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Inclusive Growth Experiences – the case of Nepal

Discussion on the Paradox from a conventional and a holistic perspective

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The experience of Nepal seems paradoxical, experiencing a costly domestic insurgency situation simultaneously with a sharply decreasing trend in poverty headcount rate: from 41.8% in 1996, to 25.16% in 2011.. This result is attributed to outflow of domestic labor, and sharp growth of remittances. However remittance-receiving households use this largely on consumption activity; that is “short” term IG. However, analyzing from a broader system perspective suggests that there are both intended (positive/negative externalities) and unforeseen consequences. This changes the analysis and suggests the need for a thorough understanding of the interaction for providing an accurate diagnosis of the IG process.

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I. Introduction

Poverty reduction is the ultimate goal of almost all policy makers from developing countries. To achieve this, the dominant view in the early 1970s was that economic growth can be a primary objective of economic policy, which will contribute to poverty reduction. However with liberalized markets there followed a period of accelerated economic growth led to a reduction in overall poverty levels, this situation also results in increasing income inequality (partly resulting from wide-spread market failures and follows discussion on the Kuznets curve) which contributes to social tension and, in the extreme, economic and political instability (UN, 2010). In other words, the different components of society did not respond equally to economic growth and thus poverty reduction. To address this issue of unequal poverty reduction, policy maker have focused on the quality of growth, (such as Bourguignon, 2003; Vetterlein, 2007; Ali and Son, 2007 to name a few) with the acknowledgement that growth is a necessary contributor (however also suggesting that slow and low growth rate has limited power to generate employment). In this regard there have been many alternative policy schools such as having pro-poor growth or broad based growth (Klasen, 2010), however one recent strand is for having Inclusive Growth (IG), which is described as growth that allows all members of society the opportunity to participate and contribute to the growth process.

While there is no widely accepted definition of IG, the definition by Ianchovichina and Lundstrom (2009, p.2) seems balanced and thus appropriate for use by the paper: “Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked. In other words, inclusive growth focuses on productive employment (and their opportunities) rather than

on income redistribution, and that there should be an equality of opportunity for individuals and firms within an economy.” IG therefore takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. Thus the literature suggests that economic growth and productive employment opportunities have a negative and generally linear relation with poverty levels – i.e. they generally estimate IG using a cross tab of input verses outcome or use Ordinary Least Squares estimation method. However this narrower analysis, labeled in the paper as the **conventional perspective**, gives less importance to the system wide effects and consequences among the actors of economic system. On the other hand, this later and broader analysis, which is labeled in the paper as a **holistic perspective**, gives richer insight and information for policy makers by including economic system wide effects such as access to services (namely education, finance, health, market etc); which internalizes the apparent externalities in measuring growth, and analyzes the growth process with solid economic reasoning on how the economic variables and people change their behavior to make positive changes in output. Thus, it is suggested that a much broader and wider body of data from both qualitative and quantitative approach can provide the system wide effects than that resulting simply from statistical analysis. The paper uses both these perspectives on IG (i.e. conventional and holistic) through a case study on the experience of Nepal, a land locked least developing country in South Asia. whose trends in stylized facts are contrary to expectations: the country experienced a decreasing poverty trends in the face of a costly domestic insurgency (which contracted domestic productive employment opportunity).

The goal of the paper is to discuss this paradox from the case perspective with methodology based upon qualitative analysis from publicly available data as well as the three National Living Standard Survey (NLSS) data sets to: (1) Provide a discussion on trends in stylized facts; (2) Provide analysis from both a conventional perspective and a broader, holistic perspective; (3) Provide general insight and conclusions.

Jumping ahead, the insight from the paper is that using a holistic approach (versus conventional perspective) to analyze the stylized facts is necessary for having richer diagnosis. The paper also provides a cautionary note to local policy makers, which is generalized to all policy makers, regarding both diagnosis and formulation of policy prescriptions. The paper has a number of limitations such as the present domestic fluid political situation and issues with data quality.

Table 1: Map of Nepal



Source: <http://ncthakur.itgo.com/map.htm>

| | | |
|--------------------------|---------------------------|-----------|
| Area | 147,181 square kilometers | |
| Population (2011 Census) | 26,494,504 | |
| GDP Growth 2011/12 | 4.63% | |
| GDP Growth | Average | St. |
| 1984/85-2011/12 (whole) | 4.54% | Deviation |
| 1984/85-1994/95 | 4.94% | 0.016228 |
| 1995/96-2002/03 | 4.23% | 0.018906 |
| 2003/04-2009/10 | 4.29% | 0.019456 |
| 2010/11 | 4.27% | 0.009846 |
| Source: GON | | |

II. Nepal Stylized Facts

Nepal is a land locked least developing country in South Asia located between People's Republic of China to the north and Republic of India to the west, south and east. The figurative map and some geographical as well as economic statistics are provided in Table 1 below.

While history of the unified state of Nepal started from the late 18th Century, the paper focuses on the period after 1990, which marks both a regime shift from absolute monarchy to a constitutional monarchy with parliamentary democracy as well as the start of economic liberalization. During this period, many International/Non-Government Organizations (I/NGOs) came into existence with the objective of social development in the rural areas of the country. In this regard, people and the private sector were encouraged to undergo joint activities in the liberal society with economic activity being concentrated on some urban areas. With liberalization annual GDP growth spurted upwards and reached a maximum of 8.22% in 1993/94¹; unfortunately this economic growth was accompanied by growing inequality. While there is no statistical evidence which show this environment, the situation fueled social tension and led to the initiation of the domestic armed insurgency from mid-1990. This decade long conflict period had great economic, social and human cost; there was significant damage to property and infrastructure which contributed to a contraction of manufacturing and industrial sector to GDP; the conflict resulted in approximately thirteen thousand deaths of Nepalese nationals during this period along with there being massive dislocation and displacement (INSEC, 2013). However, the period also saw societal changes from traditional ways of dealing

¹ The fiscal year start from mid-July to next years mid-July; thus 1993/94 is mid-July 1993 to mid-July 1994

to a more ‘modern’ way of dealing with society, which was also associated with widening of the horizons of the people (Lawoti, 2007; Seddon and Hussein (2002)), along with the enhancement of access to different services. The development process and the resulting equilibrium point from the social perspective had thus been shifted. The period of domestic insurgency ended in 2007 with the Comprehensive Peace Agreement and Nepal started the process of writing own Constitution, having elected a Constituent Assembly. Unfortunately, the process is still ongoing with the term of the Constituent Assembly having expired and exercise being made to form an election government for another Constituent Assembly.

The economy has also seen transformation from one based largely on agriculture to one based on services. In the 70’s, the contribution from agriculture was over 70 % of GDP with the service sector accounting for about 15% of GDP. Presently, Agriculture accounts for a little over 30% contribution to GDP while services contributes over 50% of GDP. Thus, this is reflective of significant transformation on the domestic economy.

The discussion of this paper is based on secondary data from three national level household surveys – the National Living Standard Survey (NLSS) – in 1996/97, 2003/2004 and 2010/11.

Summary of these surveys are provided in the below table.

| Table 2: Summary of NLSS coverage | | | |
|---|--|------------------------------------|------------------------------------|
| Description | Nepal Living Standard Surveys | | |
| | NLSS I | NLSS II | NLSS III |
| Number of primary sampling units cross-sectional data | 274 (3373) households) | 326 (3912 households) | 499 (5988 households) |
| Survey methods | Living standard measurement survey | Living standard measurement survey | Living standard measurement survey |
| National representative survey | Covered all development regions, rural/urban and | Covered all development regions, | Covered all development regions, |

| | | | |
|--|---|---|---|
| | ecological belts | rural/urban and ecological belts | rural/urban and ecological belts |
| Coverage of surveys | Household information, income, consumption, saving, education, health, remittance, government facilities among others | Household information, income, consumption, saving, education, health, remittance, government facilities among others | Household information, income, consumption, saving, education, health, remittance, government facilities among others |
| Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively. | | | |

Looking over the poverty indicators in the three NLSS as shown in the table below, suggest that there is a sharply decreasing poverty trend over the period of the survey (there is also consistency of the poverty statistic in NLSS I (i.e. 41.76%) with that of the Multi-Purpose Budget Survey conducted by Nepal Rastra Bank in 1985 which show that poverty level was 42.5% in that year):

| Table 3: Poverty in Nepal | | | | | | | | | |
|--|--------------------|--------------|--------------|---------------------|---------|----------|-----------------------------|---------|----------|
| | Head count index % | | | Poverty Gap Index % | | | Squared poverty gap Index % | | |
| | NLSS I | NLSS II | NLSS III | NLSS I | NLSS II | NLSS III | NLSS I | NLSS II | NLSS III |
| Nepal | 41.76 | 30.85 | 25.16 | 11.75 | 7.55 | 5.43 | 4.67 | 2.7 | 1.81 |
| Urban | 21.55 | 9.55 | 15.46 | 6.54 | 2.18 | 3.19 | 2.65 | 0.71 | 1.01 |
| Rural | 43.27 | 34.62 | 27.43 | 12.14 | 8.50 | 5.96 | 4.83 | 3.05 | 2.00 |
| Gini | 34 | 41 | 33 | | | | | | |
| Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively. | | | | | | | | | |

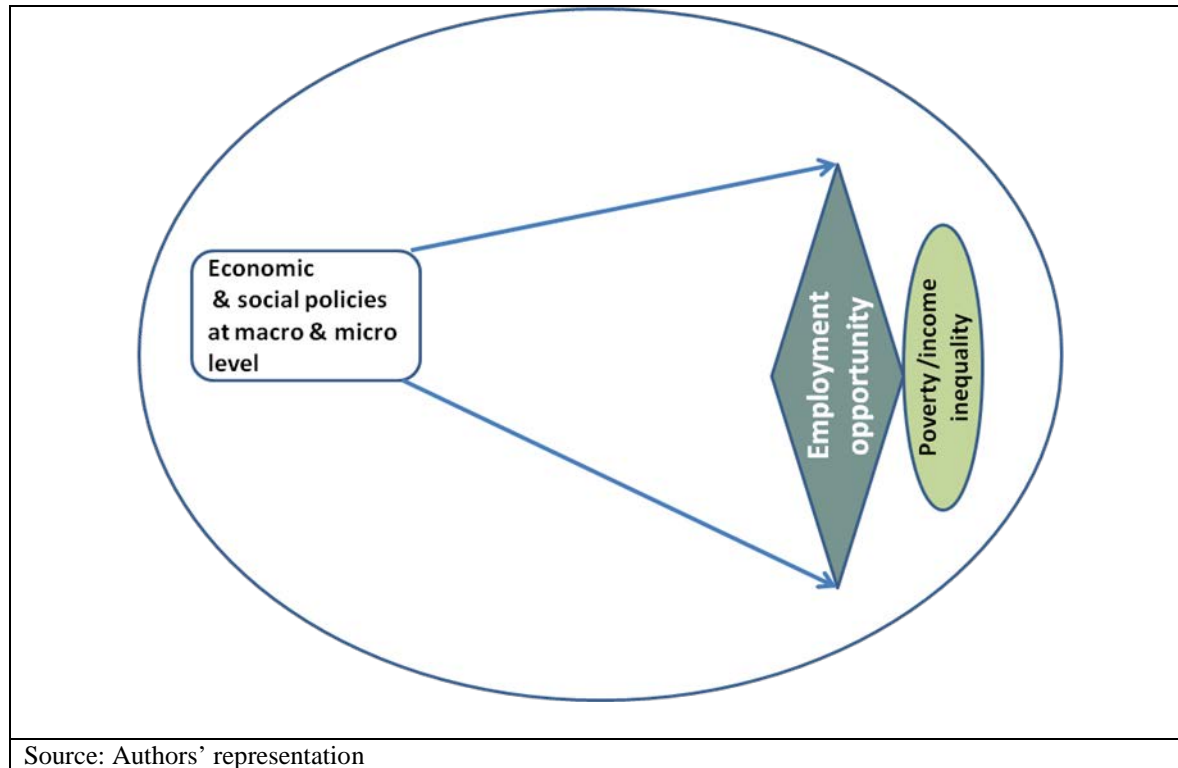
The above chart also suggests that there has also been sharply decreasing income inequality, captured by the Gini coefficient, which decreased from 0.41 in NLSS II to 0.33 in NLSS III, however this figure has be taken in perspective given its erratic nature where in NLSS I it was 0.34.

Nonetheless, the trends in stylized-facts are *paradoxical* since they show opposite relation from what is expected for the literature on IG discussed above. (As a policy maker, this puts one in a conundrum as to what policy prescriptions would be effective.)

III. Analysis from the conventional perspective

The **conventional perspective** of IG starts from the role of economic growth. National income is reflected by national production, which is composed of contribution from the agricultural, industrial/manufacturing and services sector. In each sector, there is required contribution from labor and capital. When economic growth leads to economic benefits, equal employment opportunities leads to a broad based distribution of the effect of growth, leading to poverty and income inequality reduction. This conventional framework is provided schematically below. In this framework, the box starting on the left labeled “economic & social policies at macro & micro level” are factors leading to economic growth. The next figure is that of “employment opportunity”, which assumes that the quantity of labor in the labor market has equal opportunity for employment – this leads to broad based distribution of growth effects; it is assumed that persons who are given the opportunity will equally respond to it however that this is a closed labor market. This will result in broad based economic growth, which will lead to the final output of reduction of “poverty/income inequality”.

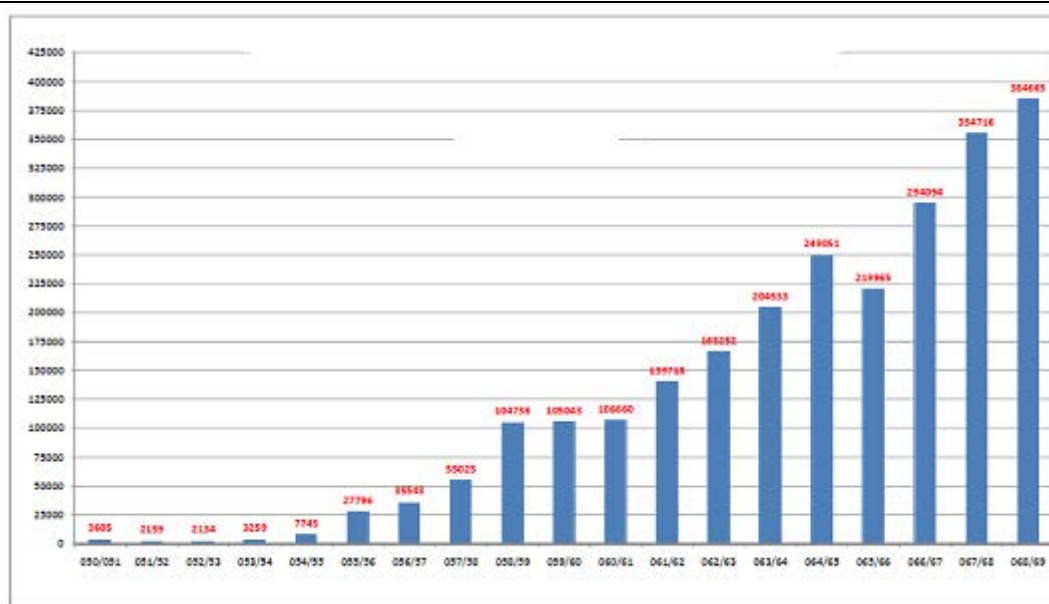
Figure 1: the Conventional perspective of IG



However, in this integrating world, the market of productive labor opportunities has expanded with international labor mobility for greater employment opportunities. Therefore, the above conventional framework and analysis has been amended by incorporating foreign employment and their resulting flow of international remittance (Adam, 1991; Adam and Page, 2005; Baras, et al 2009). The above framework is amended whereby the “employment opportunities” also include foreign labor employment opportunities; thus the labor market is expanded from being mainly focused on the domestic labor market to now including the foreign labor market. When labor is employed internationally, their saving is sent to the home country as remittance flows and is reflected in the Balance of Payments (BOP) statistics. This flow of remittance supplements household income and leads to greater national income, which then leads to reduction in “poverty/income inequality”.

This framework fits the Nepal case, reflected in acceleration in foreign employment given that there were greater foreign employment opportunities. Upon first impression, the motivation for foreign employment appears to be based on higher incentives. However, this has to be taken with the period of domestic insurgency; thus the timing of the spurt in foreign employment suggests that there was an additional motivation factor, that of contraction of the domestic labor market and growing uncertainty and fear. The foreign labor flow of Nepalese nationals is shown in the box below.

Table 4: Summary of Foreign Employment (1993/94 – 2011/12)



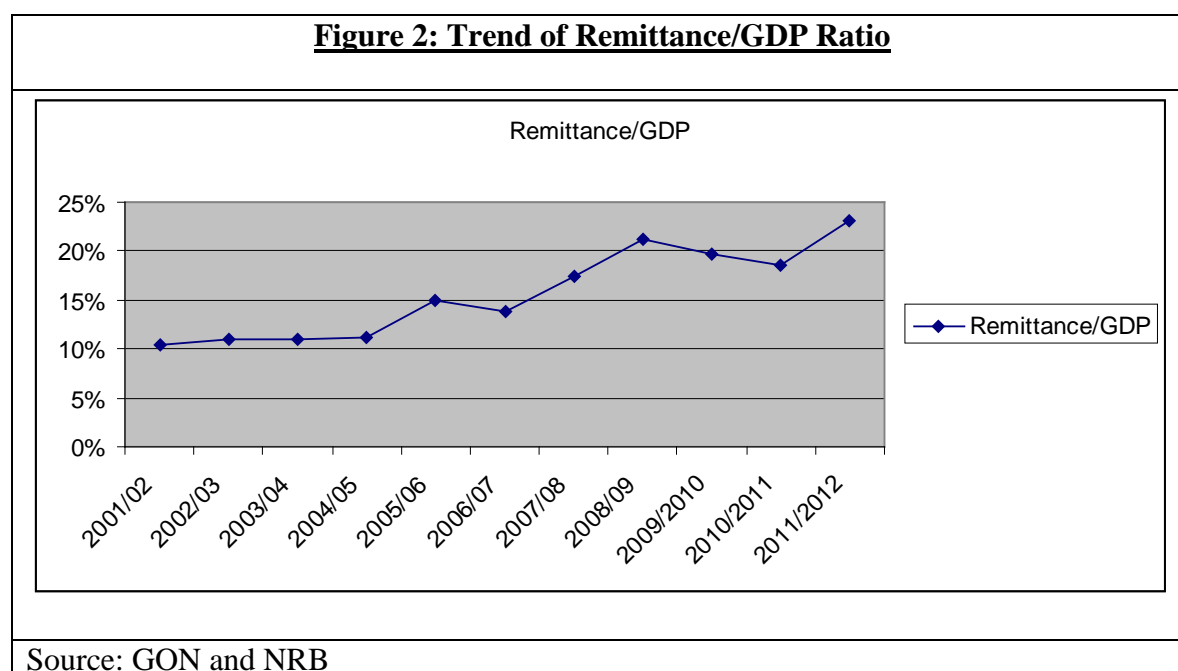
| | | |
|--|-------------------------|---------------|
| Foreign Employment | Average (annual growth) | Std Deviation |
| 1993/94-2011/12 (whole) | 40.48% | 0.672594 |
| 1993/94-1994/95 | -40.11% | - |
| 1995/96-2002/03 | 77.68% | 0.865404 |
| 2003/04-2009/10 | 16.91% | 0.163623 |
| 2010/11 | 20.61% | - |
| Remarks: The numbers in the horizontal level are fiscal years where 050/051 – represent 1993/1994 sequentially upto 068/069 – where this final figure represents 2011/2012 | | |
| Source: GON, MOLE | | |

The above graph seems to suggest that foreign employment only spurted over the last decade. However, this is misleading since Nepalese foreign employment has been occurring since ancient times. The above figure is misleading due to data collection requirements: employment to countries other than India requires approval of Government of Nepal (GON) and is explicitly and officially recorded however employment to India requires no such approval (this freedom for working in India is provided by the 1950 Treaty of Trade and Friendship, which also reflects the reality of closely shared historical and cultural ties) and is thus not significantly recorded. Because of this feature in foreign employment reporting methodology, the graph is unable to capture the figure of Nepalese working in India.² However, assuming that employment in India is stable, interpretation of the above graph is possible. That is, prior to 1997/98 government statistics on foreign employment show a stagnant growth rate, however after that year there has been a double digit growth, for the full year that data is available. Nonetheless while the above magnitude of figures of foreign employment may be underestimated, this has little effect on the growth rate which suggests an accelerated rate of people working in countries other than India (this is also consistent with the reality).

Based on the above increasing labor mobility to countries other than India, there had been a commensurate increase in remittance flows (generally, the greater the number of foreign employment, the greater the volume of the money sent back to Nepal). In this regard, annual remittances trend figures based on the fifth manual of BOP Statistics are provided below (BOP statistics using the form from the fifth manual were compiled only from 2001/02, however BOP

² So, the amount of Nepalese working in India is potentially much higher than represented in the official statistics (for discussions in this regard, see NRB (2009)) and this data limitation has to be kept in mind.

statistics, based on earlier statistical methods, was started in 1975 however there was no specific heading for remittances). This is shown from 2001/02 in the figure below:



The magnitude of remittance flows since 2001/02 ended at about 23% of GDP in 2011/2012. Given that there has been a stable GDP growth averaging about 4 and a quarter percent, this suggests that remittances had supported the Nepalese economy from the contractionary effect of the domestic insurgency; that is remittance income had contributed to a generally stable GDP growth (of around 4 and a quarter %). Evidence in this regard, is provided by the three NLSS on the receipt of remittances and is provided for comparison, in the below table:

| Table 5: Summary Statistics of Remittances and Transfers | | | | |
|---|---|---------|---------|----------|
| SN | Subject | Surveys | | |
| | | NLSS I | NLSS II | NLSS III |
| 1 | Percent of all household receiving remittances | 23.4% | 31.9% | 55.8% |
| 2 | Nominal average amount of remittance per recipient household (NRs.) | 15,160 | 34,698 | 80,436 |
| 3 | Share of remittances in total household income among recipients | 26.6% | 35.4% | 30.9% |

Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively.

As a policy maker in Nepal, the role of remittances helps explain the reduction in poverty statistics. However, the relationship of remittance with poverty does not end there. As a policy maker, the use of remittances income is also an issue to be explored. This information is shown in the most recent NLSS, which is provided in the below table:

| Table 6: Primary Uses of remittances | | | | | | | | |
|---|-----------|-------------------|----------|---------------------|---------|------------|-------|-------|
| Daily consumption | Education | Capital formation | Business | House-hold property | Savings | Repay loan | Other | Total |
| 78.9 | 3.5 | 2.4 | 0.5 | 4.5 | 0.6 | 7.1 | 2.5 | 100 |
| Source: NLSS III, Table 15.7, p.86 | | | | | | | | |

Table 5 suggests that receipt of remittances income is broad based with over 55% of receiving remittances, this suggests that a wide spectrum of Nepalese have taken the opportunity of foreign employment opportunities which supports IG. However, data on the utilization of remittances is concerning since the above table suggests that it is largely used for consumption goods (this accounts for 78.9 %), without capital formation (which only accounts for 2.4 %) – that is consumption is more for a short-term rather than a long-term purpose. This may be because households which sent labor for foreign employment were not wealthy, therefore consumption is a priority for remittance income with investment being the last priority (Combes and Ebeke, 2011; Adams and Cuenquecha, 2010). Foreign laborers with a long-term employment contract, actually exhibit a higher propensity to invest than do their short-term employment contract counterparts (Giuliano and Ruiz-Arranz , 2009; Gupta et al, 2009). It is therefore assumed that immigrant remittances play the same role in economic development as foreign direct investment

and other capital flows, however remittances by their nature are not profit-driven but are compensatory transfers, which has a generally negative correlation with GDP growth (Barajas, et al 2009; Chami, et al 2003); in Nepal over the period 2002/03 – 2011/12 there is a .30 coefficient of correlation with is statistically insignificant. Nonetheless, while IG is taking place in the country, its consumption based nature suggests that it is being only of a “short-term” IG.

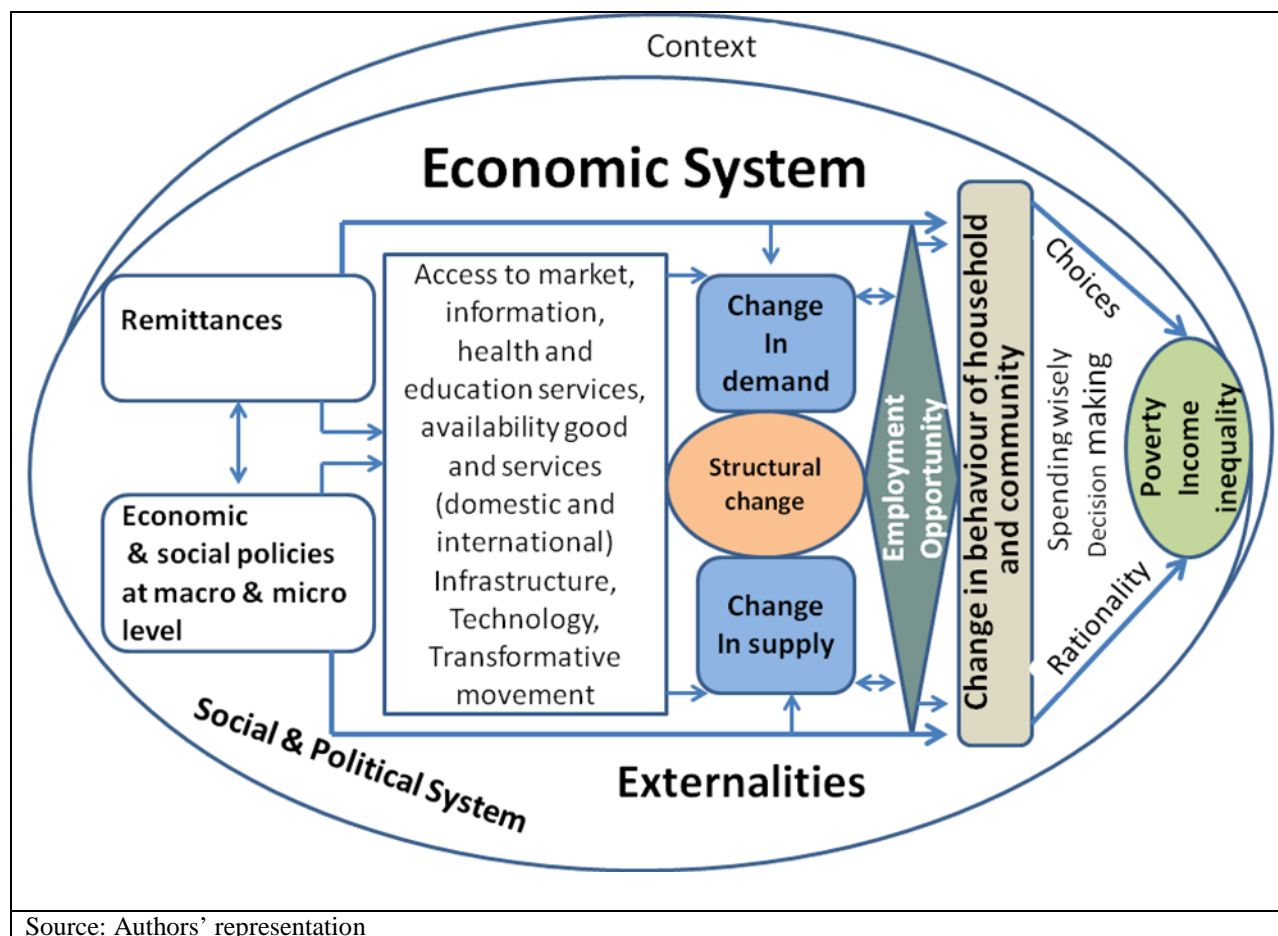
Based on the above analysis, three major recommendations are given for Nepalese policy makers: (1) Nepal Rastra Bank (NRB), the Central Bank of Nepal - to enhance the formal channel of remittances; a step in this regard can be in line with Pant (2011); (2) Government of Nepal (GON) and NRB - to guide the productive use of remittances so as to ensure that the observed IG is not of short-term nature but of long-term nature (that is and for example, to facilitate channeling remittances to capital formation) – also in line with Pant (2011); (3) GON – to make the environment conducive to productively use the remittances (i.e. maintain some level of economic stability).

IV. Analysis from a holistic perspective

The above conventional analysis is fine at the initial level however it is narrow and does not capture the whole picture –there is inability for providing accurate diagnosis of the situation. There is thus a need to broaden the view to the whole economic system with a holistic perspective; this is already occurring for health research as initially suggested by the World Health Organization (WHO) in their 2007 report and has been most recently applied by Bigdeli et al (2012) for their better understanding of access to medicine.

Based on this way of thinking, the above conventional framework in Figure 1 is broadened to capture interactions from the economic system; this is described as a **holistic perspective**. That is, the economic system includes interactions of both micro and macroeconomic behavior, demand and supply interactions, activities of government, firms and households, domestic and international market connections. In the conventional perspective, the framework starts linearly from the left most side “economic & social policies at macro & micro level” and ends with poverty reduction; however from this narrow perspective the differences start. The main difference is that the interpretation of the impulses of economic activity are now enriched by the economic system, which is based on “access to market, information, health and education service, availability of goods and service (domestic and international), infrastructure, technology and transformative movement” and those are generally considered unintended consequences. All these factors affect supply and demand and lead to “structural changes” and effect “employment opportunities”. They also lead to externalities which also lead to changes “in behavior of household and community” and is reflected in change in society. All these contribute to reduction in “poverty/income inequality”. This broad framework is shown in the figure below:

Figure 3: the holistic perspective of IG



On one hand, the above fact and figures of the conventional perspective is still the same and can be used as the basis for underlying analysis, which can be considered leading to a direct and intended consequence. However, the priority of the analysis changes when it is broadened in a holistic manner, to now include economic system effects (with some **unintended** consequences).

From this broader analysis, one unintended consequence resulting from foreign employment is to give impetus to the ongoing dramatic changes in economic and social activities in the rural areas on Nepal. That is social programmes of the government and I/NGOs invigorated the rural society through participation, awareness, changing in expectations, information and counseling. There were also social protection policies such as on free health care, free education, and allowance for

old/disable people which were financed by block grants to the local bodies. This was magnified by the positive externality resulting in improvement of accessibility for all types of facilities, which allowed people in the rural areas the ability to understand the differences and discrimination despite being illiterate – this raised expectations from the working class people. There were improvement in the access to public services for the households in rural areas who received remittances vis-à-vis those who not received the remittances For example, ninety five percent of households in Nepal were within 30 minutes of access to the nearest primary school, with almost 63 percent households having access to health facilities within 30 minutes. Other market related access to facilities significantly improved last 15 years and are as described in the following table.

| Table 7: Access to market facilities (in %) | | | |
|--|--------|---------|----------|
| Facility | NLSS I | NLSS II | NLSS III |
| Bus stop | 33.1 | 53 | 66.2 |
| Vehicle passable road | 58 | 67.6 | 79.8 |
| Haat bazaar | 41.4 | 60.7 | 64 |
| Market center | 24.2 | 34.4 | 44.7 |
| Agricultural center | 24.5 | 31.9 | 42.8 |
| Sajha/Cooperatives | 25.9 | 33.7 | 53.9 |
| Bank | 20.7 | 27.8 | 39.9 |
| Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively. | | | |

This, in addition to the foreign labor employment, contributed to unforeseen consequence of the societal changes in Nepal, which resulted in changes of the behavior of the community. A salient example is the empowerment of women in the rural areas. In a nationally representative survey of married women, more than half of currently married women who earn cash said that they themselves mainly decide on how their cash earnings are used; two in five indicated that the

decision is made jointly with their husbands (who are generally in either domestic or foreign employment), and only 5 percent said that the decision is made mainly by their husbands (MOHP et al, 2011). Similarly the proportion of surveyed married women who earned cash for their work and who solely decide on the use of their cash earnings, has increased from 31 percent in 2006 to 53 percent in 2011. Almost one in four women who have cash earnings in Nepal, earn about the same as or more than their husbands. Almost one fourth women have made purchasing decision for their households and almost 30 percent of those decisions were made jointly for their household purchase (MOHP et al, 2011; Pedraza, 1991). It is now recognized that gender equality and female empowerment are central to improvements in standards of living and well-being (World Development Report, 2011). Further, the empowerment of women in the rural economy has led to drastic changes such as choices, rationality, spending wisely, information, externalities and demonstration effects (motivating to work or earning income that did not go outside the country) changes in the consumption patterns, jointly contributed to reduction of poverty. Thus an unforeseen consequence of foreign labor employment to Nepalese labor is that it has spurred societal changes, such as the women empowerment.

There is also an unforeseen consequence in the domestic labor market, due to the outflow of domestic labor for foreign employment. This is resulting in changes in the composition of labor supply with the following table showing the structural changes in wage employment. The share of agricultural wage employment as shown in table 8 has been sharply reduced; however, daily wage rate in agriculture sector increased by 88% in 2004 whereas it also increased for non-agriculture sector by 80%. For 2011, agriculture wage rate has more than doubled (i.e. grew by 127%) while wage rate in the non-agriculture sector grew by 98%. The reason behind an increase

in wage rate was due to the tightening of the domestic labor market (both agriculture and non-agriculture); however, the wage increased in a higher rate in the agricultural sector leads to structural change and provides choices in terms of increasing the employment opportunity, particularly for the low income group in the agriculture sector. An increase in wage rate may be a pivot element for the rural dynamics (improvement in income distribution, choices and rational behaviour) (Brown et al, 2013; Housen et al, 2012). These statistics are shown in the table 8 below:

| Table 8: Summary statistics of wage employment | | | |
|--|--------|---------|----------|
| Description | NLSS I | NLSS II | NLSS III |
| Share of agriculture sector in wage employment | 53 | 37 | 35 |
| Share of non-agriculture sector in wage employment | 47 | 63 | 65 |
| Mode of payment | | | |
| Daily payment in agriculture | 98 | 88 | 97 |
| Daily payment in non-agriculture | 65 | 47 | 50 |
| Mean Daily wage (NRs.) | | | |
| Agriculture | 40 | 75 | 170 |
| Non-agriculture | 74 | 133 | 263 |
| Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively. | | | |

The following table 9 reiterates the evidence that structural changes had occurred, however it gives evidence to emphasize that change was broad based – i.e. not only for the persons in the top quintile but also for persons in the lowest quintile as well.

| Table 9: Agriculture wage and non agriculture wage by consumption quintile | | | | |
|---|---------------------|-------------------------|---------------------|-------------------------|
| Consumption Quintile | NLSS II | | NLSS III | |
| | Wage in Agriculture | Wage in Non-agriculture | Wage in Agriculture | Wage in Non-agriculture |
| Poorest | 67.8 | 32.2 | 49.1 | 50.9 |
| Second | 50.9 | 49.2 | 46.0 | 54.0 |

| | | | | |
|--|------|------|------|------|
| Third | 37.9 | 62.1 | 36.2 | 63.8 |
| Fourth | 25.8 | 74.2 | 29.9 | 70.1 |
| Richest | 3.4 | 96.6 | 6.1 | 93.9 |
| Source: “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 2003-04 and 2011-12 respectively. | | | | |

The following table 10 shows the increasing trend of household enterprises in the countries reflecting a development process started since 1990s which encouraged involvement of the private sectors. This may be classified as either a foreseen or unforeseen consequence. This is show in the table 10 below:

| Table 10: percentage share of household enterprises | | | |
|--|--------|---------|----------|
| Description | NLSS I | NLSS II | NLSS III |
| Percentage of sample households with enterprises | 24.2 | 28.2 | 34.6 |
| Source: “NLSS I” “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 1995-96, 2003-04 and 2011-12 respectively. | | | |

The following table shows that incomes of household from both non-farm (i.e. a proxy of the non-agricultural sector) activities and remittances have increased. However the amount of income from these sources should be carefully compared since remittance income of the household is the net average income, thus the cost of obtaining foreign employment has not been deducted. The average gross revenue of household is higher than the remittance income of those households. Non-farm activity requires a continuous and uninterrupted stream of expenditure; however, the cost of obtaining foreign employment is only a one time cost. Therefore, the direct comparison of average gross income from non-farm activities and average remittance income of the household can be misleading. At the same, expenditures of non-farm activities imply the creation of employment in the country. In contrast to remittance income, which has limited backward and forward linkages in the country and has limited positive externalities, non-farm

activities have both forward and backward linkages and greater positive externalities in the country. Remittance income is thus described as being a short term phenomenon in contrast to non-farm activities, which is considered a long term phenomenon.

| Table 11: Comparison of income from non-farm activities and remittance income of household by consumption quintile | | | | | | |
|--|-------------------------------------|-----------------------------------|----------------------------------|-------------------------------------|-----------------------------------|----------------------------------|
| Consumption Quintile | NLSS II (in Rs) | | | NLSS III (in Rs) | | |
| | Average gross revenue of households | Average net revenue of households | Average remittance of households | Average gross revenue of households | Average net revenue of households | Average remittance of households |
| Poorest | 22102 | 9436 | 13906 | 59,293 | 29,892 | 34,425 |
| Second | 50603 | 16867 | 21,820 | 81,047 | 32,063 | 45,075 |
| Third | 68651 | 12243 | 24,225 | 139,602 | 48,168 | 60,889 |
| Fourth | 108564 | 27102 | 31,683 | 343,946 | 148,602 | 78,833 |
| Richest | 782874 | 111327 | 65,514 | 1,045,504 | 229,164 | 143,183 |
| Source: “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 2003-04 and 2011-12 respectively. | | | | | | |

All these factors, of both foreseen and unintended nature, contributed to poverty alleviation in Nepal. That is the above foreign employment contributed to social transformation, which had a positive externality and facilitated the access to services (Levitt, 1998; Tiemoko, 2004).

It is also important to point out that remittance to Nepal did not have absolute power to reduce the poverty levels. This is suggested by the following table which looks at the ratio between remittance income and poverty line income. The ratios are quite low for fifth and fourth quintiles although they have increasing trends. The pulling capacity from below poverty to at least poverty line income of the remittance remains lower compared to internal source of income.

| Table: Average per capita income from remittances and poverty line income by consumption quintile | | | | |
|--|---|--------------------------|----------------------|--------------------------|
| consumption quintile | Average per capita income from Remittance | | | |
| | NLSS II (in Rs) | % of poverty line income | NLSS III (in Rs) | % of poverty line income |
| Poorest | 590 | 7.7% | 2,630 | 13.7% |
| Second | 969 | 12.6% | 4,286 | 22.3% |
| Third | 1445 | 18.8% | 7,112 | 36.9% |
| fourth | 2560 | 33.3% | 10,783 | 56.0% |
| Richest | 4938 | 64.2% | 21,433 | 111.3% |

Note: average poverty line income for 2003/04 and 2010/11 Rs 7696 and Rs 19261 per year respectively

Sources NLSS II & III and calculated

Source: “NLSS II” & “NLSS III” is Nepal Living Standard Survey Conducted by Government of Nepal, Central Bureau of Statistics during 2003-04 and 2011-12 respectively.

This information suggests that poverty levels have been reduced through the interaction between the remittances and socioeconomic indicators in the economic system. It creates the vibration in the economic system both in macro and micro level; however the Nepal case suggests that micro level has greater power to reduce poverty and income inequality than macro level. For example, health and education sectors have better performance in terms of health and education indicators (MOHP et al, 2011). These indicators maintain the status of poverty because the assumption is that if these indicators were not better, poverty would be increased, for example, bad health has impoverishment impact.

The above analysis does not detract from the conventional analysis – it makes the conclusion richer. Previously, there was a primary role of remittances however the system analysis suggests that there were other significant and unintended consequences of the foreign employment with contributing factors to this phenomenon, namely societal changes spurred by greater access to essential services (Brown et al, 2013). While remittances were a significant contributing factor, looking at the whole system suggests that there were other factor also (this was suggested by

authors such as Khatiwada, 2013). That is, a holistic approach is needed to have comprehensive diagnosis and provide policy to alleviate the poverty – an analysis of the IG process of growth through a holistic perspective, by examining employment opportunities along with developments in access to services such as education, finance, health, market etc; and social changes which internalize externalities in measuring growth. In this regard, prioritization of the recommendations to Nepalese policy makers are: (1) NRB - similar to conventional analysis and to continue enhancing the formal channel of remittances (Pant, 2011); (2) Government of Nepal (GON) and NRB is similar to the conventional analysis to guide the productive use of remittances so as to ensure that the observed IG is not of short-term nature but of long-term nature, but also to observe changing tastes and to perhaps channel fund to non-farm activities; (3) GON is similar to the conventional analysis to make the environment conducive to productive use of remittances but to increase investment in infrastructure to enhance access to facilities which will continue programs such as education etc. for spurting societal changes and to also enhance non-farm activities. However and as mentioned above, the priorities of these recommendations change, previously the priority was given to NRB (i.e. 1, 2, 3) however the priority is now reversed with it being GON (i.e. 3, 2, 1).

V. Summary, Insight and a Closing Remark

The paper had started of with discussion on IG experience in general and the paradoxical stylized facts of the Nepal situation – decreasing poverty levels despite a costly domestic insurgency situation which had contributed to high uncertainty. The paper had then analyzed this situation from both a conventional perspective and a holistic and broader system perspective. While the

basic thrust of the analysis on IG has not changed, that is the role of remittances in poverty reduction, the understanding of the situation – the diagnosis – changed, which has also affected the policy recommendations. In contrast to the conventional perspective, the recommendations for analysis using a holistic perspective focused more on access and measures to guide societal development (Faist 2008; Housen et al, 2012) – thus, the ordering and priority of recommendations were in different orders (they were the reverse of each other). This case study of the paradoxical Nepal situation thus provides insight that a thorough understanding of the interaction and causalities is required to provide an accurate diagnosis of the IG process, and provides a cautionary note to Nepalese policy makers, which can be generalized to all policy makers, when formulating policy prescriptions.

As a closing remark, this holistic perspective for IG is still a work in progress. The analysis can continually respond to questions of ‘why’ and ‘how’ and with every answer that comes out of the IG proposes it further decomposes the causal story. Therefore, IG process from a holistic perspective should not be viewed as a conclusive and finished work, but rather a working hypothesis that is to be continuously prodded, challenged, and extended by the analyst and subsequent researchers. Thus, it is important to recognize that IG is continuously evolving.

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