



# FIGHTING INEQUALITY IN NEPAL

The road to prosperity



Today, more than 8.1 million Nepalis live in poverty. Women and girls are more likely to be poor, despite the significant contribution they make to the economy, especially through unpaid care and household work. More than one-third of Nepal's children under five years are stunted, and 10% suffer wasting due to acute malnutrition. Without a concerted effort to tackle inequality and pursue policies that benefit the many rather than the richest few, the poorest and most marginalized Nepalis will continue to be excluded from progress.

This report seeks to take stock of the context and drivers of inequality in Nepal, and offer evidence-based recommendations that can support the government's commitment to tackling inequality. To build a more equal country that leaves nobody behind, Nepal must act now to put the right policies in place, and enable citizens and social movements to advocate for progressive change and hold decision makers to account.

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Cover photo: Laxmi Thapa, of Kanchanpur, works in a sand and gravel mine to make a small income. Several years ago, her husband drowned in the flooded Mahakali river and she now lives alone. Photo: Oxfam

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This report can be a significant source for the government, non-government and concerned stakeholders in understanding inequality in the context of Nepal and further help to bridge the gap and set effective strategies for equality and prosperity.

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## ACRONYMS

ADB	Asian Development Bank
CBS	Central Bureau of Statistics
CEO	Chief Executive Officer
CIAA	Commission for the Investigation of Abuse of Authority
COCAP	Collective Campaign for Peace
CPI	Corruption Perceptions Index
CRI	Commitment to Reducing Inequality Index
DFID	Department for International Development
DHS	Demographic and Health Survey
ESAF	Enhanced Structural Adjustment Facility
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GBV	gender-based violence
GDP	gross domestic product
HAMI	Humanitarian Accountability Monitoring Initiative
IDSN	International Dalit Solidarity Network
ILO	International Labour Organization
IMF	International Monetary Fund
IPRAD	Institute for Policy Research and Development
LDCs	Least Developed Countries
MoHA	Ministry of Home Affairs
NDHS	Nepal Demographic and Health Survey
NGO	non-government organization
NHRC	National Human Rights Commission
NLSS	Nepal Living Standards Survey
NPC	National Planning Commission
NRB	Nepal Rastra Bank
ODA	Official Development Assistance
PRSP	Poverty Reduction Strategy Paper
SAAPE	South Asia Alliance for Poverty Eradication
SAP	structural adjustment programme
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SOE	state-owned enterprise
UN	United Nations
UNDP	United Nations Development Programme
UHC	universal health coverage
VAT	Value Added Tax
WHO	World Health Organization
WTO	World Trade Organization

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# SUMMARY

Globally, the gap between the richest and poorest has reached extreme levels, and is growing rapidly. The richest 1% in the world now have more wealth than the rest of humanity, and in 2017 they received 82% of the global increase in wealth. In the same year, the poorest half of the world's population saw no increase in their wealth at all.

There is a broad consensus, based on a growing body of evidence, that extreme inequality hinders economic growth<sup>1</sup> and poverty reduction. The Asian Development Bank (ADB) has estimated that growth could have lifted 240 million more people out of extreme poverty in Southeast Asia between 1990 and 2010 if growth had not been accompanied by growing economic inequality.<sup>2</sup> It has also been estimated that tackling gender inequality could add \$12 trillion to the global economy by 2025.<sup>3</sup> Extreme inequality also corrupts politics, giving the richest and most powerful undue influence over policy making, so they can skew it in their own interests.

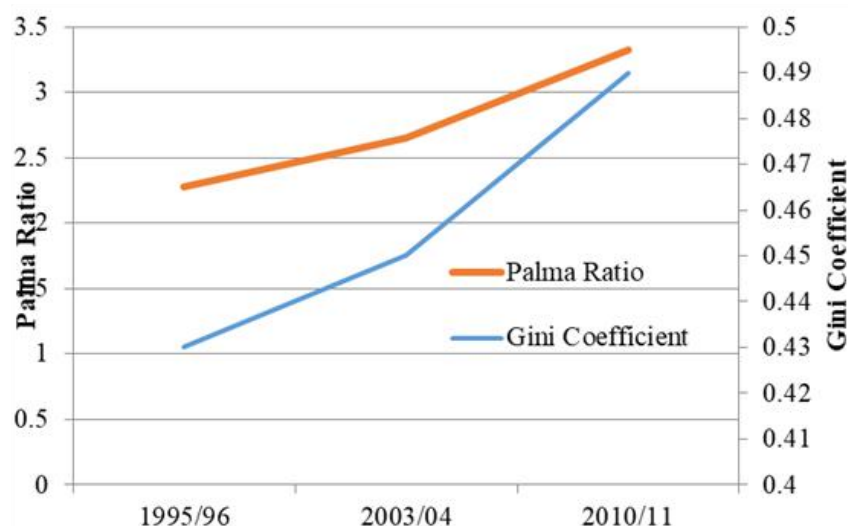
Today, more than 8.1 million Nepalis live in poverty. Women and girls are more likely to be poor, despite the significant contribution they make to the economy, especially through unpaid care and household work. More than one-third of Nepal's children under five years are stunted, and 10% suffer wasting due to acute malnutrition.<sup>4</sup> Without a concerted effort to tackle inequality and pursue policies that benefit the many rather than the richest few, the poorest and most marginalized Nepalis will continue to be excluded from progress.

## THE GAP BETWEEN RICH AND POOR IN NEPAL

Trends in income and wealth tell a clear story about the gap between the rich and poor in Nepal: economic inequality is extreme and growing.

In 2010/11, **Nepal had one of the highest income Gini coefficients in the world, at 49.42**, and the level of income disparity had increased considerably in the preceding fifteen years. The Palma ratio, which compares the income share of the top 10 % and the bottom 40 %, shows a similar trend. **Today, the income of the richest 10% of Nepalis is more than three times that of the poorest 40%.**

**Figure 1: Nepal's Gini coefficient and Palma ratio, 1995/96 to 2010/11**



Source: Computed based on NLSS data sets from 1995/96 to 2010/11

In fact, in the five years leading up to 2010/11, only the richest fifth of Nepal's population saw their income share increase. The income share decreased for everyone else. This is hardly surprising when we consider the scale of the wage divide between top earners and the rest. **In Nepal, top bank executives earn more than 100 times the salary of an average worker.**

There are also significant geographical divides in income. Between 1995/96 and 2010/11 the average income in urban areas was consistently more than double that of rural areas, and the Mountain and Tarai regions have lower average per capita incomes than Hills region.<sup>5</sup> These low-income areas have higher poverty levels, less infrastructure and services, and are home to more ethnic minorities. They are places where economic and horizontal inequalities combine to hold poor and marginalized groups further back.

Inequality of wealth is also substantial in Nepal, and the wealth Gini is significantly higher than the income Gini at 0.74 (per capita), underlining how money is trickling upwards over time. **The richest 10% of Nepal's population have more than 26 times the wealth of the poorest 40%.**

The scale of wealth inequality becomes even more extreme when we look at the very richest individuals. The richest person in Nepal saw his net worth rise by \$200m in 2018. This represented a 14.5% rise from 2017, taking his total net worth to \$1.5bn.<sup>6</sup> **The rise in this person's wealth could pay for more than half of Nepal's spending on social protection. It would also take a poor Nepali more than 100,000 years to earn this amount.**

Land inequality is the oldest and most fundamental type of wealth inequality. More than 66% of the population depend on land for their livelihood in Nepal, yet land is concentrated in the hands of a rich minority. **The wealthiest 7% of households own around 31% of agricultural land.**<sup>7</sup> More than half of Nepali farmers own less than 0.5 hectares of land,<sup>8</sup> and 29% of the population do not own any land at all. **Women work long hours on agricultural land, yet 81% are landless.** Minorities are also less likely to own land, with landlessness as high as 44% among Dalits in the Tarai region.<sup>9</sup> Despite repeated election promises, Nepal is still waiting for much-needed land reform which will redistribute the country's most significant asset.

Economic inequality in turn affects life chances. A poor child in Nepal is nearly three times more likely to die before they are five years old than a rich child. Half of the poorest women in Nepal have no education at all, compared with one in a hundred of the richest men.<sup>10</sup>

## GENDER INEQUALITY IN NEPAL

Gender inequality compounds the impact of economic inequality. A rich woman is four times more likely to have gone to school than a poor woman, while a rich man is fifty times more likely to have gone to school.<sup>11</sup>

In Nepal, patriarchal norms are deep-rooted and reinforced by laws and institutions that are skewed against women and girls. Early marriage still exists despite strong evidence that it damages life chances,<sup>12</sup> and men hold an overwhelming majority of positions in legal institutions, affecting women's access to justice.

Progressive laws are also often poorly implemented or ignored in practice. For example, there are indications that tax exemptions to incentivize land ownership among women are being abused by male relatives buying land in their name.

Illegal and harmful practices are also still common in some areas of Nepal, and put the lives of women and girls at risk. *Chaupadi*, for example, sees girls confined to cow sheds or separate shacks during menstruation. Despite a ban by the Supreme Court, this practice continues, and



in Accham district alone, 12 women died as a result over ten years.<sup>13</sup> There is also evidence of caste-based discrimination in public hospitals, with Dalit women receiving poor care during childbirth.<sup>14</sup> A fundamental shift is needed to improve the economic, political and social status of women, or another generation of women and girls are destined to remain poor.

## WHAT IS DRIVING INEQUALITY IN NEPAL?

Nepal does very poorly in Oxfam's and Development Finance International's Commitment to Reducing Inequality Index (CRI) 2018, which ranks countries on their policies to tackle inequality. Nepal ranks 138<sup>th</sup> out of 157 countries.<sup>15</sup> Income disparities and unequal access to assets are driving greater inequality in Nepal, and gender inequality is compounding and compounded by economic inequality. There are two other fundamental drivers of inequality that must be taken into account.

First, Nepal's economic system is based on an outdated ideology. The menu of neoliberal policies imposed by the structural adjustment programmes of the IMF and World Bank in the 1980s, has seen state investment and regulation replaced by a market-oriented economic policy regime. Without state intervention, such market reforms can fuel inequality by concentrating wealth and power in the hands of the few.

Neoliberal policies have also driven cuts to public spending and increased privatization in Nepal. Thirty state-owned enterprises (SEOs) have been privatized since 1992, and despite many of them being profitable when sold, today only 11 are still in operation, and just five of those are in profit.<sup>16</sup> According to the Annual Review of Public Enterprises 2014 published by the Ministry of Finance, putting these businesses in private hands has cost the government NPR 4.93bn over recent years. Privatization has also aggravated unemployment in Nepal, due to the haphazard way in which thousands of people instantly lost their jobs.

Public services like health and education have also seen increased privatization and commercialization in Nepal. Such reforms have created a two-tier system, where the rich pay for and support private services, while public sector services are starved of funding and political support. Yet these public services are the only option for those with low incomes. Privatization fuels inequality, and poor women and girls, along with minorities, pay the highest price.

Second, the cycle of political capture is a significant driver of inequality. When money and power are concentrated into the hands of the few, these elites can exercise excessive influence that undermines institutions and skews policy making in their favour. There is no natural incentive for the richest companies and individuals to support higher taxes and greater transparency, for example. Between 1990 and 2008, Nepal was the sixth top exporter of illicit financial flows among least developed countries. This resulted in losses of \$9.1bn, which is nearly eight times the amount Nepal received in official development assistance (ODA) in that period.<sup>17</sup>

Crony capitalism has flourished in Nepal under regressive monetary and fiscal policies. There has been a significant accumulation of trade-based wealth, as carteling has thrived in the absence of sufficient regulation, and as the nexus between political elites and unethical businesses has been facilitated by a highly corrupt bureaucratic apparatus.<sup>18</sup>

Economic and power inequality is a fertile breeding ground for corruption, which further compounds inequality of power. Nepal is one of the most corrupt states in the world; in 2017 it ranked 122 of 180 countries on the Transparency International Corruption Perceptions Index (CPI). Increasingly, trends are being seen that political candidates at all levels are selected on the basis of their wealth,<sup>19</sup> and there has been a failure to crack down on illegal wealth. Deliberate and concerted action is needed to counteract political capture in Nepal, so that the

needs of the many are prioritized over the interests of a powerful few.

## Disasters that hit the poor and minorities hardest

Nepal is also one of the most disaster-prone countries in the world, ranking 11th in the world in terms of earthquake risk, and 20th in terms of disasters. Between 2011 and 2015, more than 12,000 people were reported dead and a further 26,453 injured as a result of natural disasters. The estimated economic loss to Nepal in this period was \$ 7.8bn.<sup>20</sup>

Such disasters exacerbate and compound existing inequalities and vulnerabilities: the poorest people are more likely to suffer death, injury and damage to property, as they live in more hazard-exposed areas and are less able to invest in risk-reducing measures. Women and children are 14 times more likely to die than men during a disaster,<sup>21</sup> and in the aftermath, women are more likely to become victims of domestic and sexual violence and less likely to receive help. Minorities face the same challenges: for example, there is evidence that *Dalits* were willfully neglected by relief workers distributing emergency supplies during the April 2015 earthquake.<sup>22</sup> By contrast, there are reports that members of higher castes with political connections use their influence to get limited resources for themselves.

## POLICIES TO TACKLE INEQUALITY

### Taxes to level the playing field

The fiscal system is one of the most important tools that any government has to tackle inequality. Progressive taxation and proper enforcement can redistribute resources and raise money to invest in inequality-busting services. However, Nepal's tax system is characterized by low tax rates and tariffs, alongside significant tax exemptions and regressive taxes.

The upper income tax rates for individuals, the corporate sector, and banking and financial institutions are low, at 15%, 25% and 30% respectively. There are also exemptions and concessions for some industries; for example, the 2018 budget gave special industries, including manufacturing, forestry and mineral extraction, a 15% applicable tax rate rather than the full 25%.<sup>23</sup> Tariff rates are also low, and were reduced further as part of fulfilling the membership conditions of the WTO when Nepal joined in 2004. These factors limit the tax contribution of top earners and profitable companies, and reduce the country's ability to tackle inequality.

Despite efforts to expand the tax base, there are also gaps in tax collection, and Nepal's tax-to-GDP ratio is still below the 20% ratio recommended by the United Nations (UN) as a minimum level to meet development goals. One study has found that **Nepal lost NPR. 3.44bn in unpaid taxes during the first four months of the 2011/12 fiscal year.** Another report found that as many as 385 firms were engaged in producing counterfeit VAT bills in order to evade taxes during the same period; the majority being the big corporate houses of Nepal.<sup>24 25</sup>

Nepal's tax system also needs to be more progressive. While the proportion of direct taxes has risen, indirect taxes still account for more than two-thirds (68.4%) of Nepal's total tax revenue. VAT (in the form of sales tax before 1995) has increased as a share of commodities and services from 30.4% in 1989/90 to 47% in 2014/15. This is a regressive tax which places a disproportionate burden on the poorest in society. While some essential commodities and services have been exempted, there is evidence that poor households are still paying a significant amount in indirect taxes.<sup>26</sup>

Nepal is also missing the opportunity to implement taxes that could increase revenue and make the tax system more progressive, such as property and wealth taxes. Nepal did have a wealth tax in the early 1990s, but this was abolished after years of opposition from industry and business, underlining how political capture can stand in the way of progressive reform.

## Public spending

Spending on public services and other social programmes is a key tool for any government in tackling both poverty and inequality. In recent years, Nepal has made an effort to increase spending and to address cuts that were enforced under structural adjustment. There has been some considerable success, with spending as a share of GDP increasing from 17.4% in 2001/02 to 31.7% in 2016/17.

However, there is evidence that some sectors crucial to tackling poverty and inequality remain underfunded. Health spending fell from 7.8% of total spending in 2011/12, to just 4.7% in 2016/17, and education spending dropped from 18.3% to 11.4% in the same period. While spending on pensions and other measures related to social security have increased, reaching NPR 60.6bn in 2014/15, more than two-thirds of the spending that year was due to retirement benefits to civil servants, meaning this spike did not benefit the wider population.

## Public services that tackle inequality

There is strong evidence that free public health and education systems play an important role in reducing economic inequality.<sup>27</sup> Education also boosts life chances, future wages, and combats gender inequality by giving women and girls more control over their lives.

While Nepal has seen significant progress in educational attainment, there is more to do. Today, 17% of children who enter grade 1 do not complete the primary cycle, and less than one-third reach grade 10.<sup>28</sup> Only 6% of the poorest girls complete primary school.<sup>29</sup> Access to education is limited by geographical constraints, poor infrastructure, social and cultural norms, and a lack of the well-trained teachers who are necessary to ensure quality education. Poor children are also excluded due to the persistence of out-of-pocket payments. Evidence shows that families bear 56.6% of the total cost of education. Despite the policy of free primary education, families pay more than one-third of the primary education costs, due to informal fees and charges for learning materials and uniforms.<sup>30</sup>

Girls and those living in rural areas are most likely to miss out on a quality education in Nepal. The literacy rate is 20% lower among girls than boys, and this is greater in rural areas. Girls are also more likely to be put to work, or to be married off young; this creates a vicious cycle, as girls with higher levels of education are significantly less likely to marry under the age of 18. The gender gap in school enrolment is widest in the poorest and second-poorest wealth quintiles, and is non-existent in the richest quintile, showing that gender inequalities are more pronounced for those of lower economic status. Effectively, economic and gender inequality are combining to keep the poorest girls out of education in Nepal.

Recently the government of Nepal has committed to universal health coverage; however today more than one-third of the population has no easy access to healthcare. Too many health facilities in Nepal lack sufficient free medicines, and there is a substantial shortage of trained staff. **There is just one doctor for every 1,734 people in Nepal**<sup>31</sup> and the government estimates that they need more than 11,000 more health workers to meet the needs of the whole population. Poor communities, minorities, and those living in more remote areas of the country are more likely to be excluded or unable to access services.

Again, women are disproportionately affected: in 2016/17 an estimated 277,344 pregnant women had unsafe deliveries, and 15,760 women delivered without a skilled health attendant. This is putting the lives of women and children at risk. Nepal's maternal mortality ratio is 239 per 100,000 live births and the infant mortality rate is 32 per 1,000 live births.<sup>32</sup> Only 30% of the poorest women give birth in a health facility, compared with 90% of the richest women.<sup>33</sup>

Given these significant challenges, it is important that the government invests in the right policies. This means scaling up free public health and education systems that can meet the rights of every Nepali and fight inequality. Public services are vital for the poorest – less than 2% of the poorest mothers give birth in a private hospital, compared with 21% of the richest mothers.<sup>34</sup> However, there are worrying signs of increased commercialization and privatization of health and education services, and there are concerns that the health insurance remains unaffordable for the poorest people. Such trends risk making inequality worse and pricing the poorest out of life-saving and life-changing services.

## **Work and wages**

Paid work is the main way for the majority of people to make a living, provide for their basic needs, and improve their future life chances. Therefore, tackling inequality requires interventions to ensure sufficient safe work and decent wages for everyone.

More than 500,000 people enter the labour force each year in Nepal, but employment opportunities are limited and 80% of these people leave to seek employment abroad. For those who stay, too many face insecure jobs and underemployment: 31.8% of Nepali labourers work less than 40 hours per week, and for a growing percentage this is not by choice. Young people particularly are struggling to find work: 15–24 year-olds are more than twice as likely to be unemployed than adults.

Wages have increased in recent years; however, they remain low for the average worker, and women continue to earn significantly less than their male counterparts. Establishing and strengthening minimum wages can play a significant role in reducing inequality. However, 96% of workers are employed in the informal sector,<sup>35</sup> where minimum wages and other provisions, such as the Social Security Fund, are less likely to be honoured and harder to enforce.

The CRI Index shows that in Nepal respect for trade unions and the rights of women in the workplace is very poor, and the country is ranked for labour rights among the lowest countries in the world in the Index. There are no laws to prevent discrimination based on gender and no law against rape in the workplace.<sup>36</sup>

There is also worrying evidence of the exploitation of children and vulnerable groups in Nepal; the International Labour Organization estimates that 6.2 million children are currently at work in Nepal, with 2.1 million of them working in hazardous conditions.<sup>37</sup> Bonded and forced labour are also still highly prevalent in Nepal, with more than 100,000 bonded labourer households involved in agriculture. These people are excluded from prosperity and denied their rights.

## RECOMMENDATIONS

Based on the evidence in this report, there are a number of steps that the government could take immediately to tackle inequality and put Nepal on track for a more prosperous future for all citizens. To demonstrate commitment to tackling inequality, the government should:

- Commit to collecting data and publicly reporting on economic and horizontal inequalities, and to making policy decisions on the impact of reducing these inequalities;
- Prioritize and implement progressive land reform, to achieve a more equitable distribution of land in favour of the landless and poor farmers;
- Reform the tax system by implementing more progressive taxation, reducing exemptions, and ensuring transparency and enforcement that stops tax avoidance, evasion and illicit flows;
- Prioritize investment in inequality-busting sectors like education, health and social protection;
- Reject commercialization and privatization in favour of free universal health and education systems and a basic social protection floor for everyone;
- Implement minimum wages and protections for all workers, including the in the informal sector;
- Take action to end the exploitation of women, children and minorities in all forms.



Women in Kanchanpur make a small income from collecting sand and gravel. Photo: Oxfam

# 1 INTRODUCTION

*'The Roman proletariat lived at the expense of society, while modern society lives at the expense of the proletariat.'*<sup>38</sup>

Today, the richest 1% in the world have more wealth than the rest of the population, and this divide between the 'haves' and 'have nots' is continuing to rise. In 2017, the poorest half of humanity saw no increase in their wealth, while the richest 1% got 82% of the world's increase in wealth.

There is a broad consensus that extreme inequality hinders economic growth and poverty reduction, corrupts politics, and hampers the social mobility of the poorest and most marginalized in society. Without a special effort to reduce inequality, it is widely acknowledged that some people will not benefit from economic prosperity and that the Sustainable Development Goals (SDGs) will fail.

This consensus is based on a growing body of empirical evidence. Institutions, including the World Bank and the International Monetary Fund (IMF),<sup>39</sup> have demonstrated that high levels of inequality constrain sustainable growth. Researchers at McKinsey have also recently estimated that gender inequality could be costing the global economy \$12 trillion.<sup>40</sup> Crucially, research also shows that inequality is undermining the poverty-reducing potential of growth, putting at risk further development in the poorest regions of the world. For example, the Asian Development Bank (ADB) estimated that growth could have lifted 240 million more people out of extreme poverty in South-East Asia between 1990 and 2010 if the region had not also seen growing economic inequality.<sup>41</sup>

As well as limiting the productive and consumptive capacity of the economy, inequality allows the richest and most powerful to prioritize rules and policies that are in their interests, at the expense of the wider population. This political capture reinforces a cycle whereby more wealth accrues to the wealthiest, while the poorest and most marginalized are left further behind.

The owners of capital see their wealth grow, while the majority of people who make a living from labour are increasingly limited to precarious jobs with low wages (see Box 1), where they are denied basic rights and access to social protection.<sup>42</sup> Women and young people are more likely to be in these jobs. Inequality also obstructs productive investment in human capital, undermining the health and education of the poorest and most deprived people.<sup>43</sup>

These economic, political and social consequences of inequality are crucial considerations in the Nepali context for a number of reasons.

First, Nepal still faces a significant poverty challenge. Based on 2017 data, more than 8.1 million people are living in poverty, and 28.6% of Nepalis face multi-dimensional poverty, which means they also lack access to essential services.<sup>44</sup> Nepal has unacceptable levels of food insecurity and malnutrition; approximately 36% of children under five years are stunted, while 27% are underweight and 10% suffer from wasting due to acute malnutrition.<sup>45</sup> Malnutrition perpetuates poverty, increases health costs and prevents people making a contribution to society and to economic growth.

Second, poor infrastructure and a weak domestic economy have led to high levels of unemployment. Coupled with the devastating earthquake of April 2015, food insecurity, and climate change, this means the poorest communities are struggling to make a living and to survive.<sup>46</sup> The evidence also indicates that this situation is driving the poorest families into significant debt, as data shows that their spending outstrips their earnings. For example, in 2010/11, 60% of the poorest quintile received 24.1% of income but were responsible for around 34% of total consumption.

Third, inequality is high in Nepal: it ranks 81<sup>st</sup> out of 152 countries in terms of economic inequality.<sup>47</sup> This level of inequality is a barrier to poverty reduction, and is preventing the poorest and most marginalized groups from sharing in the country's progress.

Evidence also shows that a more concerted effort is needed to tackle the gap between the richest and poorest. Nepal ranks very poorly on the Commitment to Reducing Inequality (CRI) Index developed by Oxfam and Development Finance International (which ranks countries according to their policies to tackle inequality) – 138 out of 157 countries. Nepalese workers are receiving a dwindling percentage of income growth, and spending on health and education is low and has fallen in recent years. These trends are widening the inequality gap in Nepal.

This report seeks to take stock of the context and drivers of inequality in Nepal, and offer evidence-based recommendations that can support the government's commitment to tackling inequality. To build a more equal country that leaves nobody behind, Nepal must act now to put the right policies in place, and enable citizens and social movements to advocate for progressive change and hold decision makers to account.

### Box 1: Wages and inequality in Nepal

For most people, economic status is determined by income from the work they do. Yet in Nepal, the proportion of income growth that goes to waged workers is falling, while a greater share of income is going to capital and wealth. According to national accounts estimates, the wage share in Nepal fell from 44.8% in 2001/02 to 37.5% in 2016/17 (CBS, 2017).

There is also a clear divide in wages at the top and the bottom that contributes to economic inequality. Our research found that the chief executive officer (CEO) of one bank in Nepal earns \$175,000 per year (around \$500 per day).<sup>48</sup> Workers can expect to earn 500 Nepalese rupees (NPR) per day, which is less than \$5. **This means that top bank executives earn more than 100 times the salary of an average Nepali worker.**



Because of the high rate of male migration for seasonal work, women in Jumla have the burden of a multiple workload. Photo: Karnali Integrated Rural Development and Research Centre (KIRDARC).





Agriculture is the main source of livelihood for most of the people in the remote mountain village of Kalikot. Photo: Ashim Poudel/KIRDARC.

## 2 THE FACES OF INEQUALITY

In any society, there is a multitude of inequalities that combine to restrict the economic and social progress of poor and marginalized people. Economic inequalities, such as inequalities of income, wealth and assets, interact with horizontal inequalities and age-old discrimination based on gender, class and identity. First, this report looks at these many faces of inequality in Nepal to explore just how extreme the gap between the most privileged and most marginalized has become.

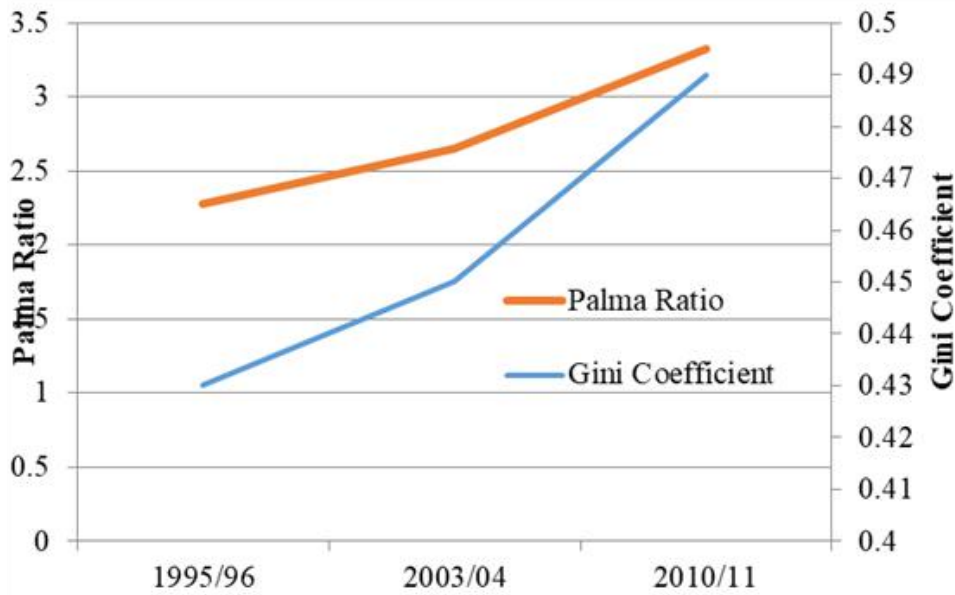
It should also be noted that there is a lack of robust longitudinal data on how inequality has changed over time in Nepal. Therefore, we have based our analysis on Nepal Living Standards Survey (NLSS) and Demographic and Health Survey (DHS) data, as well as research papers and case studies. The government and international institutions could support further research and evidence-based policy making by regularly collecting and publishing data on inequality.

### INCOME INEQUALITY

The available data shows that income inequality is significant and growing in Nepal. In 2010/11, **Nepal had one of the highest Gini coefficients in the world, at 49.42.** This had increased considerably since 1996.

Analysis of the Palma ratio, which measures the ratio between the income share of the top 10% and the bottom 40%, tells the same story. It has risen steadily, from 2.28 in 1995/96, to 2.65 in 2003/04, and then 3.32 in 2010/11.<sup>49</sup> This means that according to the most recent data, **the income of the richest 10% is more than three times higher than that of the poorest 40%.** The poorest 40% saw their share of income decline over that 15-year period; from 15.3% in 1995/96 to 11.9% in 2010/11, while the income share of the top 10% rose.

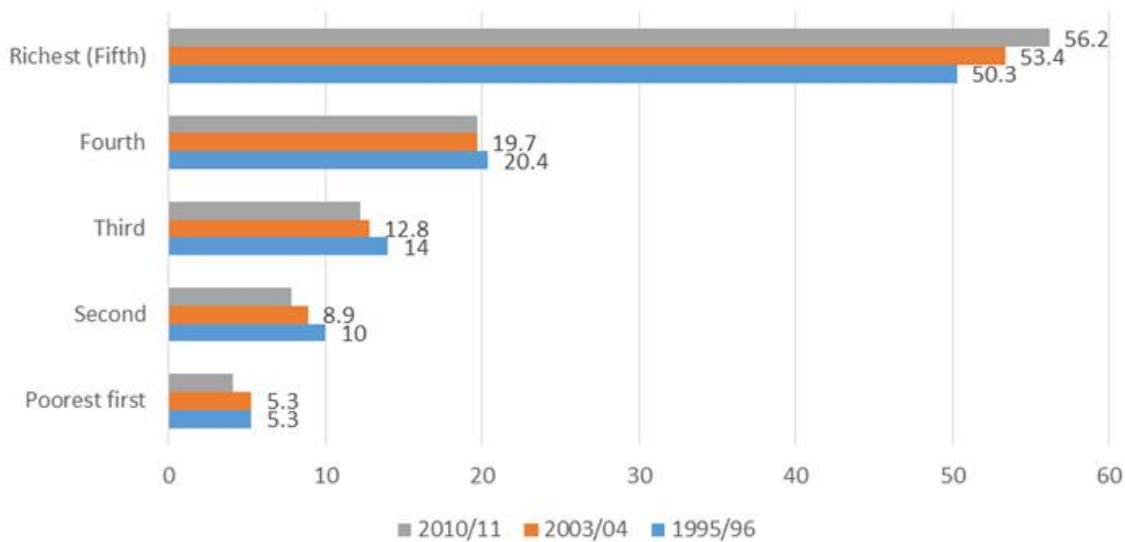
**Figure 1: Nepal's Gini coefficient and Palma ratio, 1995/96 to 2010/11**



Source: Computed based on NLSS data sets from 1995/96 to 2010/11

Analysis of data on each quintile of the population, available in the NLSS data, further underlines the opposite fortunes of the richest and poorest in Nepal. **From 1995/96 to 2010/11, the income share of the richest quintile rose by almost 5 percentage points, while it decreased for each of the poorer quintiles.** These trends also indicate that the income gap is widening.

**Figure 2: Share of income by quintile**



Source: CBS (1996, 2004, 2011)

Nepal also has significant geographical divides when it comes to incomes. Low incomes compound poverty in the regions that are home to the greatest proportion of poor people – namely the rural Mountain and Tarai areas. For example, while average per capita income increased in both rural and urban areas between 1995/96 and 2010/11, urban incomes have consistently been more than twice that of rural incomes (Table 1). Similarly, Nepal's Mountain and Tarai regions have lower average per capita incomes than the Hill region.<sup>50</sup>

**Table 1: Average per capita incomes (urban/rural and geographical regions)**

Year	1995/96 (NPR)	2003/04 (NPR)	2010/11 (NPR)
Rural	7,075	12,124	34,607
Urban	16,118	32,573	71,720
Rural/urban (ratio)	0.44	0.37	0.48
Mountain	5,938 (0.70*)	12,295 (0.67*)	34,633 (0.75*)
Hill	8,433	18,299	46,224
Tarai	7,322 (0.87*)	12,975(0.71)	38,549(0.83*)

Source: CBS (1996, 2004, 2011) \*values are relative to those of the Hills

The areas with high incidence of poverty and low income also tend to be more remote, and to be home to greater numbers of ethnic minorities (see Box 2). This means that these are the places where economic and horizontal inequalities combine to push poor and marginalized groups furthest to the bottom.

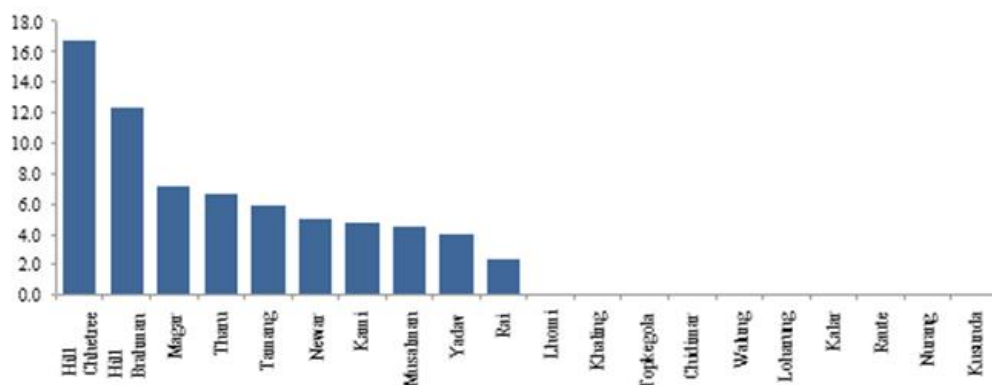
It should be noted that improvements in average rural incomes, as well as incomes in Mountain and Tarai regions, between 2003/04 and 2010/11 may be due to remittance inflows and the expansion of various social security and development programmes to those areas. However, such areas often lack basic infrastructure and services.

**Box 2: Ethnic diversity in Nepal**

Nepal is a country of great geographic, cultural, ethnic and religious diversity, which is constitutionally treated as identity. This identity is inherently valued and is a rich asset.

Among its 26.5 million citizens there are many ethnic groups. Some, like the Hill Chhetree, have significant populations; they alone account for just under one-fifth of the total population, with the highest share (16.8%) (Figure 3). They are followed by the Hill Brahman population (12.2%), and seven others (Magar, Tharu, Tamang, Newar, Kami, Musalman and Yadav), all with more than 1 million people. There are other smaller ethnic groups, including the Lhomi, Khaling, Topkegoa, Chidimar, Walung, Loharung, Kalar, Raute, Nurang and Kusunda.

**Figure 3: Top 10 and bottom 15 caste/ethnic groups in terms of percentage of population, Census 2011**



Source: Gurung, 2014

Karnali province (Province 6), for example, has the highest levels of multi-dimensional poverty of all provinces in the country: 51.2% of the population is multi-dimensionally poor, compared with the national average of 28.6%. It is perhaps no surprise, therefore, that the percentage of poor people in Province 6 who lack access to clean water is much higher than in any other province.

Women in Raduneta village in Kalikot district often queue for 4–5 hours to fetch a 20-litre bucket of water: *‘The old tap was constructed many years ago... and is 4km from the village. Nothing has been done since then to get drinking water to our village’*, said a local woman, Gaurikala BK, Raduneta village, Kalikot district, Karnali province.

## WEALTH INEQUALITY

Inequality of wealth is also substantial in Nepal: **the richest 20% hold 56.2% of all wealth, while the poorest 20% share 4.1% of wealth.** Recent reports indicate that one of the richest Nepalis, listed on the Forbes list of billionaires, added \$200m to his fortune in 2018. This is a 14.5% rise from 2017, and takes his total net worth to \$1.5bn.<sup>51</sup> **The rise in his wealth could pay more than half of Nepal’s spending on social protection. It would also take a poor Nepali more than 100,000 years to earn that amount of money.**

Wealth inequality is also substantially higher than income inequality in Nepal. The Gini coefficient is 0.73 for household wealth distribution, and 0.74 for per capita wealth distribution. The Palma ratio for wealth also shows that the wealth gap is extremely high. At the national level, the richest 10% have more than 26 times the wealth of the poorest 40%. Both the Gini and Palma indicators also highlight where wealth inequality is at its highest in Nepal: in urban areas and in the Hill region (Table 2). For example, in urban areas, the top 10% has more than 29 times the wealth of the bottom 40%, and in the Hill region it is even higher (33.64 times).

**Table 2: Gini coefficient and Palma ratio for wealth inequality (2010/11)<sup>52</sup>**

Gini	National	Urban	Rural	Mountain	Hill	Tarai
Household wealth	0.73	0.71	0.66	0.59	0.75	0.69
Per capita wealth	0.74	0.72	0.69	0.63	0.76	0.72
<b>Palma ratio</b>						
Household wealth	22.32	27.32	10.91	6.38	29.47	15.49
Per capita wealth	26.68	29.35	13.11	8.28	33.64	19.45

Source: Author computed

We can dig deeper into wealth inequality trends in the country thanks to the Nepal Demographic and Health Survey (NDHS) conducted periodically by the Ministry of Health (2007, 2012 and 2016),<sup>53</sup> which indicates wealth distribution across quintiles and different geographical areas. It should be noted that the NDHS provides only a broad indication, as it scores households based on the number and kinds of consumer goods they own (such as a television, bicycle or car), as well as housing characteristics (such as source of drinking water, toilet facilities, and flooring materials). However, this data (see Table 3) highlights some other trends and dynamic changes in wealth inequality.

First, most people living in urban areas are in the highest quintile for wealth. At the same time, both rural and urban areas have seen an increase in the percentage of the population in the lowest quintile, while the proportion of those in the highest quintile has declined. This is further evidence that there is an urban–rural divide in the country in terms of economic inequality, but

also that the gulf between the haves and have nots is growing, in rural and urban areas alike. The data also underlines that wealth inequality is particularly pronounced, and growing, for people living in Mountain areas. The majority of people in Mountain areas (57.8%) are from the lowest quintile, compared with 31.0% in Hill and 5.7% in Tarai. The percentage of the Mountain population in the lowest quintile has also increased over time, from 46.6% in 2006 to 57.8% in 2016.

The 2016 NDHS also provides the distribution of population in wealth quintile by all seven provinces of Nepal. The data shows that Karnali province (Province 6) scores very low, as it did on income inequality and multi-dimensional poverty – almost 69% of households there fall into the lowest quintile. At the other end of the spectrum, in Province 3, 42% of households fall into the highest quintile.

**Table 3: Percentage of population by wealth quintile (2016)**

Residence/region	Wealth quintile				
	Lowest	Second	Middle	Fourth	Highest
Urban	12.5	18.6	17.4	21.4	30.1
Rural	31.1	22.1	23.8	17.9	5.0
Mountain	57.8	23.4	8.3	5.7	4.9
Hill	31.0	20.5	11.2	14.6	22.6
Tarai	5.7	19.1	28.9	26.4	19.9
Province 1	20.4	23.8	21.5	18.8	15.5
Province 2	3.9	22.4	36.5	26.0	11.1
Province 3	17.2	13.3	7.5	20.4	41.6
Province 4	22.0	21.1	16.2	20.3	20.4
Province 5	15.8	19.6	20.4	21.9	22.4
Province 6	69.1	15.3	7.0	6.0	2.6
Province 7	37.1	24.5	17.1	12.5	8.7

Source: Ministry of Health *et al.*, 2017.

## Gender and economic inequality

Gender inequality also interacts with economic inequality to push the poorest women and girls to the very bottom. Full data disaggregated by gender is not yet available in Nepal, but we know that women and girls remain at a disadvantage. For example, the available data implies that female-headed households are more likely to be poor; according to the 2016 DHS, 22% of female-headed households are in the poorest quintile, compared with 20% of male-headed households. At the other end of the spectrum, only 17% of female-headed households are in the richest quintile, compared with 22% of male-headed households.

Gender inequality compounds the impact of economic inequality. A rich woman is 4 times more likely to have gone to school than a poor woman, while a rich man is 50 times more likely to have gone to school.<sup>54</sup>

There also remains a divide in terms of access to property in Nepal. The latest survey data from 2011 shows that just 25.7% of households are female-headed, and while the figures imply this has increased, it may in fact be an overestimate. The government has granted up to 30% tax

exemptions on land purchased by women, but this may mean that men are purchasing in women's names without giving them full ownership or control of the asset, just to take advantage of the tax break. In practice, women are not in a position to sell the property themselves. This points to the need for a more fundamental shift in policy and practice, to improve the economic, political, social and cultural status of women, and to increase their access to assets and other economic opportunities.<sup>55</sup>

Economic inequality in turn has an impact on life chances. A poor child in Nepal is nearly three times more likely to die before the age of five than a rich child. Half of the poorest women in Nepal have no education at all, compared with 1 in 100 of the richest men.<sup>56</sup>

Rubina Kayastha<sup>57</sup> (name changed) of Saina Maina municipality, ward no. 4, Kapilvastu district, is de jure head of her household. All the property, the house, the land and the assets associated with the household are registered in her name, making it easier for her to manage loans, taxes and land sales while her husband is in South Korea.

Rubina still faces challenges. For example, she was forced to abandon the sale of a piece of land, which was intended to help the family invest in their children's health and education. Rubina lost her citizenship certificate, so was not permitted to bring her documentation from Bardiya district administration to Kapilvastu without the physical presence and signature of her husband. This was impossible as he was overseas. Finally, she had to give up the idea of selling the land for this reason.

## LAND INEQUALITY AND LANDLESSNESS

Land inequality is the oldest and most fundamental type of wealth inequality. It manifests in many forms and has far-reaching implications – from a lack of protection for the collective lands of indigenous and peasant communities, to fiscal policies that incentivize extractivism and prevent people benefiting equally from the exploitation of natural resources. Landless people, or those with small amounts of land, are treated as second-class citizens in Nepal; they are denied government benefits and lack access to food, housing, water, health, and work, and are more likely to face social instability and lack opportunities for economic development.

Land is also the most significant asset in the Nepalese rural-agrarian economy. More than 83% of people live in rural areas, and nearly 66% depend on agriculture for their livelihood. However, land is concentrated in the hands of the few. While the richest 7% of households own about 31% of agricultural land, the poorest 20% own just 3%.<sup>58</sup> More than half (53%) of Nepali farmers own less than 0.5 hectares of land, and 1.3 million households (29% of the population) do not own any land at all.<sup>59</sup>

Skewed patterns of land ownership have also been compounded by a deeply discriminatory and strictly hierarchical society that has excluded women, ethnic minorities, and especially people of 'low caste' (particularly Dalits). In this way, land inequality also mirrors and exacerbates other social divisions in the country. Approximately 80% of Nepal's indigenous population are marginal landowners, meaning they have less than 1 acre of landholding. Dalits are also more likely to have little or no land. Landlessness is as high as 44% among Dalits in the Tarai region, and 22% among Dalits in the Hills.<sup>60</sup> Despite the fact that women in Nepal work hard and long hours on agricultural land, they own very little of it: 81% of women are landless, and women own just 5% of land nationally. Also, women cannot sell produce – even from land that they own themselves – without the permission of a male family member.<sup>61</sup>

Landlessness is to be found in all regions of Nepal, but rates are particularly high in Tarai. There are also many more large landowners in Tarai than in the rest of the country, and nearly 16% of farming households (541,802) are registered as tenants. However, this is widely known to be a significant underestimate, as around 1.8 million households were renting land in 2001, and comprehensive but highly localized surveys suggest that up to 37% of rural households are tenants. One million people are unregistered and do not have the chance to acquire any part of the land they farm, sometimes for decades. Many cannot even get a receipt for the crop-share they pay to landowners. The threat of eviction hangs over all tenants; tenant farming has become highly mobile over the past 10 or 20 years, farmers often moving on after 1 or 2 years.<sup>62</sup>



Ram Singh Bista, 68, of Darchula, lost his land in flooding from the Mahakali river. He is now landless and lives with his wife who is mentally ill. Photo: Oxfam

## The political challenges of land reform

Land reform in Nepal stands as an unfinished agenda of the political parties, who tend to cash in on this issue whenever elections take place. However, the result of these election promises tends to be little more than setting up a new commission, which rarely leads to policy change. Since the 1964 Land Reform Act, which was said to redistribute land and give sharecroppers tenancy rights, a lack of political will, along with insufficient reliable oversight mechanisms, mean that land reforms have resulted in little progress.<sup>63</sup>

When the Panchayat regime formed the first Land Act in 1964 it did not take into consideration the exploited farmers, and primarily sought to protect the interests of the powerful landowners and tighten state control over land resources. Despite six amendments, the fundamentals remain unchanged.

Nepal's Constitution has provisioned 'scientific land reforms'. It guarantees the interests of farmers by ending dual ownership of land and discouraging absentee land ownership to increase production and productivity by integrating fragmented land. It also speaks about protection and promotion of farmers' rights while carrying out land management, and commercialization, industrialization, diversification and modernization of agriculture to increase agriculture production and productivity.

Other government policies and initiatives have worsened inequality by not adequately taking the country's land ownership policy and practice into account. For example, the government adopted an 'owner-driven' housing reconstruction programme, based on a World Bank project, to quickly address the destruction caused by the earthquake in 2015. However, this programme requires proof of land ownership as a condition for a rebuilding grant scheme. This approach did not take into account Nepal's history of feudal land tenure systems and local informal tenure relationships. As a consequence, tens of thousands of people were excluded from the reconstruction effort, many of whom are from disadvantaged groups that did not have land ownership certificates.<sup>64</sup>

Compensation for 'land-grabbing' for the construction of highways and electrification is also a growing issue. One prominent example is the acquisition of land earmarked for a fast-track highway joining Kathmandu to the Tarai area. The route has been agreed, but when the project started there were several households already settled and cultivating the land along the route. The government needed to acquire the land for highway construction, so decided to compensate the landowners who would lose their lands and/or houses. Unfortunately, though, many of the settlers/landowners did not have the land registered in their name as the land belonged to the government (unregistered land).

Debate and discussion of land reform or land redistribution in Nepal can be difficult, but it is crucial to the country's economic development. Without land reform, there will be no investment in farming technology or improvement in agricultural productivity. This prevents the country's evolution from subsistence farming to surplus farming that could stimulate the economy, create employment, produce raw materials for other industries and reduce social unrest.

Greater investment in agriculture is also needed. Government programmes to introduce irrigation facilities and fertilizers have proven inadequate, their delivery hampered by the mountainous terrain. Population increases and environmental degradation have ensured that the minimal gains in agricultural production – owing more to the extension of arable land than to improvements in farming practices – have been cancelled out. Once an exporter of rice, Nepal now has a food deficit.<sup>65</sup> Official statistics show that 1,030,000 hectares of agricultural land have not been used for agriculture (Table 4). **This unused arable land could feed more than 257,500 households – 4.7% of all households in the country.**<sup>66</sup>

**Table 4: Information on land and agriculture**

S.N.	Description/content	Households
1	Total number of households (census 2011)	5,427,302
2	Agricultural households	3,831,093
3.	Population engaged in agriculture (%)	65.6%
4	Land owned by agriculture households (hectares)	2,525,639.2
5	Households with land ownership	3,715,555
6	Households without land ownership	115,538
7	Total number of land parcels	12,096,417
8	Number of female-headed households with land ownership	704,185
9	Number of male-headed households with land ownership	3,011,371
10	Cultivated agricultural land (hectares)	3,091,000
11	Uncultivated agricultural land (hectares)	1,030,000
12	Percentage of land owned by government	78%
13	Percentage of land owned by private individuals	22%
14	Percentage of women with landholdings	19.71%
15	Agriculture sector's contribution to gross domestic product (GDP) (%)	35%

Source: Ministry of Agriculture (2012).



## Gender inequality

Gender inequality interacts with other inequalities to leave women and girls in the poorest and most marginalized groups furthest behind. As in many other South Asian nations, the majority of communities in Nepal are patriarchal, and for women and girls, life is strongly influenced by their fathers, husbands and sons. Patriarchal norms are deep-rooted and reinforced by discriminatory laws. There is also significant discrimination in all areas of life. For example, the practice of early marriage still exists, despite evidence of its negative effects on girls' lives.<sup>67</sup>

Illegal and harmful practices are also still common in some areas of Nepal. These include *badi* (caste-based sex work), *chhaupadi* (menstrual seclusion – see below), *kamlari* (bonded labour of daughters) and *deuki* (selling daughters to temples as child goddesses), as well as child marriage.

*Chhaupadi*, the practice followed by girls and women in Nepal during menstruation, keeps women in the cowshed or a separate hut (*chhaugoth*) for 5–7 days every month when they are having their period. Although the country's Supreme Court banned the practice in 2005, the custom is still widely observed in the western parts of the country, where rates of poverty, gender inequality and illiteracy are high.

Asha Buda, 15, was terrified to tell her parents once she started menstruation. 'I have to stay in the cowshed and I didn't know if I could do it,' she says. 'I feel terrible here – the cow dung smells and the darkness scares me at night. I wish that I didn't have a period.' Jumla, Nepal.

In July last year, Tulasaha Shah of Chamunda Bindrasaini municipality, Dailkeh, lost her life in a *chhaugoth* due to a snake bite. The same happened with Lalsara BK from the same municipality. In Accham district alone, 12 women lost their lives while staying in a *chhaugoth* over the past 10 years.<sup>68</sup>

Men and women are still not equal in the eyes of Nepali legal institutions. Women who experience gender-based violence (GBV) face significant challenges obtaining justice, due to a combination of discriminatory laws, slow legal processes, and the persistence of patriarchal ideologies. Men hold an overwhelming majority of positions in legal institutions, often bringing traditional concepts of masculinity that do not embrace the rights of women. This is one of the major reasons why women are hesitant about reporting cases of GBV in Nepal.<sup>69</sup>

Progressive laws are also often poorly implemented or ignored in practice. The government adopted a Domestic Violence (Crime and Punishment) Act 2009 and has funded programmes to tackle gender-based violence including a telephone hotline for survivors to register complaints. They have also established guidelines for hospital-based one-stop crisis management centres in several districts, which would allow women to report violence and seek treatment at the same facility. However, implementation has been slow and patchy. Women from remote rural areas, and those from poor Dalit and other minority groups, are particularly left behind and continue to lack access to support services.<sup>70</sup>

Discrimination against women in minority groups also leaves them ostracized, and can even put their lives at risk, as evidenced in a study conducted by the National Human Rights Commission (NHRC). The report quoted a respondent from Banke district saying, '*We have still the communities... in our area who refuse to drink water served or touched by the Dalit community*'. Another respondent from the same district shared their experience of witnessing caste-based discrimination in the public hospital, where nurses and doctors do not give proper attention to Dalit patients, including Dalit women during childbirth.<sup>71</sup>

Land and property rights provide another good example of the gap between laws and common practice in Nepal. The government has introduced several proactive measures to promote women's access to, ownership of, and control over land and property. These include a 25% to 50% tax exemption on registration when land is owned by a woman, a 35% tax exemption for single women,<sup>72</sup> and joint registration of land in the names of husbands and wives with a fee of NPR 100 (less than \$1). These laws and incentives do not apply in all geographical areas, however, and they can be abused in practice. As already noted, it is possible that men are registering land in the name of female family members just to take advantage of tax breaks, without giving women any control over the assets. Also, while the Constitution has provided equal property rights to sons and daughters, in practice sons are prioritized while women and girls are deprived of their rights.

In Nepal, women make a significant contribution to the economy, including through unpaid care and household work. However, they tend to have lower socio-economic status. This is compounded by a lack of awareness among women of their rights, along with insufficient support from existing institutions to ensure they are able to enjoy those rights.

Fundamental changes to the economic, political, social and cultural status of women are needed in Nepal to increase their access to decision making and livelihood opportunities. Without this, too many women and girls are destined to remain trapped in poverty.



Ishwori Shahi, 32, of Kakada, Dharchula, collecting sand from the barren land which she once owned, and where she grew cash crops. Photo: Oxfam

### 3 DRIVERS OF INEQUALITY

The evidence discussed in the previous section already indicates some of the root causes of inequality in Nepal. Significant differences in income, and access to assets like land, property and capital, drive greater inequality of wealth. Gender inequality and social discrimination compound and are compounded by economic divisions.

This section considers the other drivers of inequality that must be taken into account, in order to invest in a more equal future for Nepal.

#### AN ECONOMIC MODEL THAT DOES NOT WORK FOR MANY

In the early 1980s, Nepal suffered a serious foreign exchange crisis fuelled by excessive deficit financing. As a result, in 1985/86, the government was compelled to implement a programme of 'economic stabilization' under the standby credit arrangement of the IMF, followed by a structural adjustment programme (SAP) of the IMF and World Bank in 1986/87. This marked a significant shift in the economic model of the country, replacing state investment and regulation with a market-oriented economic policy regime under the conditions laid down in the SAP.

This regime intensified in the early 1990s after the implementation of a conditional Enhanced Structural Adjustment Facility (ESAF) programme of the IMF, whereby the Nepalese currency was significantly devalued against international currencies. This was followed by the drastic reduction in tariff rate structures and narrowing down of dispersion rates markedly. The government was forced to withdraw administered prices, minimize or abolish subsidies, and implement wide-scale deregulation and privatization. Its role was significantly reduced and restricted, and policies that served the market were introduced.

Since then, technology and foreign direct investment have driven more liberalization, and the neoliberal principles at the heart of the Washington Consensus have dominated the economic and political context that Nepal has been operating in. Neoliberalism downplays the importance of the developmental state, insisting that reducing government intervention and leaving markets to their own devices is the path to economic growth.

This ideology has become more controversial since the financial and economic crises that started in 2008, and there is a growing body of research demonstrating that it tends to concentrate wealth and power in the hands of the few without state intervention. Thomas Piketty famously made this case in his book *Capital in the Twenty-First Century*, and researchers have drawn on examples of growing economic inequality in countries that went through the same processes of structural adjustment as Nepal.

In recent years, there have been some efforts to rebalance the country's economic system, with the government prioritizing inclusive growth and poverty reduction, employment creation, and social protection. However, Nepal is one of the most highly liberalized countries in the South Asia region, when judged in terms of tariff structure, deregulation and openness of the economy.<sup>73</sup>

The Nepal Labour Act 2017 gives employers greater freedom to hire and fire, and the Special Economic Zone (SEZ) Act 2016 gives investors tax and duty exemptions, as well as freedom to exploit workers by opting out of Nepal's labour laws. In SEZs, trade unions and strikes are

forbidden, but workers are attracted to trade away these rights by higher wages, fixed working periods and other benefits.<sup>74</sup>

In the liberalization process, the agriculture sector has also been neglected, and abrupt subsidy withdrawals have caused increased landless and homelessness among poor farmers. Though the subsidy has been reintroduced to some extent, for many families the damage has already been done (see Box 3).

These consequences of the economic model Nepal has adopted over the years, and the economic conditionalities of external institutions and investors, have made a significant contribution to increasing economic inequality. They have also exacerbated social inequalities by putting 'the market' first, and leaving women and minority groups furthest behind.

### **Box 3: Economic growth in Nepal: who benefits?**

Nepal's average growth rate has been low, at about 4%, for the past four decades. Recent trends do not indicate that any improvement is likely in the near future, and also indicate that growth patterns are failing to address inequality.

The agricultural sector – which is a source of significant employment and crucial to the livelihoods of many of the poorest families – has seen growth of just 3.1%. On the other hand, the non-agricultural sector, which relies more on capital-intensive and urban-centric sectors, grew at 4.65%, with the financial sector and community and personal services registering the highest rates at 7.1% and 7.6% respectively. Slow and stagnant growth has also been seen in manufacturing, which grew at just 1.9% per year.

Both of these sectors play a critical role in employment creation, and distribute the benefits of growth progressively. Similarly, the construction sector, which is expected to play a significant role in creating jobs for the growing labour force in Nepal, expanded at a rate of just 3.5%. As a result, employment is suffering; growth is not translating into jobs. From 2001 to 2011, employment elasticity<sup>75</sup> declined sharply, and in manufacturing, electricity and trade, restaurant and hotels, there was a negative elasticity of 4.85, 1.83 and 1.43. Interestingly, sectors like real estate and finance, which registered higher growth, had a very low elasticity, at 0.05.

These facts underline that today, economic growth in Nepal is increasing rather than reducing inequality.

Sources: Khanal, 2015

## **PRIVATIZATION**

Privatization of health, education and other public services has also driven inequality in Nepal. As in many developing countries, privatization has largely been pushed by the World Bank and IMF, whose standard policy advice remains largely anchored on prioritizing debt payments by cutting government subsidies, increasing revenues, and shrinking the public sector. More specifically, privatization means selling public enterprises such as water, electricity and telecommunications to private corporations, in the belief that this will allow them to repay debts more quickly. However, the experience of developing countries is that privatizing public services has reduced access to those basic services and infrastructure.<sup>76</sup>

In Nepal, 30 state-owned enterprises (SOEs) have been privatized since 1992, using the different modalities such as assets and business sales, share sales, management contract, lease, liquidation, and dissolution.<sup>77</sup> Some of the key enterprises that have now been privatized

are the Agriculture Project Service Centre, Nepal Tea Development Corporation, Nepal Transport Corporation, Butwal Power Company, Agriculture Inputs Factory Limited, Agriculture Lime Industry Limited, Nepal Telecom Limited, and Nepal Drinking Water Office. Of the 30 privatized SOEs, 11 were scrapped, 1 was liquidated, shares of 11 were divested, and businesses and property of 3 were sold. Today, only 11 are in operation, and only 5 of these are making profits.<sup>78</sup> Even some of the most profitable enterprises collapsed after privatization.

In addition, according to the Annual Review of Public Enterprises 2014 published by the Ministry of Finance, this has cost the government NPR 4.93bn over the past few years. This is contradictory to the stated aim of privatization, and has cost rather than saved the government money. The report also finds that operators of privatized SOEs are pressuring the government to allow them to sell property and fund other business activities with the proceeds; in effect, turning public services and utilities into profit-making enterprises for the private sector.

One major issue is privatization and commercialization of health and education, which has put quality education and health services beyond the reach of poor people. User fees, even when small, price the poorest families out of these services. This creates a two-tier system, where the rich pay for and support private services, while remaining public sector services are starved of funding and political support, yet are the only option for those on low incomes. Privatization fuels inequality, and poor women and girls, along with ethnic minorities, pay the highest price.

## **Political capture and corruption**

Extreme economic inequality often goes hand in hand with inequality of power. When money and power are concentrated into the hands of the few, these elites are able to exercise excessive influence over politics, policy and public debate. The wealthiest and most powerful have control, while the poorest and most marginalized are not able to influence policy making or make their voices heard.

This political capture undermines institutions and policy making, and if left unchecked, will be one of the greatest drivers of further economic inequality.

It allows large companies and rich individuals to drive down wages for ordinary workers so that they can maximize profits and prioritize private services for those who can afford to pay, while the public sector is left under-funded. It also means that political elites are able to skew tax policy and regulation in their favour.

Today, Nepal has a burgeoning parallel economy, in which illicit flows are thriving; it is reported that Nepal was the sixth top exporter of illicit financial flows among least developed countries (LDCs) from 1990 to 2008, which resulted in an estimated loss of \$9.1bn from the country – nearly eight times the official development assistance (ODA) it received during that period.<sup>79</sup> Under-invoicing and over-invoicing in trade has played a decisive role in this, as well as direct corruption and money-laundering practices.<sup>80</sup>

Crony capitalism has also flourished under regressive monetary and fiscal policy that has increased investment and lending in finance, trade and other services. There has been a significant accumulation of trade-based wealth, as carteling has flourished in the absence of sufficient regulation, and as the nexus between political elites and unethical businesses has been facilitated by highly corrupt bureaucratic apparatus.<sup>81</sup>

Economic and power inequality also provides a fertile breeding ground for corruption. This creates a vicious cycle; an unequal distribution of power in society erodes trust and undermines institutions (see Box 4), which leads to corruption, which in turn fuels an even greater concentration of wealth and opportunity in the hands of the few. Well-connected individuals, who

belong mostly to high-income groups, benefit most from corruption. It tends to make the poor poorer and the rich richer; there is in fact a strong correlation between corruption and social exclusion.

Nepal scores very low on the Transparency International Corruption Perceptions Index (CPI); it ranks 122 out of 180 surveyed countries, with a score of 31 (in 2017). Nepal has also failed to improve its status on the CPI. It was placed 122nd, with a score of 29 2016.<sup>82</sup> This makes Nepal one of the most corrupt states in the world.

According to the reports of the Commission for the Investigation of Abuse of Authority (CIAA), 38 cases of illegal wealth have been filed in Nepal between 2013/14 and 2016/17. The data also shows that the number of cases that are actually investigated is very low; between 2006 and 2013, 469 cases of illegal accumulated property were given clean chits (a certificate of exoneration).<sup>83</sup> These trends show the sluggish path towards action against corruption by the authorities, and imply reluctance by the government to take more proactive action.

#### **Box 4: Corruption in bureaucracy**

Because of the widespread corruption and bureaucracy within the government of Nepal, international donors such as the UK Department for International Development (DFID) have channelled their funds into large non-government organizations (NGOs) and UN agencies to deliver their programmes. A senior official from Nepal's National Planning Commission (NPC) admits that the system is weak and corrupt, but says the huge salaries on offer in NGOs and the UN are causing a 'brain drain' in Nepal's civil service. *'A government employee gets \$200 a month, whereas you are paying \$2,000 per month at an NGO or agency... It is damaging.'*

These high salaries can provoke antagonism among the very people donors are trying to reach. An NGO activist said he had worked for three years on a £6m DFID-funded project to reform the police but it was cancelled before it got off the ground. The reason, he says, was the fees paid to consultants. *'The Nepal police didn't like it. I was paid \$300 (£190) a day but for the international consultants it was £1,200 a day.'* DFID said the project was cancelled because it was not deemed to be value for money.

The huge rebuilding programme needed in Nepal will bring in more highly paid consultants. As the UN's resident co-ordinator in Nepal at the time of the 2015 earthquake, Jamie McGoldrick, said, that is not always the best route. *'There's a strong case to say we should use national consultants before we go international. There will be a wave that will come – whether it's a helpful wave remains to be seen.'*<sup>84</sup>

There have been some positive constitutional changes in Nepal, in 2007 and 2015, which attempted to deepen democracy through inclusion and devolution of authority, and to ensure a system of checks and balances in the executive, legislative and judiciary. Unlike in many countries, an Interdependent Anti-Corruption constitutional body has also been in place in Nepal since 1990, aimed at strengthening democratic polity through improved governance. However, Nepal still lacks an accountable and transparent system in governing state and political institutions. Driven by a system of patronage and clientelism, a corrupt political culture is rampant and thriving.<sup>85</sup> Another striking phenomenon has been the increased tendency to select candidates for all levels of office on the basis of their wealth.<sup>86</sup>

In the next section, we look at some of the policy levers available to the government to tackle inequality. However, it is important to recognize that in this context, deliberate and concerted action is needed to overcome political capture and corruption, so that the needs of the many are prioritized over the narrow interests of the powerful few.

## DISASTERS AND INEQUALITY

Nepal is one of the most disaster-prone countries in the world, due to its topography and climatic conditions. It is ranked 11th globally in terms of earthquake risk, and 20th in terms of disasters.

Every year the country is exposed to around 500 disaster incidents, including landslides, floods, glacial outbursts, forest fires and earthquakes, and between 2011 and 2015, 12,233 people were reported dead and 26,453 injured as a result. The total economic losses incurred over the same period are estimated at \$7.8bn.<sup>87</sup> The Economic Vulnerability Analysis conducted by the NPC (2015) found that Nepal suffers losses of life and property, as well as economic losses, due to the significant exposure to high levels of risk.

In addition, approximately 3 million people were displaced by disasters in 2015 and 2016, the majority due to earthquakes. The 2015 earthquake alone caused economic losses of around \$7bn and displaced 2.6 million people.<sup>88</sup>

Natural disasters also exacerbate and compound existing inequalities. The poorest people tend to suffer most from disasters. They are more likely to suffer death or injury, and damage to property, as they live in more hazard-exposed areas and are less able to invest in risk-reducing measures. Disasters can have a catastrophic impact on livelihoods, health, and food insecurity.

*'There's no one left in my family, so I can't go back to my community as it reminds me of everything. I don't have any land, home or sense of safety and security.'*

Nandakali Nepali lost her husband, son, daughter-in-law and grandson in the Surkhet flood of 2012. Her only option to make a living has been working to crush stones, which has a negative impact on her health. Even five years after the flood, displaced communities like Nandakali's are still living in tents and lacking basic needs.

Women and girls are also disproportionately affected by natural disasters. Research has found that women and children are 14 times more likely to die than men during a disaster.<sup>89</sup> After a natural disaster, women are more likely to become victims of domestic and sexual violence; they often avoid using shelters out of fear, and are therefore less likely to receive help in the aftermath of a disaster. Women and girls also suffer more from shortages of food and economic resources.<sup>90</sup> The household workload also increases substantially after a disaster, which forces many girls to drop out of school to help with chores,<sup>91</sup> affecting their long-term economic prospects and life opportunities. Boys, on the other hand, are likely to receive preferential treatment in rescue efforts.

Minorities face the same challenges. According to reports compiled by Amnesty International and the International Dalit Solidarity Network, Dalits in particular experienced wilful neglect from relief workers distributing emergency supplies during the response to the 2015 earthquake.<sup>92</sup> Sometimes members of higher castes with political connections are able to use their influence to get limited resources for themselves – for example, getting bumped up on a distribution list. Dalits and Janajatis in both rural and semi-urban environments are also more likely to live in houses constructed from stone and mud, which collapse easily and tend to be in less stable environments such as on insecure slopes, riverbanks, and areas prone to rockfalls. By contrast, around 80% of concrete dwellings, generally occupied by higher castes, stayed intact in the 2015 earthquake.

More than half of the 607,212 buildings damaged by the 2015 quakes were situated in Tamang-dominated areas, and Tamangs accounted for 34% of the estimated death toll. These people were living in some of the poorest and most vulnerable communities in Nepal, where less than 40%

have access to health clinics within a 30-minute walk, and where education provision is low.

Many people who have been affected by disasters remain displaced, homeless and without the resources they need to rebuild their lives and livelihoods. Although preparedness at the national level is a priority for Nepal and the government's vision is to transform the country into a disaster-resilient nation, post-disaster management has remained delayed and ineffective. One of the fact-finding reports by HAMI (in 2017) concluded that slow progress on reconstruction is due to political interests, corruption, political instability, and a lack of immediate government response mechanisms. Disasters are causing greater inequality in Nepal, and leaving the poorest and most marginalized behind.

A report on earthquake-affected communities undertaken by HAMI and Oxfam in Nepal recorded the realities on the ground for survivors in Bhaktapur, Dhading, Dolakha, Gorkha, Lamjung, Makwanpur, Nuwakot, Rasuwa and Sindhupalchowk. After three years, they continue to live in temporary shelters made of iron sheets. Half of the 450 households surveyed were found to be staying in temporary shelters. In Sindhupalchowk, it was an overwhelming majority (92%) and in Dolakha and Rasuwa, it was 66%.<sup>93</sup>



Women in Panchkhal, Kabhre, working on the reconstruction of the water supply system damaged by the 2015 earthquake. Photo: Ashim Poudel/KIRDARC.



## 4 POLICY CHOICES TO TACKLE INEQUALITY

Nepal has a significant opportunity in coming years if the government prioritizes policies that tackle inequality. This section looks at some of the areas where changes in policy and practice could boost shared prosperity and build a more equal future.

And time is of the essence. Substantial population growth is forecast in the country, with an additional 5 million people expected to enter into the labour market by 2025.<sup>94</sup> This labour force can be mobilized to speed up development and help to overcome poverty, but the right investments are needed now to ensure that the country takes advantage of this demographic dividend. Now is the time for Nepal to invest in health, education and employment-generating programmes that the changing and rapidly growing population needs. Without these investments, the potential of the next generation will be squandered, and Nepalese workers will continue to take their labour abroad. The rest of this section outlines the key tools available to government for tackling inequality.

### TAXATION

The fiscal system is one of the most important tools that any government has to tackle inequality and promote equitable development. This starts with the taxation system. When taxes are raised progressively (based on who has the ability to pay most) and enforced properly (to ensure that the wealthiest and most powerful cannot escape their obligations), the tax system can promote significant redistribution. Taxation is also necessary to raise the money government needs to invest in inequality-busting public services, as the next section goes on to discuss.

Unfortunately, Nepal's legacy of economic liberalization is evident in the country's tax system. Since the 1980s it has been characterized by low income taxes and tariffs, tax holidays and exemptions, and a significant proportion of regressive indirect taxes.

In Nepal today, low rates of direct tax and excessive exemptions and incentives limit the tax contribution of top earners and profitable companies. The upper income tax rates for individuals, the corporate sector, and banking and financial institutions are 15%, 25% and 30% respectively.<sup>95</sup> The corporate sector has an even lower rate of 20% when investing in priority sectors. There are also various tax rebates, concessions and tax holidays for sectors such as manufacturing, granted by the Enterprises Act 2016. And there are extra facility provisions for investors who establish enterprises in the less-developed regions of the country. For example, the 2018 budget gave tax concessions to special industries in sectors such as manufacturing, tourism, and electricity production, making their applicable tax rate just 15% rather than the full 25%. This budget also included agricultural, forestry and mineral extraction industries in the category of 'special industries',<sup>96</sup> giving them the same tax benefits.

These low tax rates represent a missed opportunity to redistribute wealth through the fiscal system, and to raise more money for the public budget that can be invested in tackling inequality.

Nepal has also seen a sharp reduction in tariff rates, and a significant narrowing down of dispersion rates that make external trade highly liberal. This was further intensified as part of fulfilling membership conditions of the World Trade Organization (WTO) after Nepal joined in

2004, and in some instances Nepal has even gone beyond WTO membership obligations. The tariff system gives a higher level of protection to imported goods than equivalent domestically produced goods.<sup>97</sup> This has had an adverse effect on trade competitiveness and industrial development. Weak enforcement of the custom law has also led to under-declaration at custom points, under-billings and no billings in the consumer markets. Overall, Nepal is increasingly dependent on international trade-based revenue, which makes the domestic revenue base unstable as it is open to external shocks and fluctuations. Without changes to tax and tariff policy this could have adverse effects on sustained growth, development and income distribution.

A progressive tax system should be balanced towards direct taxation levied on income or profits rather than goods and services. While the proportion of direct taxes has been rising, up from 18.8% in 1989/90 to 31.6% in 2012/13, the latest figures show that indirect taxes still account for more than two-thirds (68.4%) of Nepal's total tax revenue (Ministry of Finance, 2016).

In 1998, to compensate for the potential revenue losses caused by reduced tariffs, Nepal introduced value added tax (VAT) at a flat rate of 13%, as a replacement for sales tax. VAT (in the form of sales tax before 1995) has increased as a share of commodities and services from 30.4% in 1989/90 to 47% in 2014/15. While some essential commodities and services have been exempted from VAT, this is still a regressive tax that places a disproportionate burden on the poorest in society. A study based on Nepal Rastra Bank (NRB) household survey data of 2008 revealed that despite the exclusion of essential goods, VAT imposed on agricultural commodities for the poorest quintile stood at more than 36%. The poorest fifth of Nepal's population are also estimated to be paying the equivalent of 7% of their total spending in VAT.<sup>98</sup> Similarly, a recent household survey in Sindhupalchok and Jhapa districts found that the average household pays more than three types of taxes, equivalent to around \$100 in a year),<sup>99</sup> which is quite high. There is a need to minimize the incidence of such indirect taxes, which hit poorest households hardest.

There are also indications that practice on the ground does not reflect the tax structure. There is a practice of imposing VAT and other taxes of up to 59.5% at customs offices,<sup>100</sup> and despite some reductions and fluctuations in recent years, VAT revenue derived from imports was 47.5% for 2012/13.<sup>101</sup>

Despite efforts to expand the tax base, there are gaps in tax collection, and Nepal's tax to GDP ratio is still below the 20% ratio recommended by the UN as a minimum level to meet development goals. This is despite a substantial rise from 5.1% in 1974/75 to 16.7% in 2014/15.

A study citing a report by the Department of Revenue Investigation indicates that there was a revenue leakage of NPR 3.44bn during the first four months of the fiscal year 2011/12. It observes that unpaid VAT was enough to fund a significant scaling up of maternal health services. Another report found that as many as 385 firms were engaged in producing counterfeit VAT bills in order to evade taxes during the same period, most of them large corporate houses).<sup>102</sup> One recent survey also found that business houses bypass formal modes of taxation – for example, by paying off government officials to gain exemptions. Many households are understood to go untaxed altogether.<sup>103</sup>

Nepal is also missing the opportunity to implement taxes that could increase revenue, while also making the tax system more progressive. For example, property taxes have received little attention in the past, and only recently have provincial and local governments been able to explore new initiatives to introduce integrated property tax systems due to ongoing moves to strengthen the federal system of governance. Wealth taxes have also been overlooked as an opportunity to counterbalance the rapid reduction in revenue from land tax. In fact, Nepal did

have a wealth tax in the early 1990s, but this was abolished after years of opposition from industry and business. This underlines how political capture and excessive influence of some wealthy and powerful actors can stand in the way of progressive reform that could help tackle inequality.

Overall, there is more work to be done to increase the total tax take in Nepal, as well as to ensure that taxes are raised in a progressive way that tackles inequality.

**Table 5: Changes in tax structure (1974–2015) (share in total goods and services)**

Types	1974/75	1989/90	2004/05	2014/15
Tax revenue as % of total revenue	83.5	78.4	80.0	87.7
Direct tax as % of total tax	20.7	18.8	24.1	31.6
Income tax share	27.0	67.4	80.0	78.3
Corporate		26.8		57.8*
Individual		73.2		42.2*
Indirect tax as % of total tax	79.3	81.2	75.9	68.4*
Custom	49.2	49.8	38.3	32.1
Excise	17.9	15.3	15.7	20.5
VAT	30.4**	31.3**	46.0	47.0

\*2012/13

\*\* Sales Tax

Source: Ministry of Finance (2016).

## PUBLIC SPENDING

Public spending on public services and other development programmes is a key tool for any government in tackling both poverty and inequality. However, public spending cuts augured in by the SAPs of the 1980s saw funding drop significantly, undermining the government's ability to intervene and tackle inequality.

Since then, concerted efforts have been made to increase government expenditure, and there has been some considerable success; spending in 2011/12 was more than 10 times that of 2001/02, and thereafter it rose at a faster rate still. Spending as a share of GDP increased from 17.4% in 2001/02 to 31.7% in 2016/17.<sup>104</sup> This is one of the highest rates among developing countries. Internal borrowing as a share of GDP has also remained low, and government debt stands at around 28% of GDP, which is relatively low compared with many developing countries.<sup>105</sup> As already discussed though, shortcomings in the tax system are still constraining public spending in Nepal, and limiting the funds the country needs to spend on measures to tackle inequality.

There is also evidence that public spending is not always invested in the best way to tackle inequality and poverty. First, despite a high share (63%) of current expenses in recent years, the share of spending on social services such as health and education has reduced drastically in recent years. Education spending has declined as a share of total expenditure, falling from 18.3% in 2011/12 to just 11.4% in 2016/17.<sup>106</sup> This is despite claims that the sector is a high priority. Another cause for concern is that government expenditure on the health sector has declined from 7.8% in 2011/12 to 4.7% in 2016/17.

While spending on pensions and other social security measures has increased, reaching NPR 60.6bn in 2014/15, more than two-thirds of the spending that year was due to retirement benefits to civil servants. This means it did not represent an increase in spending on social protection schemes that would benefit the wider population (Box 5).

#### **Box 5: Social protection in Nepal**

Nepal was one of the early initiators of social protection in South Asia. In 1994, an old age pension was introduced with a monthly cash transfer of NPR 100 to citizens of 75 years and above. Both coverage and the amount of social protection payments have gradually increased, reaching more vulnerable and disadvantaged people. Today, a universal social pension is a core pillar of Nepal's social protection system.

The new Constitution also gives social protection a high priority, and underscores the need to expand coverage to all citizens who are unable to care for themselves, and (potentially) vulnerable groups such as single mothers, children and people with disabilities. In 2017, an integrated Social Security Act was passed. People aged over 70, all single women, and people from endangered communities now receive NPR 2,000 (\$18.5) per month, and the recent budget speech by the Minister for Finance committed to provide a health insurance facility of up to NPR 100,000 (\$850) for people over the age of 70.

Today, social protection covers about 2.7 million people in Nepal, which is approximately 8% of the population. The 2013 Social Protection Index calculated by the Asian Development Bank (ADB) shows that Nepal scored well on social protection compared with some neighbouring countries; it scored 0.068, compared with 0.051 for India, 0.047 for Pakistan, 0.043 for Bangladesh and 0.036 for Bhutan. However, it scored lower than Sri Lanka (0.121) (ADB, 2013).

However, there are also some serious issues with social protection in Nepal. Implementation is fragmented and managed through different agencies, which is regarded to be a major problem (Ministry of Finance, 2014; ILO, 2015). This is compounded by the launch of ad hoc programmes, poor institutional capacity, funds being misused or delayed, and equity issues that affect the most vulnerable population. It is also important to ensure that future scaling up is sustainable, which requires a progressive fiscal system that can fund the needs of a growing population.

Finally, capital expenditure is less than one quarter of the total which has constrained productive investment. While Nepal's PRSP was supposed to help to restructure and reprioritize programmes based on impact, it has become customary to give virtually all projects and programmes 'top priority'; this is evidenced by the fact that the top priority (P1) accounts for 88 to 90% of total expenditure. Moreover, the practice of spending remaining budget in the last two to three months of the fiscal year has led to reckless spending that does not use public resources efficiently and judiciously.<sup>107</sup> Such disarray in public expenditure management has had very adverse effect on public services social protection programmes that are vital to tackling inequality.

### **Tackling inequality through public services**

There is strong evidence that free public health and education systems, alongside social safety nets, play an important role in reducing inequality. For example, free public health and education mitigate the impact of economic inequality; studies in more than 70 developing and transition countries have shown that these services act as a kind of progressive 'virtual income' that reduces income inequality.<sup>108</sup> Education also combats gender inequality, giving women and girls more control over their own lives. It has been found to reduce early marriage and the number of children women have, for instance.

## EDUCATION AND INEQUALITY

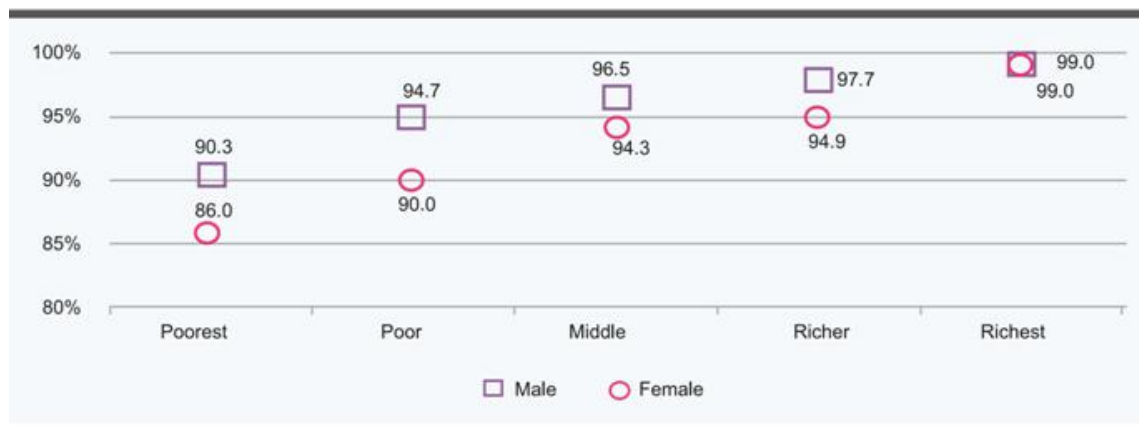
Nepal has made significant progress in educational attainment in recent years, with the literacy rate (children over 5 years) rising from 50.6% to almost 65.6% between 2003/04 and 2015/16. However, significant progress is still needed to ensure that all children can access quality education. It is estimated that 17% of children who enter grade 1 do not complete the primary cycle, and less than one-third reach grade 10,<sup>109</sup> and only 6% of the poorest girls complete primary school.<sup>110</sup> Access to education is limited by geographical constraints, poor infrastructure, social and cultural norms, and a lack of well-trained teachers. Qualified teachers are also necessary to ensure a good quality of education, but in Nepal there is evidence of low teaching and learning quality, as reflected in the persistently high failure rates in the national School Leaving Certificate examinations.<sup>111</sup>

The poorest people are also excluded from education due to the persistence of out-of-pocket payments for schooling in Nepal. The CBS national accounts (2016) indicate that families bear 56.6% of the total cost of education. Nepal has a policy of free primary education, but this does not mean that schooling is free in practice; in reality, families pay more than a third of the total cost of primary education in Nepal due to informal fees, and the need to pay for learning materials and uniforms.<sup>112</sup>

Monika Lohar, 12 years, of Kanchanpur, Vimdutta municipality, ward 9, has to walk 4 hours every day to go to school as there is no secondary school in the village, making it very hard for her to get to school on time and to learn when she is there. She is not alone – 150 students from the same municipality face the same kind of stress from long journeys. The students miss their classes and due to tiredness, they are not able to study properly. Consequently, the dropout rate is very high. The story might sound incredible but it is common for children from less-privileged regions to face immense hardship to access education.<sup>113</sup>

The poorest children – especially girls and those living in rural areas – are most likely to miss out on a quality education in Nepal. According to the NLSS (2011), the literacy rate is 20% lower for females than for males, and these gender differences are even more pronounced in rural areas. Gender disparity in education also widens as poverty increases, which means that girls from the poorest families face a greater disadvantage than those from wealthier families. The survey found that the gender gap in school enrolment is widest in the poorest and second poorest wealth quintiles, and is non-existent in the richest quintile (Figure 4). A combination of gender norms, and low incomes (which force families to put children to work – both to earn an income and to help with household work) means that families are less likely to send their daughters to school.

**Figure 4: Differences in school enrolment of children aged 5–14 years by gender and wealth quintile**



Source: NLSS 2011, cited in Ministry of Education, UNICEF and UNESCO (2016).

There are other barriers to increasing and improving education for girls in Nepal. First, there is a lack of female teachers. According to the Flash II Report 2014 from the Department of Education, there are more male than female teachers at both primary and lower secondary levels; at the lower secondary level, almost three-quarters of the teachers are men. This is despite government policy to recruit more female teachers, along with more Dalits and Janajatis. It should also be noted that more women teachers are going to private schools.<sup>114</sup> The lack of separate toilet facilities for girls and boys in many schools is also a significant issue, and the low ratio of toilets per pupil, lack of privacy, and running water, soap and disposal facilities are a barrier and a problem for all children. These services are less likely to be present in schools in poorer areas.

Child marriage is both a cause and a consequence of girls dropping out of school. Analysis of the NLSS 2011 data shows that marriage is one of the major factors that leads to children aged 10–16 being out of school (see Figure 4). Higher levels of education are correlated with low rates of child marriage: for women aged 20–49 years, the rate of marriage before the age of 18 drops from 62.7% among women with no education to 16.9% of those with higher education.

There is also a direct correlation between levels of educational attainment and wages. Data shows that even though there is an increasing supply of educated workers in the country, wages have been rising for those with higher secondary and tertiary education. For example, a government official such as a secretary can receive a basic salary of \$545, whereas the lower-level staff (fifth position) would earn \$164 (70% less). The supply of workers with lower levels of education is increasing at a faster rate than demand, and this is one of the reasons why these people are leaving Nepal to seek better jobs in the international market (for example, in Malaysia, the Gulf and India). However, illiterate people are very unlikely to be able to seek employment opportunities abroad. The cost of migration is too high, especially because of brokers' inflated fees.

## HEALTHCARE AND INEQUALITY

Universal health coverage (UHC) is necessary to meet every citizen's right to healthcare, and to tackle poverty and inequality. Recently, the government has committed to UHC, as well as launching free health services and the universal Safe Motherhood programme, which aims to reduce maternal and neonatal mortality.<sup>115</sup> Free distribution of medicines through health posts, health centres and hospitals has also increased.

Despite this, today, more than one-third of the population has no easy access to healthcare, including most poor people in remote areas. There are substantial gaps in life expectancy, child nutrition, infant mortality and access to health services across various socio-economic groups and geographical regions.<sup>116</sup> Marginalized communities have been deprived of free government services and entitlements, and ordinary citizens lack the information on such provisions or know about their constitutional right to healthcare. For instance, the WHO Journal 2015 found very low access to and utilization of free healthcare services in two tertiary care hospitals in western Nepal. The reasons cited included that 'the hospitals did not provide an adequate educational programme to inform the population about the availability of free healthcare services' and the 'lack of knowledge regarding free services and target groups among staff working in the hospitals'.<sup>117</sup>

There is also a shortage of free medicines provided by the government at most health facilities in Nepal. One acute example is Humla district, in the mid-western Mountain Iying Province 6 (see below), but we have collected evidence from a variety of areas where people are struggling to access free medicines.

Patients in Humla district return from health posts without even a Citamol. Local Jokhya Buda, of Tanjakot rural municipality-3, Maspur, said that he could not get medicine for normal flu. He walked for four days all the way to the district headquarters of Simkot to get the medicine, but had to return empty-handed. Buda said that he travelled the long distance after hearing that the government will provide free medicine.

A similar complaint was made by Deep Bahadur Rokaya, of Adanchuli rural municipality-2, Humla. Local people complained that the health posts and organizations did not have any of the free medicine announced by the government. More people are getting seasonal flu in this area, but they are not getting any medicine. Patients are facing difficulties after the rural municipality and ward office failed to forward the medicine purchasing process.<sup>118</sup>

Lack of trained medical staff is another substantial challenge for Nepal. Government data estimates that 20,000 trained health personnel are needed to meet the needs of the whole population, but only 8,600 are available. **There is one doctor for every 1,734 people in Nepal.**<sup>119</sup>

This lack of health facilities, medicines and trained staff has a serious impact on women. According to the NDHS 2016, 277,344 pregnant women had unsafe deliveries and 15,760 women delivered without a skilled health attendant in 2016/17. The result is that women and children are dying in childbirth; Nepal's maternal mortality ratio is 239 per 100,000 live births and the infant mortality rate is 32 per 1,000 live births.<sup>120</sup> Only 30% of the poorest women give birth in a health facility, compared to 90% of the richest women.<sup>121</sup>

Given these significant challenges, it is important that the government invests in the right policies to tackle inequality and meet everyone's needs and rights to healthcare. Public services are vital for the poorest; less than 2% of the poorest mothers give birth in a private hospital, compared to 21% of the richest mothers.<sup>122</sup> However, there are some worrying trends. Commercialization and privatization are increasing, which can only increase the cost of healthcare and make it less affordable for poorer people. An effective regulatory system to ensure that private services do not put profits before patients is also lacking.

The government has also introduced a health insurance scheme, and committed to cover the insurance fees of the poorest people. However, there are doubts that the government can

remove all the financial barriers that prevent the poorest people joining by covering the NPR 2500/year and other associated costs such as transport.

## WORK AND WAGES

As we have already discussed, paid work is the main way for the majority of people to make a living and improve their life chances. This is especially true for the poorest people. This means that policies to improve wages and terms and conditions for ordinary workers are important in tackling inequality.

More than 500,000 people enter the labour force each year in Nepal, but employment opportunities are limited,<sup>123</sup> and because of this, 80% of these people leave to seek employment abroad, as do workers who have gained some experience and are seeking higher salaries. Most graduates also choose to move abroad to find better opportunities. There are approximately 2.4 million officially registered migrant workers abroad, excluding India.<sup>124</sup> Every other household in Nepal has at least one migrant or a returnee, and more than half of households receive remittances sent by their family members working abroad. In fact, the Nepali diaspora abroad contributes approximately 25% of GDP.<sup>125</sup> This is the highest rate among South Asian countries, and the fifth highest rate in the world. This does not mean that remittances are sufficient to support families back home in Nepal though, as most overseas workers are engaged in low-skill occupations.

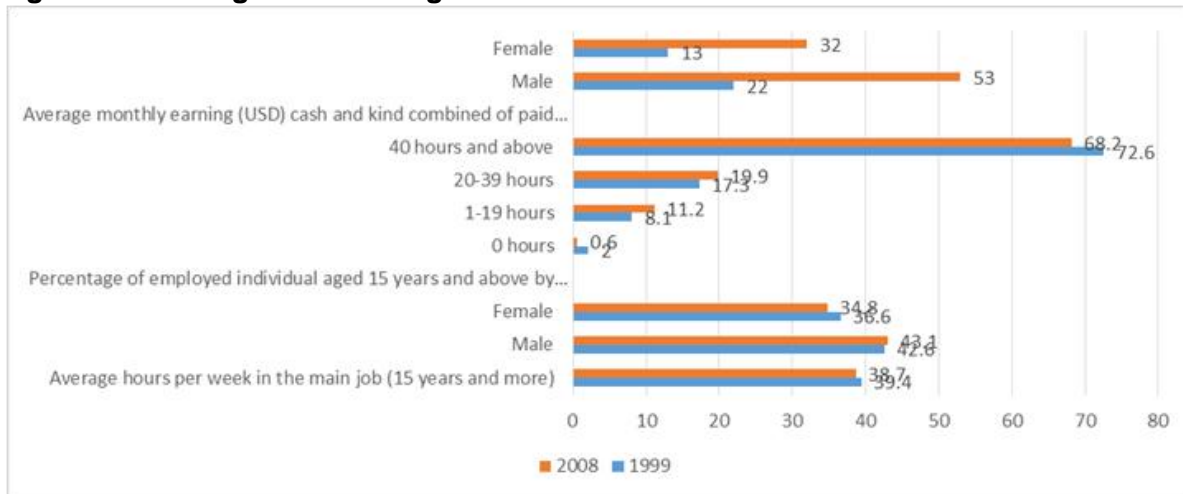
For those who remain in Nepal, many face insecure jobs and underemployment. The vast majority of workers (96%) are employed in the informal sector,<sup>126</sup> where minimum wages and other regulations to protect workers are less likely to be honoured and harder to enforce.

On July 24, 2017, the government passed the Social Security Act 2017, which stipulates that employers and employees should deposit 11% and 20% respectively into a Social Security Fund. This will provide the finance to pay workers' sick pay, unemployment allowance, dependent allowance and pension payments. It represents a big step and important progress for those working in the formal economy, and paves the way to address controversial labour provisions such as 'hire and fire' and 'no work no pay'. However, it does not support those in the informal sector. According to the Labour Force Survey 2008, 86.4% of workers in the non-agricultural sector are in the informal sector, and the percentage is growing.

This survey also found that only 68.2% of employed Nepali labourers worked 40 hours or more (Figure 5), and a growing percentage of those working fewer than 40 hours were not doing so by choice: 21.1% of workers said their lower hours were involuntary in 2008, up from 15.4% in 1998/99. While the NLSS 2011 stated that the unemployment rate was 2%, it should be noted that there are significant definitional problems that lead to undercounting.<sup>127</sup>



**Figure 5: Working time and wages**



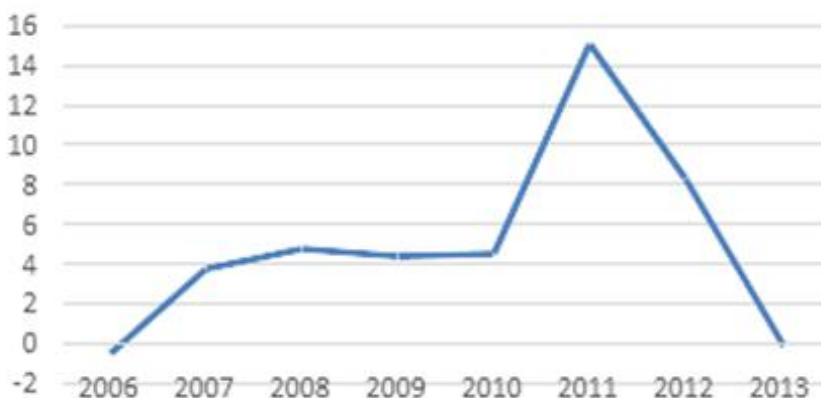
Source: CBS (2008)

It is also important to note that young people are struggling to find work due to a lack of focused policies and programmes. In 2010, the International Labour Organization (ILO) found that young people aged 15–24 in Nepal were 2.2 times more likely to be unemployed than adults. Youth unemployment was also more acute in urban areas; the rate increased from 7.6% in 1998/99 to 13% in 2008. This is likely to be a major challenge for Nepal in the future.<sup>128</sup>

When it comes to respect for trade unions and the rights of women in the workplace, Nepal ranks among the lowest countries on the Commitment to Reducing Inequality Index. There are no laws to prevent discrimination based on gender and no law against rape in the workplace.<sup>129</sup> There is also worrying evidence of exploitation of children and vulnerable groups in the labour market. According to the ILO, 6.2 million children are currently engaged in economic activities, with 2.1 million of them working in hazardous conditions.<sup>130</sup> Bonded and forced labour are also still highly prevalent in Nepal, with more than 100,000 bonded labourer households involved in agriculture.

From 1989/89 to 2008, average wages increased, and crucially the evidence suggests that they are continuing to increase in real terms, faster than the Consumer Price Index (CPI). Between 2006/07 and 2009/10, the CPI rose by an annual average rate of 9.4%, while the salary index rose by 11.9% and the wage index increased by 13.4%.<sup>131</sup> According to the ILO, however, the rate of real wage growth has stagnated since 2011, falling from 15.1 in 2011, to 8.3 in 2012 and -0.2 in 2013 (Figure 6).<sup>132</sup>

**Figure 6: Growth of average real wages in Nepal**



Source: ILO (2014)

Also, while men and women have both seen an increase in pay, women continue to earn significantly less than their male counterparts. Wages increased from \$22 in 1998/99 to \$53 in 2008 for men and from \$13 to \$32 for women. This means that even in 2008, on average, women were earning just 59.7% of the wages earned by men. This significant gender gap is driven by wage discrimination, mainly in the informal sector, and other social and economic barriers to women finding decent work. For example, two out of every five women in Nepal cannot read or write, which means they have little to no employment prospects, leaving them even more open to low salaries, poor conditions and other forms of exploitation.<sup>133</sup> Women are also less likely to leave the country to seek work elsewhere; census data shows that in 2011, of the nearly 2 million Nepalis who migrated abroad, 237,400 were women.

Establishing and strengthening minimum wages can play a significant role in reducing wage inequality, and tackling poverty and inequality more broadly. In recent years, Nepal's government has focused on implementing minimum wage policies to prevent wage stagnation and raise levels of pay for all Nepali workers. The ILO has long encouraged such government intervention, emphasizing that labour is not a commodity, and that wages cannot be determined purely by supply and demand.<sup>134</sup>

## CONSTITUTIONAL RIGHTS

Nepal also has an opportunity to build on recent progress to protect civil and political rights. A new government was recently elected, with a significant majority, and it has committed to implementing the agenda set in the new Constitution of 2015.

A commitment to equitable and inclusive economic growth and shared prosperity is the most notable and important ingredient of the new Constitution. Its preamble commits to ending class-related discrimination and to the establishment of a socialist society based on economic equality, prosperity and social justice. This is the first time such provisions have been incorporated in Nepal's Constitution.

Today, every Nepali citizen has a constitutional right to life, and to freedom of opinion, expression and assembly. The Constitution also includes the right to form political parties, unions and associations, and thanks to the historic People's Movement in 2006, it also enshrines the freedom to practise a profession, and establish and operate a business in any part of Nepal.

Nepalese trade unions have played a significant role in the development of the new Constitution, especially to strengthen labour provisions and ensure that Nepal is in line with international norms and standards. As a result of this proactive lobbying for workers' rights, the Nepal Constitution 2015 includes the following provisions: '*All workers shall have the right to fair-labour practices, fair wages, benefits and social security based on a contributory fund, and the right under the law to form and join trade unions and engage in collective-bargaining.*' These rights are in line with the ILO Conventions 87 and 98, and give legal protection to workers. The Constitution also features concepts of decent work and fair labour relations between workers and employers.

The Constitution is also non-discriminatory; it protects the rights of all people equally. It specifically mentions the rights of Dalits, and has also incorporated the term 'worker' in the list of groups to be protected by the state, and includes the provision of equal pay for equal work, and social security. It also stipulates that people cannot be bought and sold, or kept as slaves or bonded labour, and prohibits child labour in line with international standards on children's rights. If anybody acts against the Constitution, they can be punished, and victims are due

compensation. If these provisions are fully implemented, the lives of workers will improve significantly.

Under Article 35 of the new Constitution, all citizens are also guaranteed the right of free basic healthcare facilities, and the article stipulates that no one shall be denied emergency health services, safe drinking water or cleanliness and hygiene. The right to access basic education and social security have also been included.

To capitalize on the commitment to bring prosperity and social development to Nepal as guaranteed by the Constitution, further reforms are needed. For example, the country has yet to fully implement the right to food and adequate housing, dignity, accountability and justice, economic empowerment, and health.

Workers are demanding the creation of a Labour Commission, and 10% representation of workers in state bodies, but these provisions have not been guaranteed in the Constitution. If the law does not carry forward the demand for a labour-related commission in future, it may be difficult to implement the labour inspection system. It will also block the formation of the Economic and Social Multi-Stakeholder Committee, which could play a role in settling conflict and labour disputes in Parliament, and hold discussions with trade unions. Also, the definition of the terms 'worker' and 'labour' are used in a way that creates ambiguities. This also clearly shows the limited knowledge among policy makers, and the problem with low representation of the labour force in decision making processes.

The rights guaranteed in the new Constitution are the building blocks for a fairer society that keeps inequalities in check and promotes more inclusive development. If the government can implement policies and oversight mechanisms needed to enforce constitutional provisions, and collaborate with citizens to strengthen them further, there is great cause for optimism. In doing so, they must take into account the needs of the poorest people, workers, women and girls, ethnic minorities and other marginalized groups.

# 5 RECOMMENDATIONS

Based on the evidence in this report, there are a number of steps that the Government of Nepal could take immediately to tackle inequality and put the country on track for a more prosperous future for all its citizens. These steps include the following.

- Collecting data on wealth and income inequality, and regularly making this data public to inform policy making and enable scrutiny by civil society.
- Setting a timeline and working effectively to reduce inequality levels to agreed rates. (The government has already committed to reduce consumption inequality from 0.33 in 2015 to 0.16 by 2030, income inequality from 0.46 to 0.23, and the Palma ratio from 1.3 to 1 in the same period.)<sup>135</sup>
- Properly implementing the existing plan and policies on gender equality, and strengthening enforcement and monitoring.
- Reforming the tax system and implementing progressive tax policies that accelerate and scale up resource mobilization and tackle inequality.
- Revising spending policies to prioritize investment in sectors that tackle inequality such as education, health and social protection, and prioritizing free universal health and education systems and a basic social protection floor for everyone.
- Expanding access to education, especially focusing on girls, and improving equity and quality of education at all levels.
- Extending social security to informal workers and other vulnerable population groups. Social protection should form an integral part of overall spending policy.
- Creating more and better-quality jobs in the formal sector, where minimum wages and other labour laws can be enforced.
- Ensuring safe working conditions in all workplaces, including equipment like machine guards and standards for safer handling of hazardous substances.
- Recognizing, reducing and redistributing unpaid care work and promoting greater recognition of women's contribution to the national economy.
- Supporting the agricultural labour force to move out of traditional farming activities and engage in commercial farming.
- Investigating potential agreements with other governments that invest remittances in productive sectors, certify skills across borders, and encourage sharing of experience and technology.

There are also a number of deeper reforms that are needed to build a progressive economic system in Nepal, which is crucial to underpin progressive policy change. These include the following.

- Replacing neoliberal development discourse with a new transformational approach to development that is in the true spirit of the new Constitution.
- Overhauling corrupt, inefficient and ineffective governance systems.
- Rejecting commercialization and privatization of public services such as health and education, and embracing universal services and benefits to ensure that the rights of all citizens are realized.

- Overhauling macroeconomic policies that encourage speculative investment and other high-profit business activities that do not invest in the real economy.
- Committing to growing the incomes of poor people at a faster rate than those of rich people.
- Committing to progressive land reform, which ensures a more equitable distribution of land, especially to landless people and poor farmers.
- Improving participation, transparency and inclusion in policy making on land, to ensure that reforms are implemented effectively and that they genuinely represent people involved in agriculture.



Children on their way to school, Tenze village in Dolpa. Photo: KIRDARC.

## ANNEX 1: FACTS ABOUT INEQUALITY IN NEPAL – THE METHODOLOGICAL APPROACH

There is a dearth of data for detailed analysis of inequality capturing the long-term trends in Nepal. This is more so in the case of wealth inequality. Though time series data on inequality are available, estimated based on NLSSs conducted at different intervening periods, they are derived following the consumption approach; hence, they often undermine or misrepresent the reality on the ground. Three rounds of NLSS data and another major periodic survey (the NDHS) are mainly referenced to compute the actual income and wealth inequality situation in the country.<sup>136</sup>

Income inequality was computed, in this study, based on the distribution of per capita income by deciles, which is reported in the NLSS.<sup>137</sup> The Gini coefficient for wealth inequality was calculated based on raw data from NLSS III (2011). Excluding households with negative wealth, 6,928 sample households were obtained for the computation of wealth inequality. Wealth of household was computed by adding current monetary value of house, durable goods, land, livestock, farming assets, enterprises, other assets and amount of lending and borrowing. Per capita wealth was obtained by dividing total wealth by household size. After computing wealth for each sampled household, ordering of wealth distribution among households was done, and deciles were formed, based on which wealth Gini was computed.

For obtaining data on the labour market, landlessness, and gender inequality and social exclusion, facts and figures were substantiated with case stories from workers. These data focused mainly on the existing labour market situation, unemployment conditions, decent work, landlessness, gender and social disparities, inequality, impact after technological advancement in the labour market, and informalization of labour. National and international inequality reports were also reviewed to assess the global, regional and national trends of inequality.<sup>138</sup> The government commitments made at national and international forums on labour rights, decent work, wages and informalization were reviewed in line with the international provision domesticated into Nepal's Constitution, laws and by-laws in order to know the facts and figures of existing labour market data sources such as those available from the Ministry of Agriculture, Ministry of Labour, Ministry of Finance, NLSS, Population Census 2011, National Planning Commission reports, the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Nepal Rastra Bank, the ADB, the World Bank, the IMF, the ILO, trade unions, and Oxfam. Informal conversations with trade union leaders, UN agencies, representatives of the FNCCI and NGOs were also conducted to assess the implications for the labour market in the future.

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A woman drinks from a tap maintained by the Rautbesi Water Supply project in Nuwakot. Photo: Oxfam.

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