Nepal SCD
Supplemental Annex
In the last 20 years Nepal has secured impressive progress in reducing poverty.

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<tbody>
<tr>
<td></td>
<td>Poverty Headcount Rate (% of Population)</td>
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<tr>
<td>1995-96</td>
<td>41.8%</td>
<td>63.8%</td>
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<tr>
<td>2003-04</td>
<td>30.8%</td>
<td>49.4%</td>
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<tr>
<td>2010-11</td>
<td>12.5%</td>
<td>30.8%</td>
<td>25.2%</td>
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<tr>
<td>Period</td>
<td>Pace of Poverty Reduction (annual percentage point change)</td>
<td></td>
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<tr>
<td>95/96 - 03/04</td>
<td>1.36%</td>
<td>1.80%</td>
<td></td>
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<tr>
<td>03/04 - 10/11</td>
<td>2.62%</td>
<td>2.66%</td>
<td></td>
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<tr>
<td>95/96 – 10/11</td>
<td>1.96%</td>
<td>2.20%</td>
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Nepal has also made impressive gains in education and health, and on many measures, performs relatively well compared to structural peers.

This has been achieved despite low growth and almost no productivity growth during the last 20 years.
Remittances directly account for 27% of all poverty reduction from 1996 to 2011, and high rates of migration also had indirect impacts on poverty.

An increase in the migration rate of 10 percent reduce the village poverty rate by 7 percentage points. This estimate suggests that migration rates to Gulf-Malaysia explains 40 percent of the actual decline in poverty between 2001 and 2011.


Indirect impact of migration: an increase in village migration by 10 percentage points increases wages by 25 percent, largely driven by increase in agricultural wages and non-farm wages for women

Shrestha, M. 2017. The impact of large-scale migration on poverty, expenditures, and labor market outcomes in Nepal
Indirect impact of migration: migration reduced labor force participation (LFP), estimates vary but suggest that LFP of remaining members of households with migrants fell.

Higher village migration rates increase LFP among households with migrant members, but the impact is weaker than for households without migrants.

Wage employment falls, self-employment increases, hours supplied fall, among households with migrants. (Another study also documents similar results, Lokshin and Glinskaya, WBER 2009)

Shrestha, M. 2017. The impact of large-scale migration on poverty, expenditures, and labor market outcomes in Nepal

Indirect impact of migration: remittances enabled increased investments in health and education, particularly female education
Other factors also contributed to Nepal’s progress: progress on health and education was aided by an increase in community and private schools. 85% of primary and lower secondary enrollment is in community schools and the number of community schools has increased rapidly to keep up with increasing enrollment rates.

And increased private spending: private expenditure accounts for 55 percent of total expenditure in education ... making private contributions to education some of the highest in the world.
Private expenditure also accounts for 60 percent of total expenditure in health ... making private contributions to health some of the highest in the world

Although the share of public spending on health and education is low, public spending was maintained during a decade of conflict and increased post-2006
Higher public spending on education and health allowed the government to remove user fees which substantially increased access to basic services.


| Table 1 Increase in deliveries (%), by type and level, comparing 10 months before with 10 months after Aama |
|-------------------------------------------------|---|---|---|---|---|
| Facilities and notes | % increase in normal deliveries (mean increase in numbers per facility) | % increase in complicated deliveries (mean increase in numbers per facility) | % increase in caesarean sections (mean increase in numbers per facility) | % increase in total deliveries (mean increase in numbers per facility) |
| Central level | 20% (2251) | 2.3% (45) | 19% (477) | 18% (2773) |
| Regional level | 18% (768) | 42% (130) | −11% (−158) | 12% (740) |
| Zonal level | 14% (422) | 20% (65) | 30% (231) | 18% (717) |
| District level | 35% (122) | 30% (9) | 271% (10) | 37% (140) |
| Mission hospital | 125% (330) | 185% (89) | 132% (62) | 134% (481) |
| Primary health care centre (PHCC) | 11% (17) | 61% (4) | n.a. | 12% (20) |
| Health post | 18% (16) | Initiated by some facilities | n.a. | 24% (21) |

Source: health facility registers.
n.a. = not applicable.
SBA = Skilled Birth Attendant.
Although public spending on education and health increased, government spending on health and education remains below peers.
Despite welfare gains, there is an urgent need to change Nepal’s development model: Growth opportunities are being missed resulting in slow growth.

Business as usual would result in the trend rate of growth slowing to an average 3 percent per year from 2017 to 2030.

Inequities that underpin fragility have not yet been addressed

Rights, equity and inclusion dominate the constitution in 2015 much more than in 1990 highlighting the importance of this agenda in Nepal today

Rates of international migration are higher for groups that are less favored in the domestic job market (such as Janajati and Muslims)


Welfare gains are vulnerable to natural disasters and other uninsured risks

45% of Nepali are vulnerable to becoming poor.


Welfare gains are vulnerable to natural disasters and other uninsured risks (2)

Out of pocket spending on health care comprises 3-4% of expenditure of those just above the poverty line, pushing many into poverty

There are also opportunities and risks arising from the demographic transition that Nepal is undergoing.

Part B: Elements of a new approach

1. Encouraging political inclusion, reducing institutional capture, and eliminating clientelism.
2. Promoting private sector investment to create more and better jobs.
3. Harnessing the potential of natural resources.
4. Ensuring all Nepalese are equally able to invest in and use human capital.
5. Increasing resilience to natural disasters and health shocks.
6. Getting more from migration.
Area 1: Encouraging political inclusion, reducing institutional capture, and eliminating clientelism

Governance has deteriorated in Nepal

Source: World Governance Indicators
Area 1: Encouraging political inclusion, reducing institutional capture, and eliminating clientelism

Firms in Nepal have lower rates of taxation than regional and structural peers

Source: Find my friends
Area 2: Promoting private sector investment to create more and better jobs

Political instability and lack of infrastructure are major constraints to firm growth and job creation.
FDI is low
Area 2: Promoting private sector investment to create more and better jobs

Tariffs are high

Remittances have contributed to real exchange rate appreciation and increasing real wages which reduce export competitiveness.

Source: World Bank, 2017. CEM
Access to finance is worse in Nepal than in South Asia on average, and is worse for smaller firms and women-owned enterprises.
Area 3: Harnessing the potential of natural resources

Nepal has untapped comparative advantage in production on non-traditional higher value crops in areas of higher elevation

Growth in agriculture has been low and volatile driven by high prices and favorable monsoons rather than any growth in productivity.

Table 2.1 Decomposition of Changes in Crop Income between 2003/04 and 2010/11

<table>
<thead>
<tr>
<th></th>
<th>Nepal</th>
<th>Terai</th>
<th>Hills</th>
<th>Mountain</th>
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<tbody>
<tr>
<td>Change in crop income</td>
<td>0.21</td>
<td>0.35</td>
<td>0.07</td>
<td>0.32</td>
</tr>
<tr>
<td>Contribution of land</td>
<td>-0.02</td>
<td>0.00</td>
<td>-0.01</td>
<td>-0.11</td>
</tr>
<tr>
<td>Contribution of yield</td>
<td>0.05</td>
<td>0.14</td>
<td>-0.07</td>
<td>0.23</td>
</tr>
<tr>
<td>Contribution of price</td>
<td>0.18</td>
<td>0.21</td>
<td>0.15</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Source: Authors calculations,

Area 3: Harnessing the potential of natural resources

Cereal yields are low compared to neighboring countries, even when comparing production in lowland Nepal to other lowland neighbors.

Area 3: Harnessing the potential of natural resources

Diversification from cereals towards higher productivity fruits and vegetables has been limited

The area allocated to paddy fell from 76 percent in 2003/4 to 72 percent in 2010/11. There has been a modest increase in diversification, mainly driven by changes in the Hills (although the mountains are still the most diversified).

The share of crop produced for market falls significantly with distance

Area 3: Harnessing the potential of natural resources

Input use is relatively high (4 out of 5 households use fertilizer) and with a few exceptions do not show large gradients across consumption quintiles.

Access to good sanitation and clean water is relatively good in Nepal.
Starting primary school on time, finishing primary school on time, being well-nourished in early childhood, having clean water to drink, adequate sanitation and electricity are in large part determined by a child’s gender, parental wealth and education, and location.

Circumstances of birth determine investments in a child’s education...

Goma is a girl, born in rural Kalikot. Her parents are illiterate, belong to the Dalit community and are in the bottom 20 percent of Nepal’s wealth distribution.

Champa is also a girl born to a household otherwise very similar to Goma’s. But Champa’s parents are from a village in Siraha.

Avidit is a boy born to an upper caste household in urban Kathmandu. Both his parents have a university education and come from affluent backgrounds.

Analysis of performance in national examinations such as the SLC or the National Assessment of Student Achievement (NASA) administered to eight-graders, show the odds of passing to be skewed in favor of children with favorable birth circumstances.

Contribution to inequality (percent)

- Pass Grade 8 Mathematics: 38%
- Pass Grade 8 Nepali: 27%
- Pass Grade 8 Science: 29%
- Passing School Leaving certificate: 45%

55-73% of inequality is explained by circumstances of birth.

School quality more generally, proxied by the education of the school head, falls with remoteness perhaps reflecting the absence of private education provision in more remote areas or the challenge of providing high quality public services in remote locales.

Area 4: Ensuring all Nepalese are equally able to invest in and use human capital

Providing basic secondary health services in remote locations is similarly challenging.

Kiran Regmi, Senendra Upreti, Maureen Dar Iang, Hom Nath Subedi, Devi P Prasai, Kapil Babu Dahal, Chhaya Jha, Shilu Aryal, Swaraj Rajbhandari, Rachel Phillipson, Stephen Keeling, Alison Dembo Rath, and Deborah Thomas. October 2013. A study on access to maternal, neonatal, and child health services in remote areas of Nepal: consolidated report of findings. (Note VDC is Village Development Committee).
Household survey data collected in rural Nepal in 2016 shows that spending on health and education and attendance at private school increases with wealth.

**Area 4: Ensuring all Nepalese are equally able to invest in and use human capital**

Women have high labor force participation, but are in lower paid and lower quality jobs than men

“In the 1990s Nepal had the highest recorded rate of child stunting in the world, with around 60 percent of children younger than 5 years being stunted, many of them severely so. From 2001 to 2011 Nepal achieved the fastest recorded reduction in child stunting in the world, reducing child stunting from 56.6 to 40.0, a reduction of 1.66 points per year.”

A number of places with the highest rates of malnutrition are places with the highest rates of diarrheal disease.

Prevalence of stunting

Prevalence of diarrhea

Area 4: Ensuring all Nepalese are equally able to invest in and use human capital

Nepal performs well in providing primary health services, but less well in more complex care provision

Source: WDI using Find my Friends
Area 4: Ensuring all Nepalese are equally able to invest in and use human capital

Grade-specific literacy test scores are low, but better than several other countries

Area 4: Ensuring all Nepalese are equally able to invest in and use human capital

The quality of education system and school management scores are at the same level as structural peers (although lower than the regional average).

Source: WDI using Find my Friends
Area 4: Ensuring all Nepalese are equally able to invest in and use human capital

Few firms provide training

Nepal Growth Diagnostic 2014 using Enterprise Survey data
Climate related risks in Nepal are high

- Floods and Landslides—Estimated Annual Loss of USD 14.7m (2001-2007)

- Glacial Lake Outburst Floods (GLOFs) and Landslides – Significant national and regional risk
  - The Himalayan range in Nepal constitutes 33,000 sq.km of the estimated 110,000 sq.km of glaciated area.
  - Glacier thinning and retreat in the Himalayas has resulted/and continuing to result in the formation of new glacial lakes and the enlargement of existing ones. These are very unstable and subject to catastrophic drainage causing damage to lives and assets downstream.
  - Nepal has experienced **24 GLOF events in the recent past**, several of which have caused considerable damage and loss of life
    - the Bhote Koshi Sun Koshi GLOFs of 1964 and 1981. **Damaged the only road link to China and disrupted transportation for several months**
    - the Dig sho GLOF of 1985. Destroyed the nearly completed **Namche Small Hydroelectric Project**
    - Approximately 26 potentially dangerous lakes exist. Tsho Rolpa and Imja Tso identified for continued and more intensive study
  - Himalayan glaciers are water reservoirs for the entire South Asian sub-region and regulate water resources in the region. Changing dynamics of the Himalayan glaciers is a significant risk to water resources in the country and the region, that is already water-stressed.

**Imja Tso glacial lake**
Climate related risks in Nepal are high

- **Floods and Landslides**– Estimated Annual Loss of USD 14.7m (2001-2007)

- **Floods and Landslides in non-Himalayan region**
  - 80% of Nepal’s rainfall (159-5000mm per annum) occurs during monsoon period (June-September), the timing has become unpredictable recently
  - Projections affirm that risks of flooding will increase considerably in river basins of Nepal. Global Circulation Model projects a wide range of precipitation changes, especially in the monsoon, 14–40% by the 2030s increasing to 52–135% by the 2090s
  - Severe *urban and rural* issue. Range of impacts:
    - Personal security (47% of flood victims die due to drowning, loss of income, diseases)
    - Buildings and infrastructures (loss of rural houses and roads, inundation of urban roads-affecting transport, economies, damages to hydroelectric plants, industries, damage to ancient cultural heritage)
    - Agricultural production (86% of the population relies on agriculture, loss of crops and livestock, uncertainty in cropping patterns, pests)
    - Marginalized populations in Nepal continue to live and settle near rivers, roads and steep slopes. They own and cultivate at risk lands.
The nature of risk varies across regions: drought has the largest monetary and welfare impact in the Tarai

Public safety nets are not well-placed to help protect households. Existing government transfers are poorly targeted to poor households.

Percent of people ages 15+ that received government transfers in the last year

Source: Findex, 2014
Area 5: Increasing resilience to natural disasters and health shocks

Removing social assistance or cash transfer programs would cause poverty to rise by only 0.5 percentage points.

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<thead>
<tr>
<th></th>
<th>Poverty Rate</th>
<th>Gini Coefficient</th>
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<tbody>
<tr>
<td>Current</td>
<td>25.2</td>
<td>32.8</td>
</tr>
<tr>
<td>In absence of social assistance</td>
<td>25.7</td>
<td>33.0</td>
</tr>
<tr>
<td>In absence of cash transfer programs</td>
<td>25.6</td>
<td>32.9</td>
</tr>
</tbody>
</table>
Area 5: Increasing resilience to natural disasters and health shocks

Transfers from family and friends are the most common source of cash in the face of emergencies

Source: Findex, 2014
Nepali save, and save in formal accounts as much or more than peers. Savings rates are a bit lower among the poorest.
The sources of borrowing that poorer households have access to have high interest rates.

Loan Sources and Interest Rates, Non-metropolitan Nepal, 2016

Migration entails a sectoral shift in employment

Source: IOM, 2016
Most returnees that would like to stay in Nepal would like to start a new business

Do you want to work abroad again?

- Difficulties finding a job in Nepal: 32%
- Income generation blocked by earthquake: 10%
- Political Instability: 08%
- Social Pressure: 06%
- Higher Income: 31%
- Trend: 08%
- Other: 05%

What would you like to do instead?

- Farming cash crops: 15%
- Get a job in urban city: 6%
- Start a new business: 68%
- Start a job: 9%
- Too old for migration: 2%
Area 6: Getting more from migration

Migrants have access to information before migrating, but it is not always adequate or accurate.
Area 6: Getting more from migration

Migration to the Gulf and Malaysia is largely low-skilled

Shrestha, M. 2017. The impact of large-scale migration on poverty, expenditures, and labor market outcomes in Nepal
The costs of migration for Nepali workers are high but not abnormal.

Note: “red line” refers to migration costs in one-month earning.