



©IFAD/I. Khan

Enabling poor rural people to overcome poverty in **Nepal**

Rural poverty in Nepal

Despite some progress in poverty reduction in recent years, Nepal remains one of the poorest countries in the world, with a Human Development Index of 0.463, placing it 157th out of 187 countries listed in the United Nations Development Programme's *Human Development Report 2013*.

Over 30 per cent of Nepalese people live on less than US\$14 per person, per month, according to the national living standards survey conducted in 2010-2011. While the overall poverty rate for Nepal is 25 per cent, this figure increases to 45 per cent in the Mid-Western region and 46 per cent in the Far-Western region. In these remote hill and mountain zones, the terrain is rugged, rainfall is low and the poor-quality soil is difficult to farm. Agricultural holdings per household are the smallest in the country.

About 80 per cent of Nepal's people live in rural areas and depend on subsistence farming for their livelihoods. Household food insecurity and poor nutrition are major concerns in these areas, where about half of children under five years of age are undernourished. Most rural households have little or no access to primary health care, education, safe drinking water, sanitation or other basic services.



Poor rural people in Nepal generally have large families, very small landholdings or none at all, and high rates of illiteracy. They are also concentrated in specific ethnic, caste and marginalized groups, particularly those of the lowest caste (*dalits*), indigenous peoples (*janajatis*) and women. Population density in the country varies according to altitude – averaging more than 1,000 persons per km² in the low Terai region, about 300 persons per km² in hilly regions and as few as 30 persons per km² in mountainous areas.

The rural poor in Nepal include:

- Destitute people, such as those who are sick, disabled or displaced, and abandoned children
- Extremely poor people, such as illiterate or landless individuals, and those with very few assets
- Moderately poor people, such as those who have small farms but are heavily indebted
- The 'nearly poor' – including small farmers who are at risk of falling back into poverty as a result of factors such as conflict, debt and land degradation.

Land ownership in Nepal has traditionally been concentrated in a feudal system under the monarchy. For most poor rural families, access to land is extremely limited. Almost 70 per cent of households have holdings of less than 1 hectare, and many depend on plots that are too small to meet their subsistence requirements. Productivity levels remain low as a result of limited access to new farming technologies, inputs and extension services.

Because of poor growth in the agricultural sector, living standards in rural areas are deteriorating. The growing population has put heavy pressure on cultivable land, especially in the Terai region, where there are also many landless migrants from the hills.

Various factors contribute to chronic poverty in Nepal's steep and mountainous areas. The rugged terrain makes it difficult to promote economic activity and deliver services. These regions are also physically isolated, with poor communications and infrastructure. They are ecologically fragile as well. Increasing population pressure has led to the unsustainable use of natural resources, including overgrazing and deforestation. Erosion in the uplands causes flooding in the lowlands, which can devastate crop yields.

Moreover, Nepal is prone to frequent earthquakes, severe thunderstorms, flooding, landslides, and glacial melting, whose severity is compounded by the effects of climate change.

Social discrimination plays a significant role in keeping people poor and marginalized in rural Nepal. Discrimination on the grounds of caste has been officially illegal in the country since 1962 but is still widespread, especially in rural areas. Members of the lowest caste are the most disadvantaged group. Most *dalits* work as wage labourers for higher-caste farmers.

There is also a wide gap between women and men in terms of access to health care, nutrition, education and participation in decision-making. Infant mortality is much higher for girls than boys, and illiteracy is far more prevalent among women than men. Many rural women live in extreme poverty, without any means of

improving conditions for themselves and their families. Within households, women often have less to eat than men, and mothers' insufficient calorie intake has led to chronic malnutrition among their infants. At the same time, more women are heading households and taking on the burden of sustaining the rural economy. Women constitute more than 60 per cent of the agricultural labour force but have little access to land, production technology and training.

Lack of economic opportunity and conflict have prompted many of the most productive members of rural households to migrate from Nepal in recent years. In fact, Nepal is one of the world's highest recipients of remittances, which totalled some US\$5.1 billion from Nepalese people living abroad in 2012. Yet almost 80 per cent of remittance income is used for daily consumption, and 7 per cent is used for loan repayment. Less than 3 per cent of all remittances are used for capital formation.

Poor families are often obliged to send their children to work rather than to school, perpetuating the cycle of poverty. About one quarter of children in Nepal are engaged in some kind of family or wage labour.

Eradicating rural poverty in Nepal

Poverty, lack of economic growth and increasing marginalization in Nepal have contributed to political unrest and violence, which originated in the highlands. A Maoist rebellion began in 1996 in the remote hill districts of the Mid-Western region and later intensified, spreading across large parts of the country. More than 14,000 Nepalese people were killed in the conflict, while about 600,000 were displaced or left homeless. In addition, an estimated 2 million people fled across the border to India. Fighting occurred largely in rural areas, taking a particular toll on agriculture.

In November 2006, the government and the rebels signed a comprehensive peace accord. Besides its provisions for disarmament and the end of hostilities, the accord called for transforming the country into a multi-party democratic republic and for respecting human, social and economic rights. A re-instated parliament abolished the monarchy, formed an interim government led by the former rebels and drafted an interim constitution.

A Constituent Assembly convened in May 2008 to draft a new constitution, declaring Nepal a secular and inclusive democratic republic and marking an era of reconciliation, rehabilitation and reconstruction. In November 2011, a formal agreement began the process of reintegrating former Maoist combatants. As of mid-2013, however, the Constituent Assembly had not yet completed the process of drafting the constitution. A new Constituent Assembly was expected to be elected later in the year.

Nepal's 20-year Agricultural Perspective Plan, introduced in 1995, emphasizes the potential for poverty reduction through rapid growth in the agricultural sector. The plan focuses on the production of basic food crops (such as rice, wheat, maize and potatoes) in the Terai plains and high-value horticultural crops (such as honey and silk) to boost household incomes in the hills and mountains. It also acknowledges the need to improve conditions for private trade.

Government spending on social sectors such as education, health, water supply and local development has increased since the mid-1990s. Nepal's 2002-2007 Poverty



©IFAD/I. Khan



©IFAD/I. Khan



©IFAD/A. Hossain

Reduction Strategy Paper (PRSP) – for which regular progress reviews are still carried out – acknowledged that the underlying causes of internal unrest include poverty, social inequality and the lack of infrastructure and access to social services for rural communities and marginalized groups.

PRSP's main goals include promoting faster economic growth, expanding access to social and economic infrastructure and resources, overcoming social marginalization and improving governance. To achieve its goals, the strategy calls for involving the private sector, national and international NGOs, and community-based organizations in development activities to the fullest extent possible. It also aims to devolve responsibilities for development to the local level.

Recent strategic and policy approaches implemented under Nepal's PRSP include the 2004 National Agriculture Policy, the 2006 Agri-Business Promotion Policy and the 2010-2015 National Agriculture Sector Development Priority for the Medium Term. These approaches identify growth centres on the basis of comparative and competitive advantages that are suitable to their agro-ecological zones. They also recognize the importance of technological development in the agriculture sector.

IFAD's strategy in Nepal

Programmes and Projects: 14
Total cost: US\$433.3 million
Approved IFAD loans: US\$198.2 million
Directly benefiting: 809,853 households

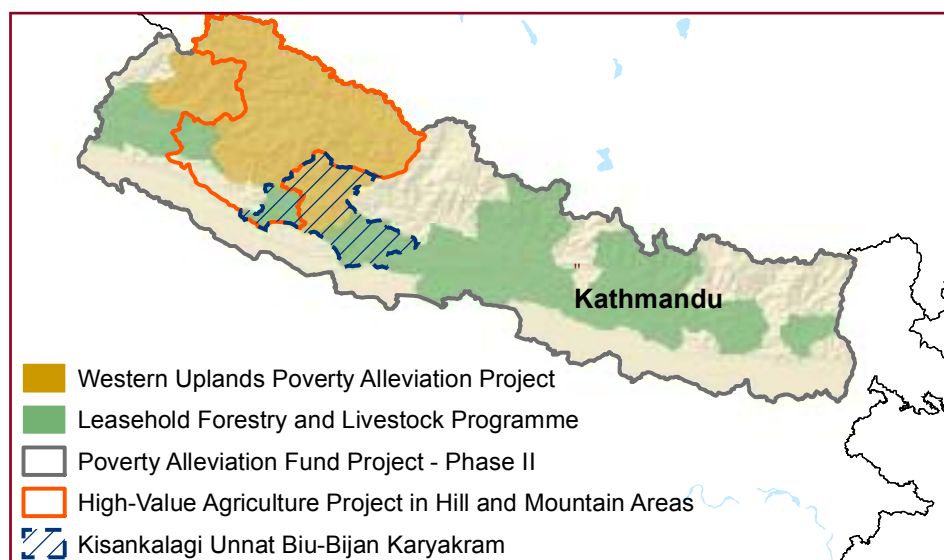
Nepal was one of the first countries to benefit from IFAD loans, beginning in 1978. The 14 projects financed to date have mobilized significant resources. For every dollar lent by IFAD, an additional dollar has been committed by the government and other donors.

IFAD's strategy in Nepal supports the development policies and programmes of the government and other partners in a post-conflict context, especially in relation to peace-building, reconciliation, reconstruction and economic recovery. More than ever, IFAD's investments reinforce these efforts by addressing the issues of poverty, inequality and social marginalization that have been at the heart of conflict in the country.

In particular, IFAD continues to direct its resources towards the hill and mountain areas, where poverty levels are high and access to infrastructure, services and markets is extremely limited. Its interventions are designed to:

- Help provide infrastructure and services
- Target the most marginalized ethnic and social groups
- Improve income-generating opportunities for poor rural households
- Support good governance and peace-building
- Promote community cohesion and resilience.

Ongoing operations



Western Uplands Poverty Alleviation Project

This project's objective is to improve and strengthen the livelihoods of the most vulnerable households in Nepal's Western Uplands region, where poverty is widespread. The region's terrain and climate are harsh, its location is isolated and its infrastructure is poor. Many of its people struggle to grow enough crops to feed themselves and their families on tiny plots of land.

Project activities include:

- Improving access to services and resources
- Promoting different livelihood options, such as livestock, forestry and crops
- Empowering women and other marginalized people.

The project promotes more resilient livelihoods and basic human dignity for poor and socially disadvantaged groups through a rights-based approach. A related objective is to create vibrant grassroots institutions that will respond to the needs of rural people, empowering them to mobilize their own resources and gain access to external resources. Some 95 per cent of the target group is composed of food-insecure households located in inaccessible areas.

Total cost: US\$32.6 million
Approved IFAD loan: US\$19.9 million
Approved IFAD grant: US\$360,000
Duration: 2003-2016
Directly benefiting: 115,000 households
Cofinancing: World Food Programme (US\$4.0 million)

Leasehold Forestry and Livestock Programme

This programme covers the mid-hills area of Nepal, where a large percentage of the population is poor. It targets families living below the poverty line in a wide area extending across the country – excluding districts that are already part of the ongoing, IFAD-supported Western Uplands Poverty Alleviation Project. The programme pays particular attention to those who live in areas adjacent to degraded forest lands and cannot secure enough food for their families year-round.

The overall goal of the programme is to reduce poverty by allocating leasehold forestry plots to poor families, thus enabling them to increase their income from forest products and livestock. Specifically, the programme works to:

- Improve household forage and tree crop production
- Increase household production of livestock, especially goats
- Provide access to microfinance services
- Support the government's capacity to implement leasehold forestry in a gender-sensitive way.

Total cost: US\$16.0 million
Approved IFAD loan: US\$10.5 million
Approved IFAD grant: US\$1.2 million
Duration: 2005-2014
Directly benefiting: 44,300 households



©IFAD/I. Khan

The programme builds on the success of the now completed Hills Leasehold Forestry and Forage Development Project in helping to establish leasehold forestry groups that will eventually become village finance associations. Women will be hired to mobilize the leasehold groups and train them in group management and rural finance.

Poverty Alleviation Fund Project – Phase II

Total cost: US\$124.0 million
Approved DSF grant: US\$4.0 million
Duration: 2008-2014
Directly benefiting: 200,000 households
Cofinancing: World Bank/IDA
(US\$100.0 million)

This project is one of a number of community-based interventions designed to introduce rapid development changes in poor, remote areas of Nepal. In the wake of the country's peace process and agreements reached between its political parties, the government has made a new commitment to address inequality and poverty among the population.

The principal goal of the project's second phase, funded by a Debt Sustainability Framework (DSF) grant in partnership with the World Bank, is to address the interrelated problems of rural poverty and social exclusion. The Poverty Alleviation Fund supports efforts to empower poor and disadvantaged people throughout the country and improve their living conditions and livelihoods.

Groups that traditionally have been marginalized for reasons of gender, ethnicity, caste and location are the focus of the project. The pilot phase was first implemented in 6 districts and then extended to an additional 19. A further expansion of the project has covered 15 more districts, bringing its total coverage to 40 districts. The project helps to:

- Build the capacity of local grassroots organizations
- Develop community infrastructure such as small-scale irrigation, access roads and bridges
- Improve water supply, sanitation, education and health services
- Create income-generation opportunities for the poorest and most excluded groups.

High-Value Agriculture Project in Hill and Mountain Areas

This project helps remote communities to integrate into the local rural economy through initiatives that develop small businesses, increase trade and build the capacity of rural institutions. The project operates in mid-western Nepal, where there is a need for improved infrastructure and better access to services and markets.

Because one of the challenges facing poor rural people living in Nepal's hill and mountain areas is economic exclusion, the project targets socially excluded and vulnerable people such as *dalits*, indigenous groups and women. It aims to increase the incomes of these segments of the population by responding to the private sector's demand for 18 high-value crops – including vegetables, fruits, non-timber forest products, medicinal and aromatic plants, and livestock – which are currently not well processed or marketed.

The project also enables farmers to:

- Develop strong commercial links with traders and sustainably raise their incomes
- Receive training and support in production and post-harvest techniques
- Improve their access to technical services, finances, farm supplies and market information.

Kisankalagi Unnat Biu-Bijan Karyakram (Improved Seeds for Farmers Programme)

Building on an approach already tested in the IFAD-financed High Value Agriculture Project in Hill and Mountain Areas, this programme targets an area of Nepal that combines high poverty levels and relatively high population densities with significant potential for agricultural seed and livestock production. In partnership with the private sector in the hills of Nepal, it aims to develop the formal seed sector as well as improve smallholder livestock.

The seven-year programme will promote competitive, sustainable and inclusive agricultural growth in the target area, contributing to overall economic development. It seeks to improve productivity through market-led demand for improved seeds and livestock, with an eye toward testing and scaling up a model of growth led by agriculture.

The programme is composed of three components:

- Support for expansion of the formal seed sector – addressing the target area's low seed replacement rates, and poor quality seeds for vegetables and cereals, through development of the formal sector and truthful labelling of seeds
- Smallholder livestock commercialization – addressing livestock development, with a focus on raising goats and buffalo, through breed and productivity improvement, nutrition management, veterinary services, farmer training and market linkages
- Institutional and entrepreneurial development – promoting a conducive environment for private sector enterprises by strengthening local institutions and building their capacity at different levels, providing financial and non-financial services to beneficiaries and increasing outreach by microfinance lenders.

The first-phase programme area encompasses four districts in the Mid-Western region (Rukum, Salyan, Rolpa and Pyuthan) and two in the Western region (Gulmi and Arghakhanchi). All targeted districts are in hill areas, some with poverty levels that are considerably above national rural averages. The target group comprises 150,000 households in the first phase of the programme. In the second phase, starting from year four, the programme intends to upscale its activities and expand to other districts, reaching a total of 350,000 households.

Total cost: US\$18.9 million

Approved IFAD loan: US\$7.6 million

Approved DSF grant: US\$7.6 million

Duration: 2010-2017

Directly benefiting: 15,300 households

Cofinancing: Netherlands Development Organisation/SNV (US\$0.7 million)

Total cost: US\$59.7 million

Approved IFAD loan: US\$19.5 million

Approved DSF grant: US\$19.5 million

Duration: 2012-2019

Directly benefiting: 150,000 households

Cofinancing: Heifer International (US\$2.5 million)

Completed operations

Poverty Alleviation Project in Western Terai

Total cost: US\$9.7 million
Approved IFAD loan: US\$8.9 million
Duration: 1997-2005
Directly benefiting: 21,563 households

Groundwater Irrigation and Flood Rehabilitation Project

Total cost: US\$13.2 million
Approved IFAD loan: US\$9.9 million
Duration: 1994-2000
Directly benefiting: 25,000 households

Hills Leasehold Forestry and Forage Development Project

Total cost: US\$20.4 million
Approved IFAD loan: US\$12.8 million
Duration: 1989-2003
Directly benefiting: 51,800 households

Production Credit for Rural Women Project

Total cost: US\$11.3 million
Approved IFAD loan: US\$6.0 million
Duration: 1987-1997
Directly benefiting: 16,390 households

Aquaculture Development Project

Total cost: US\$23.0 million
Approved IFAD loan: US\$5.0 million
Duration: 1986-1991
Directly benefiting: 6,000 households

Second Small Farmer Development Project

Total cost: US\$24.5 million
Approved IFAD loan: US\$14.5 million
Approved IFAD grant: US\$100,000
Duration: 1986-1991
Directly benefiting: 50,000 households

Command Area Development Project

Total cost: US\$29.1 million
Approved IFAD loan: US\$11.2 million
Duration: 1981-1989
Directly benefiting: 14,500 households

Small Farmer Development Project

Total cost: US\$16.1 million
Approved IFAD loan: US\$12.5 million
Approved IFAD grant: US\$1.0 million
Duration: 1980-1987
Directly benefiting: 50,000 households

Integrated Rural Development Project (Sagarmatha Zone)

Total cost: US\$34.8 million
Approved IFAD loan: US\$13.0 million
Duration: 1978-1988
Directly benefiting: 50,000 households

Building a poverty-free world

The International Fund for Agricultural Development (IFAD) works with poor rural people to enable them to grow and sell more food, increase their incomes and determine the direction of their own lives. Since 1978, IFAD has invested about US\$14.9 billion in grants and low-interest loans to developing countries through projects empowering over 410 million people to break out of poverty, thereby helping to create vibrant rural communities. IFAD is an international financial institution and a specialized UN agency based in Rome – the United Nations' food and agriculture hub. It is a unique partnership of 172 members from the Organization of the Petroleum Exporting Countries (OPEC), other developing countries and the Organisation for Economic Co-operation and Development (OECD).

Contacts

Benoît Thierry
Country Programme Manager
Via Paolo di Dono, 44
00142 Rome, Italy
Tel: +39 06 5459 2234
Fax: +39 06 5459 3234
b.thierry@ifad.org

Bashu Aryal
Country Programme Officer
International Fund for Agricultural Development (IFAD)
WFP Office Complex
Patan Dhoka Road
Lalitpur, Nepal
Tel: +977 1 526 0607 ext. 4144 (work)
Cell: +977 1 9841 240705
Fax: +977 1 526 0201
b.aryal@ifad.org

For further information on rural poverty in Nepal, visit the Rural Poverty Portal:
<http://www.ruralpovertyportal.org>



International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: ifad@ifad.org

www.ifad.org
www.ruralpovertyportal.org

ifad-un.blogspot.com

www.facebook.com/ifad

www.twitter.com/ifadnews

www.youtube.com/user/ifadTV

July 2013