

Poverty profile and social protection strategy for the mountainous regions of Western Nepal

Policy Note

Introduction

This policy note presents the key findings and policy recommendations of the poverty and social protection study¹ conducted by Oxford Policy Management (OPM) and financed by the Department for International Development (DFID) under Technical Assistance to the Karnali Employment Programme (KEP).

The objective of this study is to inform the design of social protection policy and programming for the Karnali region in Nepal. In order to do so, it provides an assessment of the key characteristics of the western mountain areas and, to the extent possible, of Karnali to understand not only the level of poverty in the area, but also its main characteristics and to what extent it differs from circumstances in the rest of the country. Such assessment aims at providing a poverty profile that will inform an understanding of the adequacy of social protection programmes and possible strategic directions.

Although there is consistent evidence that in the last 15 years poverty has decreased substantially, both based on monetary and non-monetary indicators, Nepal remains one of the poorest country in Asia and with large inequalities characterised by location within the country, caste and gender.

While there have been many studies looking at poverty in the country, the objective of this work is to review available evidence and conduct new analysis to highlight findings relevant to social protection policy. In fact social protection policies can be conceived as part of a paradigm of poverty reduction, and for this to happen insights on specific characteristics of poverty and vulnerability are required.

In practice from a perspective of social protection policies it is important to identify the nature of poverty: overall level of poverty, its concentration within specific sub-population groups, poverty seasonality and dynamics, how people cope with risk, and the drivers of poverty reduction in the country.

The poverty profile of Karnali

Poverty characteristics

Karnali zone is the poorest region in Nepal. This is partly a factor of geography as Karnali falls purely in the mountain belt which has characteristically lower levels of agricultural productivity and infrastructure development.

Poverty in the Far West development region (FW) is the highest, with 45.6% of people below the poverty line, followed by the Mid-West development region (MW) at 32%. Poverty levels in the mountains are about 20% points higher than other ecological zones. Although poverty in mountain areas, and especially in the mountain western areas is extremely high, their share of the total poor is small owing to low population density. Disaggregating further, the Karnali zone has the highest rate of poverty at 52% based on small area poverty estimates. Within Karnali, the poorest district is Kalikot with 58% of the population below the

¹ The study relies on two main broad sources of information. First, existing published and unpublished reports on poverty, vulnerability and social protection in Nepal, including the World Bank's small area poverty estimates study (2013) Secondly, the analysis of micro data from household surveys including three waves of the NLSS 1995/96, 2003/04 and 2010/11; MICS 2010; and DHS 2011.

poverty line. In mountain regions, poverty is higher in the MW and FW compared to Central, East and West development regions.

Demographic characteristics

The mountain region in MW is characterised by larger households, higher dependency ratios and more male-headed households. Ethnicity is important but not a key determinant of poverty status.

Household size and dependency ratios tend to be higher in the MW and FW; and the highest within the mountain zone of MW and FW. Moreover, mountains in MW & FW have a significantly high percentage of male headed households – possibly due to differences in the nature of their migration which is more seasonal and short term. The composition of households across regions is also different: in the mountain areas, especially in MW mountain areas, the percentage of couples with four or more children is very high, and there are fewer single parent households.

The percentage of low caste groups tends to be higher in western regions compared to eastern and central regions. However high caste groups are more dominant in the MW and FW with non-caste as the smallest population group, especially in the mountain regions of MW and FW. Overall, poverty is higher in the low caste group across all regions, compared to the non-caste or high caste group. It is important to note that in the mountain areas of the MW and FW being high caste does not isolate people from poverty, but even in such high poverty conditions low caste groups fare worse.

Education

The MW and mountain areas perform worse on education attainment indicators. Rural areas exhibit large differences although differences by region and ecological zone are not substantial.

There are large differences in education attainment between urban and rural areas, however differences by regions and ecological zones are not substantial. This observation holds for the highest level of education completed, as well as literacy rates. Primary school gross attendance rate is extremely high, and surprisingly, both gross and net attendance rates are higher the poorer is the area of analysis such as mountains and rural areas. This suggests that, while school attendance is high, the quality of schooling might be relatively poor with high repetition, and low progression and completion rates. Gross and net attendance rates for secondary school follow expected patterns and are lower in rural areas, mountain areas and lowest in the MW development region.

Economic activity

In comparison to other regions, wage employment in non-agriculture is higher in the MW mountain areas and the share of better quality jobs is very low. Poverty is seasonal in all mountain areas but households in the MW mountain region appear to be significantly more vulnerable during lean seasons.

Across all development regions a majority of adults work in the agricultural sector and primarily as self-employed workers. This also holds true for mountain areas of MW and FW, with the difference that wage employment in non-agriculture is relatively higher here than in other regions. In the MW and FW mountain regions in particular, the share of 'better quality' jobs is extremely low but the share of labourers is relatively high compared to other regions.

There are two agricultural lean seasons in mountain areas: Jul-Aug and Feb-Apr, the latter being longer and more intense. As expected, poverty rates are higher in lean seasons across all regions, especially in MW & FW mountain areas where headcount poverty is 77% during Feb-May. Lean seasons are characterised by high levels of food insecurity, especially in mountain areas: over a fifth of households reported not having enough food in the preceding month in all mountain areas. Here again, there are some indications of differences across mountain regions: over half of households in MW & FW mountains reported less than adequate food consumption compared to 16% in Eastern, Central & Western mountains. Worryingly, the proportion of households adopting any coping strategy in response to food insecurity is very

low across all regions. But for those who did adopt a strategy, credit was the primary mechanism in Eastern, Central & Western mountain areas, but more negative strategies like migration, selling assets and food based strategies were reported in MW & FW mountain areas².

Migration and remoteness

Migration in the MW region tends to be more seasonal in nature with migrants engaged in relatively low skilled work, largely in India. The MW regions, especially mountain areas, exhibit extreme remoteness.

Absence of household members (alluding mainly to long term migration) is high, particularly in rural and mountain areas, where over 50% of households reported having at least one absentee at the time of the interview. The MW & FW mountain region appears to have significantly lower rates of absenteeism than other mountain areas, highlighting the seasonal nature of migration in the former regions. Moreover differences exist in the choice of destination for migrants: 95% of absentees in MW and FW mountains were living abroad in India, compared to only 12% in Eastern, Central & Western mountain areas. Households reported the main reason for absence to be work related, although also family and study are cited as important reasons.

In contrast to absenteeism, MW & FW mountain regions report the highest percentage of returned migrants (largely short term migrants); with 45% of households having at least one migrant, compared to 23% for other mountain regions. Return or out-migration is also correlated with seasonality as a significantly large percentage of migrants leave home in the lean season (Nov-May), especially in mountain areas. Interestingly, the profile of migrants varies by destination: return migrants to India are less literate and migrate for less skilled work compared to those migrating to other locations in or outside Nepal.

Both the MW and the FW development regions, as well as mountain areas, stand out as particularly remote with very large average distances to basic facilities/infrastructure. Remoteness in mountain areas in MW & FW is extreme: for instance, the mean distance to reach any health facility is almost four times the national average for MW & FW mountain regions.

Poverty over time

There has been a clear decline in poverty across the country over the last fifteen years. However, the rate of poverty decline has been weaker in the MW and FW mountain regions.

Overall poverty head count has declined from 42% to 31% between 1995-96 and 2003-04, and then declined further³ in 2010-11 to 25%. Median per capita consumption has increased for all regions between 1995-96 and 2003-04. As with headcount poverty though, the improvement has been uneven. Between 2003-04 and 2010-11, improvements in median consumption were concentrated largely in the West, Central and Eastern development regions, with the mountain areas of the MW & FW experiencing a less sharp improvement. The percentage of households reporting less than adequate food declined strongly from above 50% in 1995-96 to 16% in 2010-11. Trends in subjective food insecurity also followed those of headcount poverty and median consumption expenditure: the decline is less sharp for MW & FW mountain areas between the last 2 waves than other areas.

Nepal's drastic reduction in poverty levels at the national level has been driven by an influx of remittances, rapid urbanization, (some) infrastructure investment, higher agricultural productivity and declining fertility rates. It is clear from the data that some of these key drivers of poverty reduction, such as decline in household size, falling dependency ratios and increased remittances, have shown weaker trends in the MW & FW mountain regions in comparison to other mountain regions and ecological zones.

² These results must be reported with the caveat that the number of observations is extremely small.

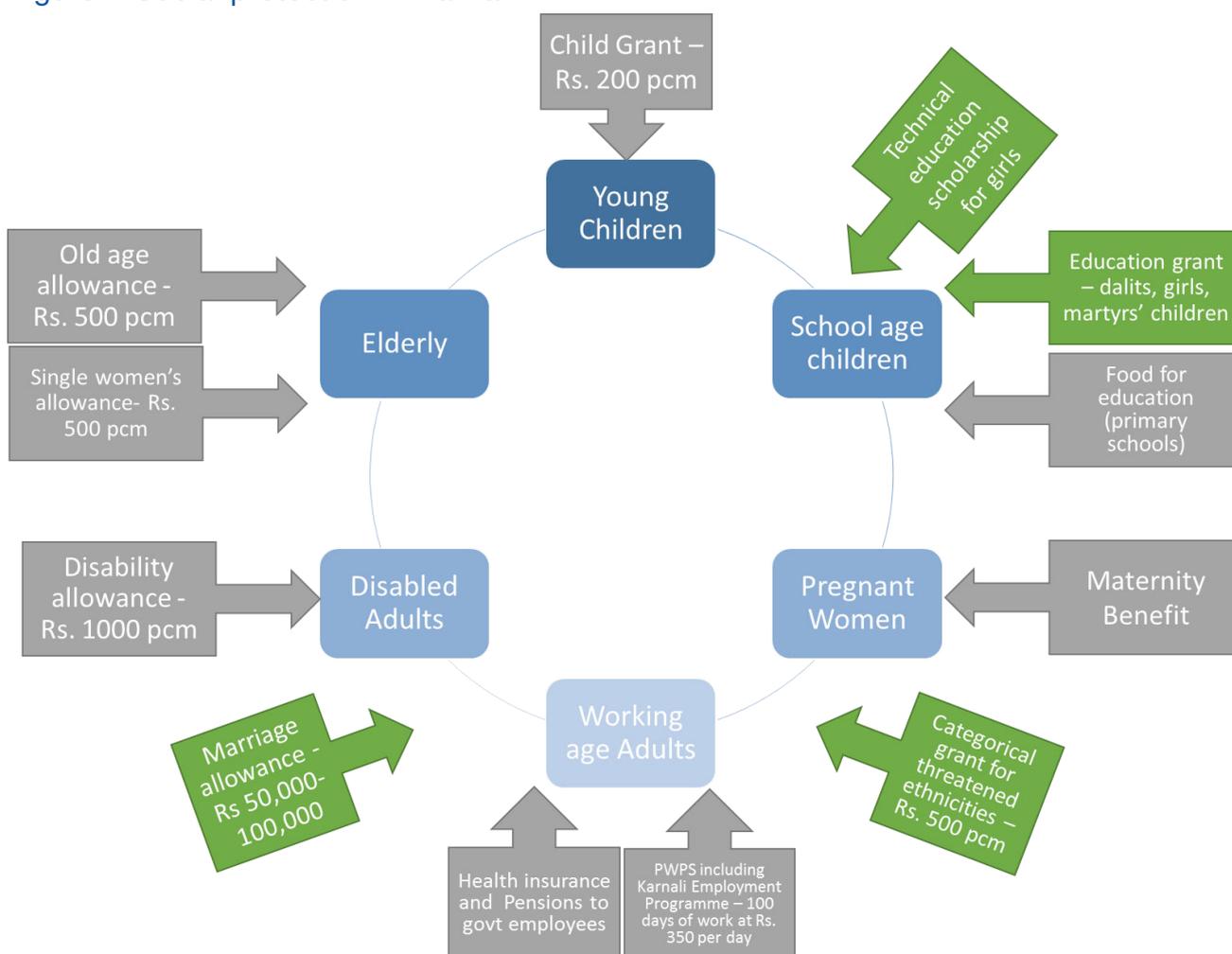
³ It must be noted though that comparisons of headcount poverty figures from the last two waves of NLSS are not strictly valid due to revisions to the poverty line in 2010/11.

Implications for social protection policy in Karnali

Current social protection programmes are ambitious but unlikely to have significant impact due to design issues and administrative weaknesses. These can be improved, but social protection alone cannot be the solution to poverty in Karnali: it must be coupled with a comprehensive economic plan for the development of the region.

Social protection in Nepal is characterised by interventions aimed at protecting specific disadvantaged groups, as well as supporting peace building and a sense of national unity. Social assistance programmes follow a life cycle approach and see the involvement of different Ministries. Karnali in particular, has been a focus of social protection initiatives, receiving special allowances like universal child benefits and a lower age eligibility threshold for senior citizens allowance; as well as being a key region for implementation of Public Work Programmes (PWP) such as the Karnali Employment Programme (KEP) – see Figure 1. This suggests a potentially high coverage and comprehensive structure of social assistance programmes: survey data suggests that 3 out of 4 households have either one child less than 5 years or a member aged 60 years or above.

Figure 1 Social protection in Karnali



Adapted from (World Bank, 2011; Koehler, 2011)

Our study reviewed the social protection architecture in Nepal and, to an extent, in Karnali and analysed some administrative data. There are a number of fundamental issues – and potential solutions - that seem to emerge from a policy design perspective and that would require attention:

- **Level of support.** Although the potential coverage of social assistance allowances is high, their amount, and the ad hoc nature of their uprating means that they cannot have the desired impact. For example, on average a recipient household in Karnali should have received about NPR 468 per month (in senior citizens allowance and child grant). This represented less than 5% of the median household expenditure in 2010/11. Moreover, the flat amount does not reflect the different poverty conditions, for example, for Dalits. Further, existing PWPs offer limited work and primarily appear to be short lived and one-off opportunities.
- **Addressing chronic food insecurity.** Given its remoteness, topography, climate and low levels of infrastructure development, food insecurity in Karnali is as much a matter of food availability as access. Food stocks are low during the lean season as well as job opportunities, remittances, PWPs and cash transfers can partly address the problem creating demand, but markets also need to develop.
- **Targeting.** If the social protection budget is constrained, a possible alternative approach would be to operate some better form of targeting for some extra support. However targeting of poor beneficiaries is an issue on itself, since its administrative costs and complexity are usually higher than in universal schemes. Geographical targeting could also be considered as a way of making public expenditure more progressive; for example, KEP resources are currently spread equally amongst VDCs, regardless of their poverty and needs.
- **Timing.** Poverty in Karnali is characterised by very strong seasonality, although more challenging, PWPs should provide support during the lean season and not when people have other work opportunities, otherwise the intervention risks simply to substitute private activities, rather than really add to them.
- **Coordination.** Although there are at least eight different PWPs operating in Karnali, there seems to be very little coordination between them and little strategy in their contribution to local infrastructure.
- **Working with the known drivers of poverty reduction.** One of the most important drivers of poverty reduction in Nepal has been migration and consequently remittances. This is much less the case for Karnali, although the focus should not be migration per se, but the *type* of migration. Therefore, the solution is not so much in trying to stop migration, but developing 'better migration' i.e. to higher income countries or for more skilled work.
- **Resources.** Given its remoteness, implementation challenges in the context of Karnali should not be under-estimated. More human and financial resources should therefore be provided to VDCs and DDCs to support their administrative efforts.
- **Monitoring and information systems:** Existing monitoring systems should be improved to allow for tracking expenditure and making relevant statistics publicly available. At local level, simple measures could go some way in preventing fraud: lists of beneficiaries should be publicised, and entitlements also made clear to everyone. It is of some concern that in Karnali reported numbers of senior citizen allowances and child grants beneficiaries appear to be well above estimates from census and survey data. This may be a result of inaccurate data or substantial fraud and such differences clearly deserve to be investigated further.
- **Costs versus benefits.** PWPs like the KEP are ambitious programmes, and command a substantial share in Karnali's development budget. The Government should thoroughly assess the costs and benefits of such programmes compared to alternative approaches. PWPs have the potential to create local infrastructure, which is an important driver of economic growth, as it opens opportunities and helps develop markets with recognised returns. However, PWPs are not always the best way to create such infrastructure, and it is important to assess to what extent the promises of reaching multiple objectives materialises and whether it is cost effective.

In theory, the strategy of social protection, with a mix of support to vulnerable people unable to work and public works for those able to work, appears to be sound. However, substantial implementation weaknesses render such interventions quite ineffective, and there are elements of the strategy that currently do not respond to the key elements of the poverty characteristics observed in the region such as seasonality and the different degree of needs within the targeted groups. Finally, based on this review and findings from our analysis of the survey data on poverty, it is clear that social protection alone cannot be the solution to poverty in Karnali – social protection strategies must be combined with a comprehensive economic plan for the development of the region.

For further information and comments please contact: Rodolfo Beazley - Rodolfo.Beazley@opml.co.uk.