 1998 | HMG/N, CBS, and NPC Secretariat | Literacy index; Mean years of schooling index; Educational attainment index; Index of administrative and managerial representation; Index of technical and professional representation; deprivation in knowledge |
| Local Election Data Tape | HMG/N, Election Commission Nepal | Percentage share of parliamentary representation |
| Migration, Birth, Death and Contraception Survey Report 1997 | Central Department of Population Studies (CDPS) | Life expectancy index; Deprivation in longevity |
| Education Statistics of Nepal (<i>in Nepali</i>) 1997 and 1999 | HMG/N, MOE | Literacy index; Educational deprivation index; deprivation in knowledge |
| Annual Report (several years) | HMG/N, DOH | Birth unattended by trained health personnel |
| Population Projection for Nepal 1998 | HMG/N, MOPH | Percentage share of males and females in total population; mortality assumptions and life expectancy at birth |

The Election Commission reports election results for each of the 75 districts of Nepal, covering the results from VDCs, municipalities, and DDCs. This report has used information of such reports to assess political participation, particularly of females in relation to males.

Table A.2
Indicators used in the estimation of regional GDP

| INDUSTRIAL DIVISION | INDICATORS | TYPES OF DATA / PROCEDURE | SOURCE OF DATA |
|-------------------------|---|--|---|
| 1. Agriculture | Agricultural Output | Statistical Information on Nepalese Agriculture 1998/99. The regional estimates are prepared on the basis of the production figures. It is assumed that the regional value added (GDP) and the output follow the same ratio. | MOA |
| 2. Mining | Mining Product | The output of mining products is estimated on the basis of the production data. GDP is calculated on the basis of the survey conducted by CBS. | Dept. Mining and Geology, CBS |
| Quarrying | The indicator for <i>Pakky</i> construction (see below) | The estimates of quarrying activities at national level are indirect, i.e., the use of the materials in construction work. The procedure is also adopted for regional estimates. | CBS |
| 3. Manufacturing | Census Value Added | The census of manufacturing establishments provides details of census value added by region and districts. | CBS |
| 4. Electricity | Electricity Consumption | Electricity consumption by development region published in Statistical Year book, 1999. | CBS |
| 5. Construction (Pakky) | - Government expenditure on construction - Expenditure on construction by manufacturing industries | There are two major categories of construction, viz., <i>Pakky</i> (concrete) and <i>Kachchy</i> (non-concrete). For <i>Pakky</i> and <i>Kachchy</i> construction estimates, the following indicators have been used: <i>Pakky</i> construction: - Government actual expenditure on capital items by development region and ecological belt. - Construction expenditure as reported in the of census of manufacturing establishments. <i>Kachchy</i> Construction: Number of households by Kachchy and semi-Kachchy houses. | MOF Census of Manufacturing Establishments - CBS |
| Construction (Kachchy) | Number of Households with Kachchy and Semi-Kachchy Houses | | Population Census 1991-Household Tables, Volume III Nepal |
| 6. Trade | - Agricultural Output - Manufacturing Output | Statistical Information on Nepalese Agriculture - MOA Census of Manufacturing Establishments - CBS | MOA |
| Hotels and Restaurants | - Number of Hotels and Restaurants | The regional GDP is estimated on the basis of total number of hotels and restaurants. The number of hotels and restaurants is taken from the report on "A Study on Energy Consumption in Commercial Sector in Nepal". | CBS WECS report, Ministry of Water Resources |
| 7. Transport | - Number of Vehicles | The basis of the estimates of GDP at regional level is the number of vehicles registered. It is based on the assumption that the transport activities in the region are largely operated on the basis of registered vehicles therein. The share of land transport subsector to the total transport is around 70%. | Dept. of Management |
| 8. Finance | -Bank Transaction | It is assumed that the generation of value added mainly depends on the transaction of financial agencies. However, the regional estimates of GDP from finance subsector are based on the transaction of banks by development regions. | NRB |
| Real Estate | - Real Estate: Number of Total Households | The imputed value of rents of owner occupied dwellings and rented houses has a significant share (more than 70%) in the total value of GDP originated from the Finance and Real Estate sector. | Population Census 1991 - Household Tables |

Table A.2
Contd...

| INDUSTRIAL DIVISION | INDICATORS | TYPES OF DATA / PROCEDURE | SOURCE OF DATA |
|---------------------------|---|--|--|
| 9. Government Services | - The expenditure details on salary and allowance by district | Government services comprise the value added generated from central government and local government. The share of central government is significant (70%). | Financial Compt- roller's Office |
| Private Services | - Number of establishments and other related variables have been used to estimate regional GDP from this subsector. | Private services consist of different types of services produced by private sector, e.g., education, health, clinic, laundry services, etc. | - Business Register - CBS and Comm- ercial Sector Energy Consump- tion Survey, WECS, Ministry of Water Resources |

Notes:

- 1 The estimates of GDP are based on supply side (value added) approach.
- 2 Indicators used in the estimates have been prepared on the basis of the secondary data produced by various concerned agencies.
- 3 The proper industry concept is used to identify the value added generated in the particular geographical area. Therefore, the dimension of inter-regional flow of goods and services is not captured in this estimation.
- 4 This is the first exercise done so far to estimate GDP at this level. Estimates are prepared on the basis of available information as published in publications of the concerned agencies. Several supporting tables can be generated to support the estimated figures.
- 5 The reliability of estimates depends on the quality of data used in generating indicators. Effort has been made to identify and use the most appropriate possible indicators.

Table A.3
GDP estimates by development region, ecological belt, and industry

| | AGRICULTURE | MINING AND QUARRYING | MANUFACTURING | ELECTRICITY, GAS | CONSTRUCTION | TRADE | HOTEL | TRANSPORT & COMMUNICATION | FINANCE | REAL ESTATE | GOVT SERVICE | PRIVATE SERVICE | TOTAL | MID-YEAR POPULATION 1999 | PER CAPITA GDP IN RS | PER CAPITA GDP IN PPP \$ |
|--------------------|----------------|-------------------------|---------------|------------------|---------------|---------------|--------------|------------------------------|---------------|----------------|---------------|--------------------|----------------|-----------------------------|-------------------------|-----------------------------|
| EASTERN | 34,588 | 207 | 4,382 | 788 | 5,371 | 7,442 | 687 | 2,115 | 1,656 | 5,004 | 2,831 | 2,019 | 67,090 | 5,160,724 | 13,000 | 1,070 |
| Mountains | 3,360 | 0 | 12 | 48 | 117 | 583 | 42 | 128 | 100 | 411 | 405 | 122 | 5,327 | 437,261 | 12,182 | 1,003 |
| Hills | 11,498 | 34 | 345 | 195 | 1,115 | 2,066 | 170 | 523 | 410 | 1,601 | 1,074 | 499 | 19,531 | 1,588,855 | 12,292 | 1,012 |
| Tarai | 19,729 | 172 | 4,025 | 546 | 4,139 | 4,794 | 476 | 1,464 | 1,147 | 2,992 | 1,351 | 1,397 | 42,233 | 3,134,607 | 13,473 | 1,109 |
| CENTRAL | 45,315 | 883 | 22,597 | 2,859 | 14,726 | 13,360 | 6,651 | 18,169 | 9,154 | 6,793 | 12,784 | 2,621 | 155,912 | 7,488,691 | 20,820 | 1,713 |
| Mountains | 3,146 | 27 | 43 | 91 | 622 | 553 | 213 | 581 | 293 | 575 | 397 | 84 | 6,626 | 532,839 | 12,435 | 1,023 |
| Hills | 18,355 | 543 | 13,621 | 1,655 | 7,218 | 6,417 | 3,850 | 10,517 | 5,299 | 2,947 | 10,714 | 1,517 | 82,651 | 3,303,850 | 25,017 | 2,059 |
| Tarai | 23,814 | 312 | 8,933 | 1,113 | 6,886 | 6,390 | 2,588 | 7,071 | 3,563 | 3,271 | 1,673 | 1,020 | 66,634 | 3,652,002 | 18,246 | 1,502 |
| WESTERN | 24,761 | 326 | 2,569 | 726 | 7,101 | 4,959 | 781 | 3,087 | 1,374 | 4,203 | 2,653 | 2,105 | 54,645 | 4,400,247 | 12,419 | 1,022 |
| Mountains | 220 | 0 | 4 | 12 | 8 | 39 | 13 | 50 | 22 | 27 | 295 | 34 | 724 | 22,738 | 8,883* | 731 |
| Hills | 15,371 | 46 | 844 | 323 | 1,430 | 2,876 | 347 | 1,371 | 610 | 2,835 | 1,619 | 935 | 28,606 | 2,744,136 | 10,424 | 858 |
| Tarai | 9,170 | 280 | 1,721 | 392 | 5,663 | 2,044 | 421 | 1,666 | 741 | 1,341 | 739 | 1,136 | 25,314 | 1,633,373 | 15,498 | 1,276 |
| MID-WESTERN | 16,200 | 105 | 575 | 136 | 2,648 | 2,996 | 184 | 698 | 467 | 2,532 | 2,401 | 914 | 29,855 | 2,855,167 | 10,456 | 861 |
| Mountains | 1,262 | 0 | 1 | 13 | 83 | 218 | 18 | 69 | 46 | 290 | 544 | 91 | 2,635 | 296,667 | 8,883 | 731 |
| Hills | 6,387 | 63 | 11 | 63 | 1,525 | 1,106 | 85 | 322 | 215 | 1,351 | 1,110 | 421 | 12,658 | 1,405,639 | 9,005 | 741 |
| Tarai | 8,550 | 42 | 563 | 60 | 1,040 | 1,672 | 81 | 307 | 205 | 892 | 748 | 402 | 14,562 | 1,152,860 | 12,631 | 1,040 |
| FAR WESTERN | 11,509 | 164 | 215 | 65 | 3,415 | 2,065 | 188 | 562 | 280 | 1,739 | 1,521 | 734 | 22,458 | 2,055,516 | 10,926 | 899 |
| Mountains | 1,030 | 20 | 0 | 11 | 437 | 381 | 32 | 97 | 48 | 367 | 356 | 126 | 2,907 | 380,548 | 7,638 | 629 |
| Hills | 4,217 | 13 | 1 | 16 | 311 | 526 | 47 | 142 | 71 | 757 | 661 | 185 | 6,948 | 768,293 | 9,043 | 744 |
| Tarai | 6,261 | 131 | 214 | 37 | 2,667 | 1,157 | 109 | 324 | 161 | 615 | 504 | 423 | 12,604 | 906,676 | 13,901 | 1,144 |
| TOTAL | 132,373 | 1,685 | 30,337 | 4,574 | 33,262 | 30,822 | 8,491 | 24,631 | 12,932 | 20,271 | 22,190 | 8,392 | 329,960 | 21,960,345 | 15,025 | 1,237 |

Table A.4**GDP by industrial origin and ecological belt (1998/99) in million Rs.**

| INDUSTRIAL DIVISION | MOUNTAINS | HILLS | TARAI | TOTAL |
|--|---------------|----------------|----------------|----------------|
| Agriculture | 9,018 | 55,828 | 67,527 | 132,373 |
| Mining and quarrying | 47 | 699 | 939 | 1,685 |
| Manufacturing | 60 | 14,822 | 15,456 | 30,338 |
| Electricity, gas, and water | 175 | 2,252 | 2,147 | 4,574 |
| Construction | 1,267 | 11,599 | 20,396 | 33,262 |
| Trade, including hotels and restaurants | 2,092 | 17,490 | 19,731 | 39,313 |
| Transport and communication | 925 | 12,875 | 10,831 | 24,631 |
| Finance insurance and real estate | 2,179 | 16,096 | 14,928 | 33,203 |
| Community, social, and personal services | 2,454 | 18,755 | 9,373 | 30,582 |
| Total | 18,217 | 150,416 | 161,328 | 329,961 |
| Mid-year population | 1,670,054 | 9,810,774 | 10,479,518 | 21,960,346 |
| Per capita Rs | 10,908 | 15,332 | 15,395 | 15,025 |
| Per capita PPP US\$ | 898 | 1,262 | 1,267 | 1,237 |

annex II

POVERTY AND PRO-POOR GROWTH

Table 1
Poverty measures for Nepal 1995/96 (Poverty line of NR 4,404 per person per annum)

| | HEAD-COUNT INDEX (POPULATION BELOW THE POVERTY LINE) | POVERTY GAP INDEX | SQUARED POVERTY GAP INDEX |
|-------------------------|---|-------------------|------------------------------|
| Ecological zone | | | |
| Mountain | 0.56 | 0.185 | 0.082 |
| Hills | 0.41 | 0.136 | 0.061 |
| Tarai | 0.42 | 0.099 | 0.034 |
| Sector | | | |
| Urban | 0.23 | 0.070 | 0.028 |
| Rural | 0.44 | 0.050 | 0.051 |
| National average | 0.42 | 0.121 | 0.050 |

Source: NPC 1998 World Bank 1999

CONSTRUCTION OF PRO-POOR GROWTH INDEX FOR NEPAL DURING 1996/97-1999/2000

The Ninth Plan Mid-term Review has recently come up with the latest estimates of poverty incidence for the first three years of the Ninth Plan (1997-2002). Based on this exercise, the latest estimate of the head-count index of poverty in Nepal is 38 per cent (NPC 2001). This latest estimate of poverty follows the World Bank projection method (World Bank 1999) according to which projection for the head-count index has been made based on the per capita GDP growth rate and population

growth rate (NPC 2001). The pro-poor growth index has been calculated for the period 1996/97-1999/2000 based on the NPC estimates of head-count ratio, per capita GDP and Gini coefficients (table 2). The present exercise is expected to provide some insights to the degree of pro-poorness of the more recent policies in Nepal.

Table 3 presents the calculated values for poverty elasticity, inequality elasticity and thereby the pro-poor growth index. During the period 1996/97-1999/2000, the annual percentage reduction in poverty was 0.976 while the average annual percentage growth

Table 2
Poverty incidence, per capita GDP growth, and Gini coefficient during 1996/97-1999/00

| FISCAL YEAR | POVERTY INCIDENCE (%) | ANNUAL PER CAPITA GDP GROWTH (%) | GINI COEFFICIENT |
|-------------|-----------------------|----------------------------------|------------------|
| 1996/97 | 42.0 | 2.31 | 0.3500 |
| 1997/98 | 41.5 | 1.04 | 0.3535 |
| 1998/99 | 40.1 | 2.47 | 0.3540 |
| 1999/00 | 38.1 | 3.49 | 0.3575 |

Source: Mid-term Evaluation of the Ninth Plan (1997-2002), NPC 2001.

Table 3
Growth and inequality effects on poverty reduction during 1996/97-1999/2000

| INDICATOR | POVERTY INCIDENCE | | | POVERTY ELASTICITY# | EXPLAINED BY GROWTH | INEQUALITY (@) | PRO-POOR GROWTH INDEX (μ) |
|------------------|-------------------|---------|-----------------|---------------------|---------------------|----------------|---------------------------|
| | 1996/97 | 1999/00 | ANNUAL % CHANGE | | | | |
| Head-count ratio | 42.0 | 38.1 | -0.976 | -0.46 | -0.99 | 0.54 | 0.46 |

Source: *Ibid.* # Percentage change in poverty incidence with respect to percentage change in real GDP per capita.

@ As measured by the Gini coefficient.

μ Extent of poverty reduction (poverty elasticity) explained by pure GDP growth effect.

rate in per capita GDP was 2.13 (geometric means are used to compute the annual rates). This gives the value of poverty elasticity of negative 0.46, which suggests that, on average, a 1 per cent growth rate led to a decrease in poverty incidence of 0.46 per cent during this period.

Further, the Gini coefficient data indicate that, during the period under review, the annual percentage change in Gini coefficient was 0.54. Since the poverty elasticity (m) is the sum of growth effect (mg) and inequality effect (mI), this gives a value for growth effect of -0.99. What this means is that if inequality had not

increased, then each 1.0 per cent growth would have induced a poverty reduction at the rate of 0.99 per cent. The pro-poor growth index defined as the ratio of poverty elasticity to the growth effect is calculated as 0.46 (in other words, the extent of poverty reduction explained by the pure GDP growth effect is estimated as 0.46). Following the value judgments described in Kakwani and Pernia (2000:13), this exercise suggests that, in Nepal, during the period 1996/97-1999/2000, economic growth has been moderately pro-poor. Further, during this period, increasing inequality has reduced the impact of growth on poverty by 0.54 per cent.

annex III

PUBLIC EXPENDITURE AND FISCAL DECENTRALIZATION

Table 1
Per capita expenditure in selected sectors in rupees

| SECTOR | NOMINAL | | | REAL (YEAR 2000 PRICES) | | |
|----------------------------|---------|-------|-------|-------------------------|-------|-------|
| | 1991 | 1995 | 2000 | 1991 | 1995 | 2000 |
| Social services | 233.2 | 526.7 | 913.7 | 480.3 | 719.6 | 913.7 |
| <i>of which :Education</i> | 112.6 | 250.1 | 411.1 | 232.0 | 341.8 | 411.1 |
| <i>Health</i> | 35.7 | 73.8 | 152.1 | 73.6 | 100.9 | 152.1 |
| <i>Drinking water</i> | 29.2 | 54.9 | 107.3 | 60.2 | 75.0 | 107.3 |
| Economic services | 663.5 | 701.5 | 919.8 | 1366.6 | 958.4 | 919.8 |
| Police and defense | 110.5 | 177.0 | 297.5 | 227.6 | 241.9 | 297.5 |
| Debt servicing | 130.2 | 300.4 | 442.1 | 268.2 | 410.4 | 442.1 |

Source: Economic Survey, MOF and consultant's calculation.

Table 2
Demand for projects by parliamentarians 2000

| REGION | NO. OF DISTRICTS | NO. OF CONSTITUENCIES | PERCENTAGE SHARE IN TOTAL PROJECT DEMAND | | | | | | TOTAL |
|-------------------|---------------------|--------------------------|--|-----------------|-------------------|-------------------|------------------|---------------|-------|
| | | | ROAD | IRRI- GATION | RIVER TRAINING | DRINKING WATER | ELEC- TRICITY | LOCAL DEV. | |
| Mountains & hills | 9 | 17 | 17.0 | 17.8 | 14.4 | 26.9 | 7.6 | 16.1 | 100.0 |
| Tarai | 4 | 11 | 22.3 | 11.2 | 9.4 | 42.4 | 5.8 | 8.9 | 100.0 |
| Kathmandu valley | 2 | 5 | 45.7 | 0.0 | 10.9 | 41.3 | 2.2 | 0.0 | 100.0 |
| Total | 15 | 33 | 21.0 | 14.1 | 12.4 | 33.5 | 6.6 | 12.4 | 100.0 |

Source: Unpublished information, National Planning Commission.

Table 3
Government budget in relation to GDP

| HEADING \ FISCAL YEAR | SECTORAL CONTRIBUTION | | | PERCENTAGE OF GDP | | |
|--------------------------------------|-----------------------|--------------|--------------|-------------------|-------------|-------------|
| | 1991-95 | 1996-2000 | 1991-2000 | 1991-95 | 1996-2000 | 1991-2000 |
| Total expenditure | 100.0 | 100.0 | 100.0 | 18.7 | 18.8 | 18.7 |
| Regular | 38.6 | 49.3 | 44.0 | 7.2 | 9.2 | 8.2 |
| Development | 61.4 | 50.7 | 56.0 | 11.5 | 9.5 | 10.5 |
| Total receipts | 100.0 | 100.0 | 100.0 | 11.6 | 13.3 | 12.4 |
| Revenue | 85.5 | 86.5 | 86.0 | 9.9 | 11.5 | 10.7 |
| Foreign grants | 14.5 | 13.5 | 14.0 | 1.7 | 1.8 | 1.7 |
| Overall budget deficit | | | | 7.1 | 5.5 | 6.3 |
| Sources of financing deficits | 100.0 | 100.0 | 100.0 | 7.1 | 5.5 | 6.3 |
| Foreign loan | 65.1 | 65.3 | 65.2 | 4.5 | 3.6 | 4.0 |
| Internal loan | 34.9 | 34.7 | 34.8 | 2.5 | 1.9 | 2.2 |
| Banking system | 14.8 | 11.9 | 13.3 | 1.1 | 0.6 | 0.9 |
| Non-Banking system | 6.9 | 10.8 | 8.8 | 0.5 | 0.6 | 0.5 |
| Overdraft | 13.3 | 12.1 | 12.7 | 0.9 | 0.7 | 0.8 |

Source: Economic Survey, MOF.

Table 4
Sectoral classification of government expenditure (growth in %)

| HEADING / FISCAL YEAR | NOMINAL GROWTH RATE | | | REAL GROWTH RATE (AT 1999/00 PRICES) | | |
|---------------------------------------|---------------------|-------------|-------------|--------------------------------------|------------|-------------|
| | 1991-95 | 1996-2000 | 1991-2000 | 1991-95 | 1996-2000 | 1991-2000 |
| General services¹ | 17.0 | 13.4 | 15.2 | 5.7 | 6.5 | 6.1 |
| of which: police | 19.8 | 15.6 | 17.7 | 8.3 | 8.6 | 8.4 |
| Social services | 19.7 | 14.4 | 17.1 | 8.0 | 7.6 | 7.8 |
| Education | 23.8 | 13.3 | 18.6 | 11.8 | 6.6 | 9.2 |
| Health | 18.2 | 19.6 | 18.9 | 6.8 | 12.6 | 9.7 |
| Drinking water | 26.7 | 17.3 | 22.0 | 12.5 | 10.4 | 11.4 |
| Local development | 49.9 | 12.0 | 31.0 | 36.5 | 5.2 | 20.8 |
| Other social services | -7.2 | 24.5 | 8.6 | -15.9 | 17.3 | 0.7 |
| Economic services | 11.7 | 8.5 | 10.1 | 1.3 | 2.0 | 1.6 |
| Agriculture and forestry ² | 14.6 | 0.7 | 7.6 | 3.7 | -5.3 | -0.8 |
| Irrigation | 24.6 | 4.2 | 14.4 | 11.7 | -2.2 | 4.7 |
| Industry and mining | -4.4 | 25.9 | 10.7 | -14.2 | 19.0 | 2.4 |
| Transportation and communication | 20.1 | 5.4 | 12.7 | 8.6 | -1.1 | 3.8 |
| Electricity | 1.3 | 28.8 | 15.1 | -8.5 | 20.8 | 6.2 |
| Others ³ | 162.5 | 18.1 | 90.3 | 140.5 | 10.8 | 75.7 |
| Defence | 14.5 | 11.8 | 13.2 | 3.4 | 5.0 | 4.2 |
| Debt servicing | 23.0 | 10.6 | 16.8 | 10.8 | 3.9 | 7.4 |
| Foreign | 22.9 | 12.5 | 17.7 | 10.8 | 5.8 | 8.3 |
| Domestic | 23.6 | 9.7 | 16.7 | 11.3 | 3.0 | 7.1 |
| Miscellaneous⁴ | 32.4 | 15.4 | 23.9 | 21.7 | 8.6 | 15.2 |
| Total | 14.8 | 11.2 | 13.0 | 3.9 | 4.5 | 4.2 |

Source: Economic Survey, MOF.

Note: 1. Includes general administration, economic administration & planning, constitutional organs, revenue administration, judicial, and foreign services.

2. Includes agriculture, land reform, and forestry.

3. Includes survey and other economic services.

4. Includes loan and investment extended by government.

Table 5
Sectoral classification of government expenditure

| HEADING / FISCAL YEAR | SECTORAL COMPOSITION | | | PERCENTAGE OF GDP | | |
|---|----------------------|--------------|--------------|-------------------|-------------|-------------|
| | 1991-95 | 1996-2000 | 1991-2000 | 1991-95 | 1996-2000 | 1991-2000 |
| General services¹ | 8.6 | 8.7 | 8.7 | 1.6 | 1.6 | 1.6 |
| <i>of which: police</i> | 4.2 | 4.5 | 4.4 | 0.8 | 0.9 | 0.8 |
| Social services | 24.2 | 29.9 | 27.1 | 4.5 | 5.6 | 5.1 |
| <i>Education</i> | 11.9 | 13.7 | 12.8 | 2.2 | 2.6 | 2.4 |
| <i>Health</i> | 3.3 | 4.8 | 4.1 | 0.6 | 0.9 | 0.8 |
| <i>Drinking water</i> | 3.9 | 3.0 | 3.4 | 0.7 | 0.6 | 0.6 |
| <i>Local development</i> | 2.9 | 6.8 | 4.8 | 0.5 | 1.3 | 0.9 |
| <i>Other social services</i> | 2.2 | 1.6 | 1.9 | 0.4 | 0.3 | 0.4 |
| Economic services | 43.3 | 35.3 | 39.3 | 8.1 | 6.6 | 7.4 |
| <i>Agriculture and forestry²</i> | 9.3 | 5.9 | 7.6 | 1.7 | 1.1 | 1.4 |
| <i>Irrigation</i> | 7.2 | 5.3 | 6.3 | 1.3 | 1.0 | 1.2 |
| <i>Industry and mining</i> | 4.7 | 1.2 | 2.9 | 0.9 | 0.2 | 0.6 |
| <i>Transportation and communication</i> | 11.7 | 12.7 | 12.2 | 2.2 | 2.4 | 2.3 |
| <i>Electricity</i> | 6.0 | 8.1 | 7.0 | 1.1 | 1.5 | 1.3 |
| <i>Others³</i> | 4.4 | 2.0 | 3.2 | 0.9 | 0.4 | 0.6 |
| Defense | 5.4 | 4.8 | 5.1 | 1.0 | 0.9 | 1.0 |
| Debt servicing | 13.9 | 14.5 | 14.2 | 2.6 | 2.7 | 2.7 |
| <i>Foreign</i> | 6.6 | 7.4 | 7.0 | 1.2 | 1.4 | 1.3 |
| <i>Domestic</i> | 7.3 | 7.1 | 7.2 | 1.4 | 1.3 | 1.3 |
| Miscellaneous⁴ | 4.6 | 6.8 | 5.7 | 0.9 | 1.3 | 1.1 |
| Total | 100.0 | 100.0 | 100.0 | 18.7 | 18.8 | 18.7 |

Source: Economic Survey, MOF.

Note: 1. Includes general administration, economic administration & planning, constitutional organs, revenue administration, judicial, and foreign services.

2. Includes agriculture, land reform, and forestry.

3. Includes survey and other economic services.

4. Includes loan and investment extended by government.

Table 6
Government budget allocation ratio

| ITEMS / FISCAL YEAR | 1990/91E | 1992/93E | 1996/97E | 1999/00E | 1999/00\$ | INT'L NORM |
|---|-------------|-------------|-------------|-------------|-------------|------------|
| Public exp. ratio (PE/GNP) | 16.1 | 19.2 | 20.2 | 19.7 | 16.9 | 25 |
| Social sector allocation ratio (SSA/PE) | 23.4 | 21.8 | 29.2 | 31.1 | 32.1 | 40 |
| Education | 10.5 | 12.7 | 13.5 | 13.2 | 14.0 | |
| Health | 4.4 | 3.6 | 6.0 | 5.7 | 5.2 | |
| Water supply | 3.5 | 3.6 | 2.5 | 3.5 | 3.7 | |
| Local development | 1.9 | 1.9 | 7.1 | 6.6 | 6.3 | |
| Others | 3.0 | 0.0 | 0.1 | 2.1 | 2.9 | |
| Priority social sector allocation ratio (PSSA/SSA) | 52.5 | 67.7 | 59.1 | 49.4 | 49.5 | 50 |
| Education | 55.3 | 66.2 | 79.3 | 54.5 | 53.0 | |
| Health | 69.4 | 74.6 | 58.9 | 50.7 | 53.7 | |
| Water supply | 82.9 | 83.4 | 50.4 | 68.8 | 75.5 | |
| Local development | 25.6 | 35.0 | 23.5 | 39.4 | 39.8 | |
| Others | 0.0 | 45.8 | 96.7 | 12.2 | 14.1 | |
| Human allocation ratio (HPS/GNP) | 2.0 | 2.8 | 3.5 | 3.0 | 2.7 | 5 |
| Education | 0.9 | 1.6 | 2.2 | 1.4 | 1.3 | |
| Health | 0.5 | 0.5 | 0.7 | 0.6 | 0.5 | |
| Water supply | 0.5 | 0.6 | 0.3 | 0.5 | 0.5 | |
| Local development | 0.1 | 0.1 | 0.3 | 0.5 | 0.4 | |
| Others@ | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | |
| 20/20 (HPS/PE) | 12.3 | 14.8 | 17.3 | 15.4 | 15.9 | 20 |

Sources: Economic Survey, Details of Expenditure Account, and Budget Speech (various issues).

Note: e= budget estimate and \$ =actual spending, HPS = Human Priority Spending.

Assuming 25% of Rural Development Fund to go directly for human development.

@ Include some portion of Labor Ministry and other social services.

Table 7
Ministerial expenditure directly related to the poor 1999/00¹ (Rs million)

| | TOTAL EXPENDITURE (A) | TARGETED EXPENDITURE (B) | SHARE OF (B) TO (A) |
|--|--------------------------|-----------------------------|---------------------|
| A. Name of Ministries | | | |
| 1. Finance (including investment on PEs) | 7,983.2 | 614.3 | 7.7 |
| 2. Industry, commerce and supply | 1,147.3 | 163.5 | 14.2 |
| 3. Agriculture and co-operative | 2,224.4 | 624.5 | 28.1 |
| 4. Population and environment | 34.2 | 14.2 | 41.5 |
| 5. Water resources | 3,034.0 | 2,871.0 | 94.6 |
| 6. Physical planning and construction | 6,832.6 | 2,359.8 | 34.5 |
| 7. Land reform | 520.2 | 44.8 | 8.6 |
| 8. Women, children and social welfare | 206.5 | 145.2 | 70.3 |
| 9. Forest and soil conservation | 1,304.6 | 383.6 | 29.4 |
| 10. Education and sports | 9,606.6 | 7,134.0 | 74.3 |
| 11. Local development | 4,849.3 | 3,880.4 | 80.0 |
| 12. Health | 3,371.8 | 2,425.3 | 71.9 |
| 13. Labor and transportation | 94.6 | 36.9 | 39.0 |
| Sub-Total | 41,209.0 | 20,697.2 | 50.2 |
| B. National total expenditure | 66,272.5 | 20,697.2 | 31.2 |
| Targeted expenditure as percent of total expenditure | | 31.2 | |

Source: Details of Expenditure Account (Red Book), MOF.

Table 8
Allocated and actual spending in selected pro-poor programs

| PROGRAMS | 1999/00 | | | 2000/01 | | |
|--------------------------------------|------------------------|------------|-----------------------|------------------------|-------------------------|-----------------------|
| | BUDGET ESTIMATE (A) | ACTUAL (B) | ACTUAL TO ESTIMATE | BUDGET ESTIMATE (A) | ACTUAL (B) ² | ACTUAL TO ESTIMATE |
| Basic and primary education | 4368.1 | 2839.5 | 65.0 | 9911.6 | 6877.5 | 69.4 |
| Women health volunteers | 70.5 | 29.8 | 42.3 | 80.2 | 8.7 | 10.8 |
| Nutrition program (center) | 380.9 | 214.7 | 56.4 | 404.6 | 57.7 | 14.3 |
| Nutrition program (district) | 46.7 | 37.7 | 80.7 | 56.6 | 20.0 | 35.3 |
| Rural infrastructure project | 2246.2 | 1539.4 | 68.5 | 2482.4 | 2011.8 | 81.0 |
| Rural infrastructure project | 1112.9 | 562.3 | 50.5 | 811.7 | 617.7 | 76.1 |
| Rural agricultural road | 1500.0 | 685.4 | 45.7 | 2000.0 | 530.0 | 26.5 |
| Second irrigation sector project | 5443.0 | 2553.3 | 46.9 | 6893.4 | 3977.4 | 57.7 |
| Nepal irrigation sector project | 8920.5 | 6350.5 | 71.2 | 10763.7 | 7684.6 | 71.4 |
| Underground water irrigation project | 1000.0 | 207.2 | 20.7 | 1153.0 | 756.2 | 65.6 |
| Underground shallow tubewell | 1200.0 | 223.8 | 18.7 | 150.0 | 80.0 | 53.3 |
| Underground deep tubewell | 800.0 | 63.5 | 7.9 | 900.0 | 700.0 | 77.8 |
| Leasehold forestry | 350.9 | 275.0 | 78.4 | 414.1 | 343.1 | 82.9 |
| Hill community forestry | 521.0 | 397.8 | 76.4 | 408.5 | 334.4 | 81.9 |
| Hill leasehold and grazing dev. | 350.0 | 0.0 | 0.0 | 350.0 | 262.5 | 75.0 |
| Third livestock project | 800.0 | - | - | 1500.0 | 1080.0 | 72.0 |
| Underground water and irrigation | 140.0 | - | - | 140.0 | 100.8 | 72.0 |
| West tarai poverty reduc. program | 815.0 | 553.4 | 67.9 | 1262.0 | 1072.7 | 85.0 |
| Poverty alleviation fund | 100.0 | 4.80 | 4.8 | 100.0 | 20.0 | 20.0 |

Source: Details of Expenditure Account (Red Book), of various years, MOF.

¹ The list of projects and programs is in Table 12

² Revised estimate.

Table 9
Budget allocation to central and district level programs 2000

| SELECTED MINISTRIES | BUDGET CLASSIFICATION (IN PERCENT SHARE) | | COMPOSITION OF DEVELOPMENT EXP. | | CLASSIFICATION OF DISTRICT LEVEL DEVELOPMENT EXP. | | | ACTUAL DEVELOPMENT EXPENDITURE RATIO | | |
|-----------------------------------|---|------|------------------------------------|-------|--|--------|--------------|---|-------|-------|
| | REGULAR | DEV. | CENTRAL | DIST. | EMPLOYEE | OTHERS | CAPITAL EXP. | CENTRAL | DIST. | TOTAL |
| Total national budget | 45.8 | 54.2 | 82.3 | 17.7 | 13.2 | 21.2 | 65.6 | 73.1 | 88.9 | 75.9 |
| Line ministries total (a to g) | 36.1 | 63.9 | 57.6 | 42.4 | 13.2 | 21.3 | 65.5 | 127.4 | 89.0 | 111.1 |
| a. Housing and construction | 4.7 | 95.3 | 69.5 | 30.5 | 21.9 | 4.8 | 73.3 | 303.4 | 93.7 | 239.4 |
| b. Industry and commerce | 34.1 | 65.9 | 64.9 | 35.1 | 55.4 | 36.0 | 8.7 | 258.8 | 86.8 | 198.4 |
| c. Agriculture & co-operative | 4.1 | 95.9 | 74.9 | 25.1 | 55.3 | 35.2 | 9.5 | 71.6 | 93.5 | 77.1 |
| d. Forest | 60.9 | 39.1 | 55.3 | 44.7 | 37.4 | 9.1 | 53.5 | 82.4 | 97.8 | 89.3 |
| e. Education | 67.6 | 32.4 | 84.3 | 15.7 | 6.1 | 73.6 | 20.3 | 89.0 | 69.6 | 85.9 |
| f. Local development | 0.7 | 99.3 | 6.0 | 94.0 | 1.1 | 15.1 | 83.8 | 91.9 | 87.7 | 87.9 |
| g. Health | 36.1 | 63.9 | 87.3 | 12.7 | 43.2 | 38.2 | 18.6 | 71.8 | 87.4 | 73.8 |

Source: Details of Expenditure Account (Red Book), MOF

Table 10
Structure of VDC expenditure (32 VDCs of 12 districts)

| | TOTAL EXPENDITURE | | | | SELF FINANCED EXP. | | | |
|------------------------|-------------------|--------|------------------|------|--------------------|-------|------------------|------|
| | RS IN THOUSAND | | PERCENTAGE SHARE | | RS IN THOUSAND | | PERCENTAGE SHARE | |
| | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 |
| Salary | 5,845 | 4,201 | 20.6 | 18.5 | 2,206 | 1,202 | 18.2 | 20.9 |
| Office expenses | 3,630 | 2,521 | 12.8 | 11.1 | 1,115 | 699 | 9.2 | 12.2 |
| Allowances | 2,124 | 3,238 | 7.5 | 14.3 | 977 | 167 | 8.1 | 2.9 |
| Public const. & repair | 10,122 | 7,059 | 35.7 | 31.2 | 4,952 | 2,487 | 40.9 | 43.3 |
| Program allowances | 309 | 214 | 1.1 | 0.9 | 29 | 0 | 0.2 | 0.0 |
| Capital allowances | 2,953 | 2,776 | 10.4 | 12.3 | 516 | 253 | 4.3 | 4.4 |
| Social security | 969 | 1,116 | 3.4 | 4.9 | 162 | 200 | 1.3 | 3.5 |
| Others | 2,430 | 1,531 | 8.6 | 6.8 | 2,136 | 734 | 17.7 | 12.8 |
| Total | 28,382 | 22,656 | 100 | 100 | 12,093 | 5,742 | 100 | 100 |

Source: Local Government Fiscal Commission's Report, 2000.

Table 11
Income and expenditure pattern of selected VDCs 1999

| VDC, DISTRICT | RESOURCES GENERATED BY VDC (A) | | | TOTAL VDC EXPENDITURE (B) | | | RATIO (A/B) |
|-------------------------|--------------------------------|---------|-------|---------------------------|---------|-------|-------------|
| | LOCAL TAX | OTHERS# | TOTAL | OWN SOURCE | GRANTS* | TOTAL | |
| 1. Pathamari, Jhapa | 36.0 | 40.4 | 76.4 | 0.0 | 979.0 | 979.0 | 7.8 |
| 2. Phulkattik, Siraha | 44.0 | 5.0 | 49.0 | 41.0 | 744.0 | 785.0 | 6.2 |
| 3. Biranthi, Parsa | 12.0 | 0.0 | 12.0 | 382.0 | 0.0 | 382.0 | 3.1 |
| 4. Bhorle, Rasuwa | 9.0 | 0.0 | 9.0 | 0.0 | 941.0 | 941.0 | 1.0 |
| 5. Nalang, Dhading | 12.0 | 8.0 | 20.0 | 398.0 | 0.0 | 398.0 | 5.0 |
| 6. Shiwalaya, Parbat | 0.0 | 25.0 | 25.0 | 25.0 | 729.0 | 754.0 | 3.3 |
| 7. Arthung Myagdi | 51.0 | 18.0 | 69.0 | 245.0 | 452.0 | 697.0 | 9.9 |
| 8. Ghatan, Myagdi | 3.0 | 5.0 | 8.0 | 0.0 | 615.0 | 615.0 | 1.3 |
| 9. Haitaraj, Baitadi | 4.0 | 0.0 | 4.0 | 5.0 | 590.0 | 595.0 | 0.7 |
| 10. Chhaling, Bhaktapur | 144.0 | 57.0 | 201.0 | 759.0 | 0.0 | 759.0 | 26.5 |
| Average resources | 31.5 | 15.8 | 47.3 | 185.5 | 505.0 | 690.5 | 6.5 |
| Per capita resources | 5.4 | 2.7 | 8.2 | 32.0 | 87.1 | 119.1 | |

Source: Local Government Fiscal Commission's Report, 2000.

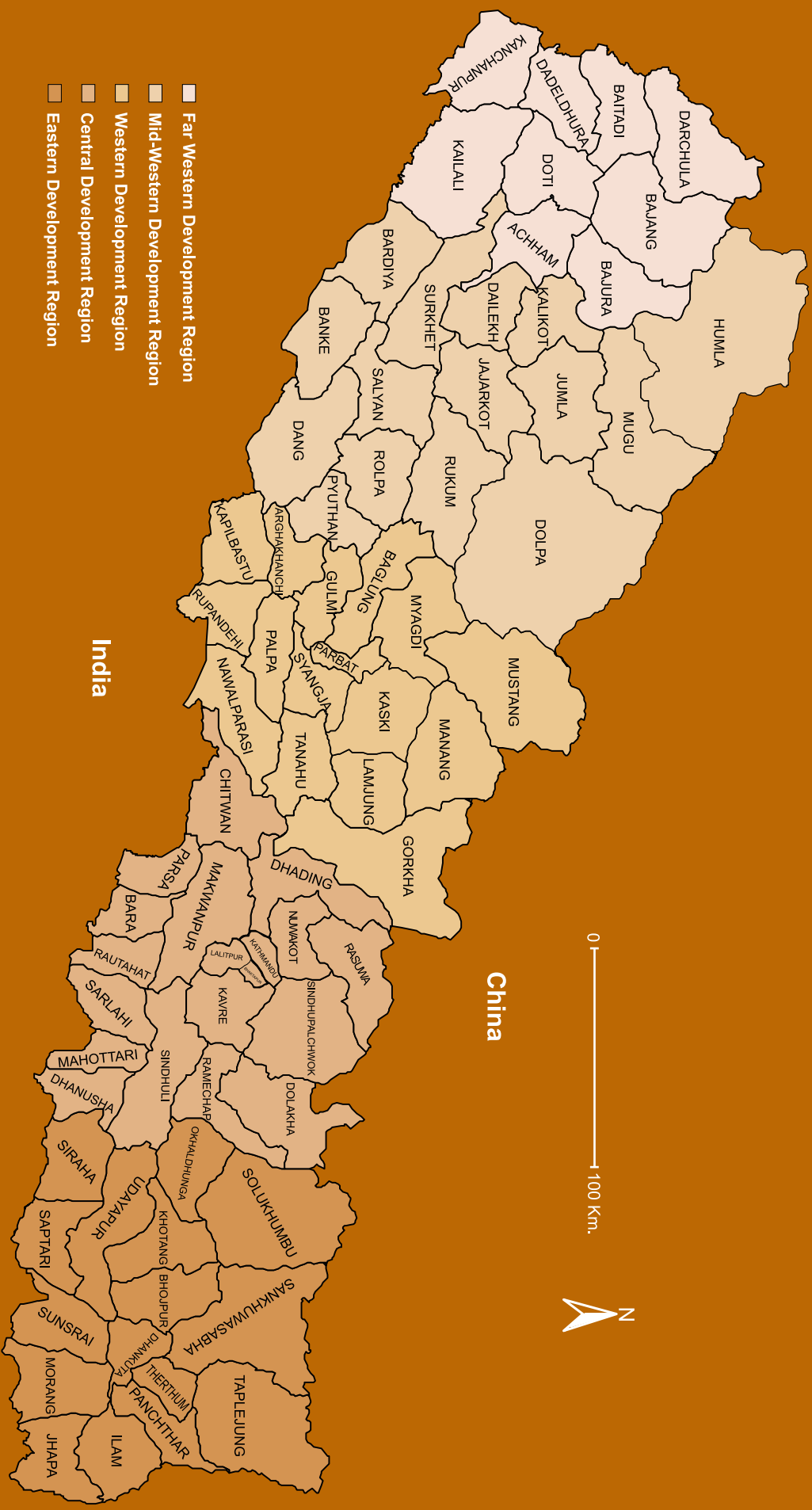
Includes (a) service charge; (b) fees and forfeitures; and (c) auction/selling.

* mostly accounted for (a) machinery equipment, (b) public property construction and improvement.
(c) capital subsidy and (d) a few amounts for personal grants.

Table 12
Ministry-wise classification of pro-poor expenditure – 2000

| | |
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| <p>A. MINISTRY OF FINANCE</p> <ol style="list-style-type: none"> 1. Irrigation allowance 2. Small Farmer Development Project 3. Bio-gas production 4. Micro-hydro and Alternative Energy Projects 5. Rural Micro Finance Programs 6. Livestock Insurance 7. Hill Area Leasehold Forestry Project 8. Western Tarai Poverty Alleviation Projects 9. Other Rural Electrification <p>B. MINISTRY OF INDUSTRY, COMMERCE AND SUPPLY</p> <ol style="list-style-type: none"> 1. Cottage and Small Industry Department (Center, District) 2. Cottage and Small Industry Program (Committee) 3. Cottage and Small Industry Training Centre <p>C. MINISTRY OF AGRICULTURE AND CO-OPERATIVE</p> <ol style="list-style-type: none"> 1. Female Farmer Development Programs 2. Rural Market Development Projects 3. Upper Sagarmatha Agriculture Development Project 4. Silk Farming Development Program 5. Food, Nutrition and Technology Program 6. Special Small Irrigation Programs 7. Veterinary Service Programs 8. Hill Area Leasehold Forestry and Grazing Project 9. Veterinary Training Programs 10. Third Livestock Development Projects Office <p>D. MINISTRY OF POPULATION AND ENVIRONMENT</p> <ol style="list-style-type: none"> 1. Environment Preservation Program <p>E. MINISTRY OF IRRIGATION</p> <ol style="list-style-type: none"> 1. All types of District Level Irrigation Projects and Programs 2. Flood Control and Underground Shallow Tubewell Programs <p>F. MINISTRY OF PHYSICAL PLANNING AND CONSTRUCTION</p> <ol style="list-style-type: none"> 1. Feeder Roads 2. Rural Drinking Water Fund 3. All Drinking Water Projects under ADB Fourth Round 4. All programs/projects under district level <p>G. MINISTRY OF LAND REFORM AND MANAGEMENT</p> <ol style="list-style-type: none"> 1. All programs/projects under Land Reform <p>H. MINISTRY OF WOMEN, CHILD AND SOCIAL WELFARE</p> <ol style="list-style-type: none"> 1. Women Development Programs (Center and district level) 2. Women Empowerment/Skill Dev. Program 3. Jagriti (Women Income Earning) Program | <p>I. MINISTRY OF FOREST</p> <ol style="list-style-type: none"> 1. Environment and Forestry Promotion Program (Co-ordinator Office) 2. Forest Management Work Plan 3. National and Leasehold Forestry Dev. Prog 4. Forest Preservation and Improvement 5. Hill Leasehold Forestry and Grazing Dev. Pro. 6. Churia Forest Development Program 7. Forestry Awareness and Publicity programs 8. Resunga and Tikauli Training Centre 9. All district level programs - Forestry 10. All district level programs - Soil Conservation <p>J. MINISTRY OF EDUCATION AND SPORTS</p> <ol style="list-style-type: none"> 1. Primary Education 2. Different Secondary and Lower Secondary School Programs 3. Special Education Council 4. Basic and Primary Education Programs/Projects 5. Physical Service Extension Project 6. Primary Education Development Project 7. Secondary Education Project 8. Non-Formal Education 9. National Literacy Campaign 10. Population Education 11. All district level programs <p>K. MINISTRY OF LOCAL DEVELOPMENT</p> <ol style="list-style-type: none"> 1. Social Security (senior citizen, widow, and physically disabled) 2. Remote Area Development Program 3. Rural Infrastructure Development Program 4. National Religious and Praja Vikas Program 5. Special Area Development Program 6. Upechhit, Utpidit ra Dalitbarga Utthan Program 7. <i>Bisheshwor with the Poor</i> 8. All district level programs <p>L. MINISTRY OF HEALTH</p> <ol style="list-style-type: none"> 1. District Health Post, Health Post and Sub-Health Posts 2. Health Center and Primary Health Centers 3. Health/Sub-Health Posts 4. All programs/projects under Health services 5. All district level programs <p>M. MINISTRY OF LABOUR AND TRANSPORTATION</p> <ol style="list-style-type: none"> 1. Skill Development Training Program 2. Vocational Training Centres <p>N. OTHERS (NPC)</p> <ol style="list-style-type: none"> 1. Poverty Alleviation Fund |
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NEPAL





Although public policy in Nepal takes human development as its overarching goal, the country's citizens continue to suffer from low life expectancy, low literacy and living conditions that deny them dignity. In short, Nepal's levels of human development remain among the lowest in the world. Poverty perpetuates itself because of inequity and inequality in the distribution of resources and opportunities.

Vast disparities in the ownership of productive assets – both capital and non-capital – correlate closely with a lack of broad policy “ownership” and the participation of most Nepalis in allocating public resources. Further, an absence of transparency and accountability results in misusing and wasting public resources – which diminishes poverty reduction efforts. Non-participation, opaque decision-making processes, and sharp shortcomings in accountability add up to weak governance.

The *Nepal Human Development Report 2001* explores the twin concerns of *Poverty Reduction and Governance* through the lens of human development. It draws on the country's heritage in social mobilization to show how human development and good governance can create a “virtuous cycle”. As governance improves – as resource allocation becomes more equitable – poverty declines and human development levels rise. Conversely, as health, education and living conditions improve, people's capacity to participate in decision-making processes grows, and citizen ownership of governance bodies and institutions expands, producing greater transparency and equity in the distribution of resources and heightened effectiveness and efficiency in service delivery.

There are no “quick fixes” here. As the Report demonstrates, working towards good governance – people's ownership of the processes that shape their lives — is a complex, arduous undertaking. Without this effort, though, Nepal's battle against poverty may end as a lost cause. And, as the Report amply illustrates, it is too promising a campaign to abandon.