



## Miles to Go Before We Sleep: Poverty and the Millennium Development Goals in Nepal

Sagar Raj Sharma

NCCR North-South Dialogue, no. 35  
2011

*dialogue*

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# 1 Background

The Millennium Development Goals (MDGs) were determined in September 2000 by the United Nations Millennium Declaration, which was signed by 189 countries, including 147 Heads of State and Government. The Declaration marked a strong commitment to the right to development, to peace and security, to gender equality, to the eradication of the many dimensions of poverty and to sustainable human development. As such, it is a groundbreaking international development agenda for the 21st century.

The goals are general objectives (e.g. improve maternal health) whereas the targets are specific aims (e.g. reduce maternal mortality by three-quarters). These targets are to be achieved by 2015, as compared to the level of 1990. The MDGs are the first set of quantitative and time bound goals shared by the developing and developed countries. The MDGs has 8 goals, and each of the goals has several time bound targets and indicators. The eight MDGs are:

- Goal 1:** Eradicate extreme poverty and hunger
- Goal 2:** Achieve universal primary education
- Goal 3:** Promote gender equality and empower women
- Goal 4:** Reduce child mortality
- Goal 5:** Improve maternal health
- Goal 6:** Combat HIV/AIDS, malaria and other diseases
- Goal 7:** Ensure environmental sustainability
- Goal 8:** Develop a global partnership for development

All of these goals were chosen as they were identified as the most urgent development needs facing the world at the turn of the century. These MDGs were based, it was claimed, on fundamental values such as freedom, equity, democratic governance, rule of law, respect for human rights, and peace and security (UN 2000). Despite some criticisms from varied and often divergent sources that argued that the MDGs ignored some other vital components of development such as human rights and social discrimination, they were still accepted and adopted by most of the world actors at that time as the most crucial goals of the time. It was also recognised that growth, poverty reduction and sustainable development were interdependent. As such, the first among all of these goals was put as eradicating extreme poverty and hunger, which reflects the priority attached to these two human maladies.

Nepal is one of the 189 countries that have committed themselves to achieving MDGs by 2015. This pledge was most recently renewed in the government's Three Year Plan 2010/11 – 2012/13. Nepal's commitment can also be judged, to some extent, by the fact that, despite having been engulfed by violent conflict, political instability and rapidly changing socio-political structure since the time it endorsed the MDGs, it has consistently incorporated the MDGs into the strategic framework of the country's Tenth Plan (2002/03 – 2006/07), Poverty Reduction Strategy Paper (PRSP), and the Three-year Interim Plan 2007/08 – 2009/10. Since 2002, Nepal has been periodically publishing the MDG progress reports – the first in 2002, the second in 2005 and the third and the most recent one in 2010. It is noteworthy that the Government even undertook a com-

prehensive MDG Needs Assessment (NA) in 2005 in an attempt to provide a strong analytical basis for future national development strategies and efforts, which identified the necessary interventions and resources required for the priority sectors (agriculture, irrigation and food security, road and other rural infrastructure, drinking water and sanitation, health and education) to achieve the MDGs by 2015. The trend is continuing, and as mentioned, the government is quite willingly incorporating the information of the MDG reports in the formulation of its plans. The timing of the most recent report was important for Nepal, as it was, at that time detailing a new three-year plan for 2010/11 to 2012/13. The data and the information from the report were much referred to and used in the preparation of the Plan, and the information on the issues related to all of the MDGs was incorporated in the plans of the new three-year plan 2010/11 – 2012/13 (NPC 2010b). All of these regular reports have been important documents and indicators of how things stood in regards to Nepal's performance and possibilities of achieving the MDGs at the time of these publications. They have mirrored Nepal's commitment and determination to achieve the MDGs despite having to place significant attention and resources on post-conflict reconstruction and rehabilitation as well as state restructuring and constitution writing.

However, given Nepal's vulnerable geopolitical situation and a fragile economic environment, it seems, realistically speaking, to be a daunting task to meet all of the MDGs in the stipulated time. With the global initiative towards meeting the MDGs and advances in information and communication technologies, there are indeed new opportunities for even a small and underdeveloped country like Nepal, but so are there new challenges and risks associated with this. This is discussed briefly in the following sections. But before doing that, it would be appropriate to go briefly through the socio-political history of Nepal to put the development discussion in proper perspective.

## 1.1 Evolution of Nepal's path towards modernity and development

With an area of 147,181 km<sup>2</sup> and a population of just over 27 million, Nepal is a small country wedged between India and China. The population comprises over 100 ethnic groups and speaks over 90 languages, out of which 80.6 percent are Hindu, 10.7 percent are Buddhist, 4.2 percent are Muslim, and the rest are other religions (CBS 2002). Geographically, the country represents a transitional mountain area between the fertile Gangetic Plain of India and the arid plateau of Tibet. Being landlocked, it is almost totally dependent on India for transit facilities and access to the sea, even for most of the goods coming from China. Administratively, the country is divided into 5 development regions, 14 zones, 75 districts, 58 municipalities, and 3,915 Village Development Committees (VDCs).

Nepal has been, for the majority of the last 240 years, ruled by the Shah Kings. It was in 1768 that a local King from central Nepal, Prithivi Narayan Shah, unified the until-then divided country and gave the country its present shape. The Shahs ruled Nepal for most of the time after that, although they were sidelined and reduced to only symbolic

heads by another clan called the Ranas for 104 years until 1951. But the unpopular Rana regime couldn't continue after that, as a popular mass movement against their rule, with the added international pressure after India's independence, forced them to give up their autocratic rule and the Shah King was brought back to power.

But Nepal's political system got even more autocratic and the monarchy became – after a short period of parties-based democracy - an absolute ruler after the Rana regime's demise. The division among the political parties gave the King a good excuse to dismiss the democratic government in 1960 and introduce a partyless *Panchayat* system. Despite the fact that it was a time in which international development assistance system occupied a central place in international relations, Nepal could not fully benefit from it, primarily for the reason that only the privileged few derived most of the benefit from such a system. The government produced successive five-year plans, but they provided little hope for the future beyond the routine rhetoric. Infrastructure, agriculture, rural development, basic needs and poverty alleviation were all recognised as the centrepiece of these plans, but there was no effective mechanism that could actually implement those priorities. Instead, vested interest of a privileged few, rampant corruption and nepotism took over almost all the initiatives by the government. The system finally gave in to a popular mass movement against it that was initiated by an alliance of the major political parties in 1990. The King had little choice in the end but to agree to lift the ban on political parties and remove the word 'partylessness' from the Constitution, paving a way for a multiparty democratic system.

## 1.2 Emergence of armed conflict and its impact

After the political changes in 1990, which transformed the political system of the country from a partyless *Panchayat* system to a multiparty democratic system, Nepal slowly entered into a new era of economic change. The newly elected democratic government brought in many new liberal economic and open market policies. Some of the policy reforms undertaken included promulgation of the Industrial Enterprises Act, 1992; Foreign Investment and Technology Transfer Act, 1992; New Industrial Policy, 1992; Development Bank Act, 1995, among others. During the same time, reforms such as simplification of licensing procedures for trade and industry, convertibility of Nepalese currency on current account, and privatization of some of the public enterprises in the trade, service and industrial sectors were also undertaken. These reforms opened up new avenues and opportunities for the private sector as well.

However, the proposed changes and the new acts were not properly implemented, due to political uncertainty, rampant corruption and lack of coordination between the government and the donor agencies. Many of the attempts were only half-hearted, and the newly elected policy makers and parliament members were more interested about their personal welfare than of the nation as a whole. As a result, the people felt more and more alienated from the whole development process. Poverty alleviation and reduction in disparities across different sectors and sections of the population looked possible only on paper, and the frustration among the public grew rapidly.

It was in this context that the Communist Part of Nepal (Maoist) launched a decade-long armed conflict (1996–2006) amidst recurring conflicts between democratic, conservative, and monarchist forces. The insurgency was officially started when the then-government rejected a “40-point list of demands” presented by the Maoists, which included wide-ranging social, economic and political reforms. The armed insurgency was initially limited to small-scale attacks on police outposts and raids on banks, but soon engulfed most of rural Nepal. The Maoists effectively combined military guerrilla tactics and broad grassroots mobilisation based on their ideology that promised profound social, political and economic transformation by means of overthrowing the royalist government and establishing a ‘People’s Republic’. On the other hand, the state control during the conflict years was effectively confined to the urban centres, while the insurgency set up sophisticated parallel governance structures to deal with the immediate day-to-day challenges that the state was not able to address. The conflict caused profound suffering and trauma especially among Nepal’s rural population, and resulted in at least over 13,000 deaths, most of them civilian. It was also accompanied by widespread human rights abuses and “disappearances” carried out by both the insurgents and the government, some of which still remain unresolved and unaccounted for.

Efforts at political dialogue between the Maoists and the government were first made in 2001, but the talks and a ceasefire collapsed in the same year. Escalating violence and deadlock over parliamentary elections led King Gyanendra Shah to dissolve parliament in 2002 and later sack the Cabinet, to instate a government picked by himself, and suspend the planned elections. The overall situation in the country worsened and further attempts at peace talks collapsed again. The King, by this time had become quite restless, and thinking that only his proactive involvement in the politics could solve the complexities Nepal was going through at that time, dismissed a coalition government on February 1, 2005 and formed a new council of ministers under his direct control. The move was criticized heavily by most of the political parties, and catalytically brought together the Maoists and seven other major political parties. Soon a large-scale protest movement was launched where a large section of the population from various walks of life joined hands. The movement was led by the major political parties, civil society activists and trade unions, and in April 2006 eventually forced the King and royalist forces to back down, leading to the reinstatement of the House of Representatives. These developments reinvigorated talks between the coalition government and the Maoists, culminating in the signing of a Comprehensive Peace Agreement (CPA) between them in November 2006 that effectively ended the decade-long armed-conflict and started a political process towards a new constitution and permanent peace. The CPA was well received by the global actors as well, and even a United Nations political mission was agreed by the UN Security Council in January 2007 to provide technical support to this peace process, principally in the areas of cease-fire, arms and election monitoring.

As a result, elections to the Constituent Assembly (CA) were held in April 2008, by and large peacefully, and were regarded a success by international observers. The Maoists, quite unexpectedly, came out as the single largest party in the CA, holding one-third of the 601 seats. Another noteworthy outcome of the elections was that, while marginalizing the traditional political parties, they established newer regional-based parties. Ne-

pal's age-old monarchy came to an end when it was formally abolished by the CA during its first session, and replaced by the 'Federal Democratic Republic of Nepal', though the exact meaning and shape of "federal" in Nepal's context remains to be negotiated in the course of the constitution-drafting process that is ongoing at the time of writing this paper. After some wrangling over the establishment of a "unity government," eventually a coalition government was formed under the leadership of the Maoist party, with its leader Prachanda as the first Prime Minister of a Republic Nepal.

Many had hoped that the new political changes that had occurred in a relatively short period of time would bring political stability and peace. However, violence continued in the form of political party-manipulated youth unrests, ethnic-based riots by armed splinter groups, and increasing criminal activities for economic gains. At the same time, the differences between the major political parties started to emerge as the debates for constitution drafting began. The Maoists, who were in the driving seat then as the head of the government, in a very controversial move, tried to replace the then-Army Chief saying that he was trying to break the peace process by being proactively involved in politics, but when the President revoked that decision, again controversially, the Maoist leader resigned as the Prime Minister after only 9 months in the government. It was followed by a coalition government of the other two major parties, the United Marxist Leninist (UML) Party and the Nepali Congress. But that government was almost non-functional and could not deliver much amidst the continuous non-cooperative stance adopted by the largest and now in opposition party in the CA, the Maoists. And after only little over a year in power, the prime minister resigned to pave way for a new coalition government based on consensus. After a much frustrating delay, a new prime minister from UML has finally been chosen, but at the time of this writing, the government has only a handful of ministers and is not fully operational, primarily because of disagreement amongst parties on power sharing. All this has resulted in a deep mistrust amongst the political parties, and the continuing political bickering has yet again started to frustrate the general public. The peace process is at the moment very fragile, and unless the major political parties find a way to form an alliance once again to successfully draft a new constitution, peace will remain as elusive as ever. Absence of a sustained peace, in turn, will make the implementation of development plans and policies extremely difficult, which will have direct negative impacts on the lives of the people, especially the poor and the marginalised.

### 1.3 Alternative views on 'development'

As discussed earlier, although some sections of Nepal's society have improved their living standards in recent years (especially after the 1990 movement), contemporary rural life in Nepal is still characterized by the widespread persistence of inequality and poverty. Dissatisfied with the developmental performance of the state, social/political movements started to claim that they represent poor people's aspirations better than the state. Most prominent of them have been the Maoists, who claimed to have a clear-set agenda on how to tackle rural inequality and poverty, especially prior to their participation in the peace process. In fact, they launched their insurgency back in 1996 after their '40-point

demand' they had submitted to the government was rejected. The 40-point demand gives a pretty clear indication of their views regarding the 'development' path Nepal should follow, with specific demands concerning nationality, people's democracy and livelihood. Although Nepal had recently (in 1990) politically transformed itself into a multi-party democracy, the people were already getting restless due to the inability of the government to deliver results and answer to peoples rising aspirations. In particular, the poor and the marginalised felt that the development programmes as well as mainstream politics continued to remain outside their reach. The rural-urban divide continued to widen, and unemployment kept on increasing. The government, on its part, was falling in the same trap that the earlier regime had fallen into, viz. corruption, nepotism, and benefit sharing among the chosen few. The Maoists were rather quick and clever to capitalise on such inefficiencies of the government and continued social discriminations, and in return, put forward their own development agenda in the form of the 40-point agenda (see Annex 2 for the details). By putting forward the list of demands, they essentially challenged not only the state-sponsored and market-centric neo-liberal policies, but also the whole democratic process and the parliamentary system the country had adopted. They believed that the precarious socio-economic conditions in which a vast majority of the rural population of Nepal lived in would give them the necessary fuel and support for spreading their message of 'liberation' from those they called feudal rulers, and they were proven right. The insurgency swiftly spread across the country, just like wild fire would in a dry-woodland. As a result, within a few years, the Maoist party transformed itself from a small, fringe party with a few active members into a powerful political force with distinct views on issues such as development, nationalism, democracy and livelihood.

Some of the points in their list of demands, which differed clearly from the stance of the governments until then, were concerning livelihood. One of their demands, for example, was that land should belong to the tenants and land under the control of the 'feudal system' should be confiscated and distributed to the landless and the homeless (Thapa, 2003). They also demanded that employment should be guaranteed for all and that until such employment could be arranged, an unemployment allowance should be provided. Further, concerning what they called 'people's democracy,' they demanded from the government that all racial exploitation and suppression be stopped and that the ethnic communities be allowed to form their own autonomous governments (Ibid.).

These were issues which were rarely spoken out loud until that time, and which not only challenged the government by pointing out its failures, but were quickly accepted and appreciated by a vast number of the marginalised communities throughout the country. For many of them, there was a party at long last which spoke for them and raised voices for their betterment and freedom. For them, both the market and state led interventions had failed and the Maoists were there to provide them with a secure alternative. As a result, a large number of unemployed and ill-educated youths joined the Maoist forces, hoping for a better future.

But after the end of the armed-conflict, the Maoists' claim for such alternative approaches of development became less and less clear and fuzzier, partly because, they were now in

the driving seat themselves, winning the most numbers of seats in the Constituent Assembly (CA) Elections of 2008 and heading a coalition government. But partly also because, the Maoists themselves were challenged, ever since the peace process began, by the growth and spread of what can be labelled in a first approximation as ‘regional movements’ which is still very fuzzy in many aspects. Though these newly emerged movements claim for ‘regional autonomy’, very little is known on their developmental visions and aspirations, and how they actually differ from those of the Maoists or the State. It is still unclear, for example, as to what their views on how the persisting inequality and poverty can be addressed; what their understanding of “development” is; and how they establish legitimacy among the poor, and so on.

#### 1.4 Nepal’s challenges and opportunities in meeting the MDGs

Within this context, the government’s main priority has been peace-building and state restructuring. The CA is currently drafting a constitution, albeit amidst a very volatile, fickle and unpredictable environment, that aims to be progressive and inclusive, both in governance and with regards to access to resources. The government and the CA are under tremendous pressure to meet the once already extended deadline for producing a new constitution by the end of May 2011. Should this deadline be missed again, there are bound to be all sorts of constitutional and political complications. It is thus understandable that the government’s current priority is on political issues.

Nevertheless, it would be a big blunder on part of the government and the CA if they focused only on political issues and overlooked the poverty and disparity issues prevalent in the country. After all, without addressing these issues, sustainable peace cannot be achieved. Available data indicates that Nepal has made some progress on reducing poverty. According to the data from the Central Bureau of Statistics (CBS) 2004, between 1996 and 2004, the level of poverty was reduced from 42 percent to 31 percent. A recent publication by the National Planning Commission (NPC) reports that the poverty level was further reduced to 25.4 percent between 2005 and 2009 (NPC 2010a). This figure has been contested by some independent analysts and international organizations, most prominently from the Oxford Poverty and Human Development Initiative’s Multidimensional Poverty Index (MPI) in 2010<sup>1</sup>. However, since this is the only official data available, it has been most widely used and accepted, even by the biggest international actors involved in Nepal. However, even when accepting this figure and the positive downward trend as the one that most closely reflects the socio-economic reality of today’s Nepal, one cannot help but glaringly notice the huge disparity that persistently exists between the rural and the urban areas. In 2004 urban poverty was 10 percent while rural poverty was 35 percent, but in 2010 it is 8 and 22 percent respectively (NPC 2010a). This persistent level of economic disparity has had serious and consequential (mostly negative) effects on sectors such as education, health, environment as well as the overall development.

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<sup>1</sup> This figure is quite different from that of the MPI that was announced by the Oxford Poverty and Human Development Initiative in 2010 which gave a much higher figure of 64.5 percent poverty level in Nepal (discussed in detail later).

Thus it is important at this stage to evaluate and examine the current status of MDGs as well as the likelihood of their achievement by 2015. Will the achievements made so far be sustainable in the long term? With the economy so heavily dependent on remittance and foreign aid, and the current transitional situation, it is in the interest of all the stakeholders, both national and international, to ask what effects these factors will have on the MGDs in 2015 and beyond.

## 2 Overview of the Progress of the MDGs

The Nepalese government has been, over the last few years, trying its best to give the message to its citizens that the country is on track to achieve most of its MDG targets, although not very convincingly all the time. It claims that the aggregate figures so far suggest that the prevailing trends will persist if efforts are improved or continued. The recent data published by the government indicate that Nepal is potentially likely to achieve most of the goals and their targets by 2015, except for the more complex ones – full employment and environmental sustainability (see Matrix 1 in Appendix I) – which will require stronger efforts and an enabling environment. But the aggregate figures could well be misleading and should be viewed with caution. The fact that Nepal is able to record, on average, only around 3.5 percent GDP growth in the last several years tells volumes regarding Nepal's inability to perform well in the economic sector. The most serious impacts of such prolonged weak economy have been borne by the poor and the marginal groups, and the disparity between the urban and the rural population is a critical issue that needs to be given topmost priority.

Looking at the data on poverty provided by the recent report of the National Planning Commission (2010a), the indication is such that poverty has fallen by about five percentage points in the last five years. Also, the chronic and transitory food-security situation looks to have improved. However, not all the economic indicators look as promising, and some of the remote areas are still facing chronic hunger and severe food insecurity. Remittance coming in through employment abroad has for the last several years proved to be the backbone of the rural economy, but even that is not always steady, as shown by the recent global economic crisis and its impacts. In addition, according to the Food Security Atlas of Nepal 2010 (NPC 2010c), Nepal remains one of the poorest and most food insecure countries in Asia, with the effects of natural disasters, high food prices, and stagnation in economic growth in the recent years taking their toll. The marginalized communities, especially of the remote districts of the Far and Mid-Western Hills and Mountains are particularly hit hard by this vulnerability. Other macro-economic indicators are also not too encouraging (discussed in more detail in the next section). It would be thus not very wise to hastily prophesize and conclude that Nepal is progressing very well regarding the goal on poverty.

### 2.1 Current status of MDG 1 in Nepal: Eradicate extreme poverty and hunger

According to the latest MDG Progress Report 2010 published by the government, the proportion of Nepal's population living below the national poverty line has reduced to 25.4 percent in 2010, showing a significant progress and on track for the achievement of this goal by 2015 (Table 1). However, the same report also says that there is a significant variation in poverty by geographic region, with the high mountains and western hills having both a higher percentage of poor as well as a slower drop in poverty than the Tarai and eastern parts of the country. Although the poverty gap ratio, which helps in under-

standing the depth of poverty, is improving, the Gini Coefficient, on the other hand, is also increasing (0.34 in 1996, 0.41 in 2004, 0.46 in 2009 (NPC 2010a) ), implying a widening gap between the haves and have-nots.

**Table 1:** Target 1a: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar per day

Indicator	1990	2000	2005	2010	Goal 2015
Population living below US\$1 a day (PPP value) (%)	34	n/a		n/a	17
Population living below national poverty line (equivalent to 5,509 NPR per year, 1995/96 prices) (%)	42	38	31	25.4	21
Poverty gap ratio	n/a	11.75	7.55	6.1	–
Share of poorest quintile in national consumption	n/a	7.6	6.2	n/a	–

Source: NPC 2010b

**Table 2:** Target 1b: Achieve full and productive employment and decent work for all, including women and young people

Indicator	1990	2000	2005	2010	Goal 2015
Growth rate of GDP per person employed	n/a	n/a	1.4	1.59	–
Employment-to-population ratio (15 years and more)	n/a	84.3	n/a	81.7	–
Proportion of employed people living below US\$ 1 (PPP) per day	n/a	n/a	n/a	22	17
Proportion of own-account and contributing family workers in total employment	n/a	83.1	n/a	81.9	–

Source: NPC 2010b

The NPC 2010 MDG progress report admits that the main challenge for Nepal over the last several years has been the lack of investment for employment generation. There are still thousands of youths all over the country totally unemployed. As a result, the MDG target of meeting full employment and decent work for all by 2015 is going to be extremely difficult (Table 2), given the prevailing political uncertainty and a lack of an environment conducive for private sector investment.

**Table 3:** Target 1c: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Indicator	1990	2000	2005	2010	Goal 2015
Underweight children (% of children 6-59 months)	57	53	43	38.6	29
Population below minimum dietary energy consumption (%)	49	47	40	22.5	25
Stunted children (% of children aged 6-59 months)	60	55	n/a	49	30

Source: NPC 2010b

Two of the three indicators used to measure hunger show that the MDG Target 1c is achievable with some extra efforts. The data indicates that the percentage of the population below the minimum dietary consumption is 22.5, already on target unless it is reversed. The percentage of the underweight children is also improving and inching to-

wards the 2015 target. However, the percentage of stunted children is still very high and the target looks difficult to be achieved.

One major cause of hunger in Nepal is inadequate food security for the population across the regions. High dependence on traditional agriculture, low productivity, poor distribution, small land-holdings, limited off-farm and wage earning opportunities, and exclusion based on traditional socio-cultural beliefs are the major causes of food insecurity. Food security is thus a complex issue and has a multidimensional aspect. It needs to be addressed from a holistic approach if Nepal is to move towards attaining a sustainable food security level.

As for the other MDGs, there are again mixed signals. Regarding the goal on primary education, the data indicates that it is possible that the MDG will be met, as the net enrolment is increasing. The gender-equality in education has also improved significantly, and the MDG regarding equal access of girls and boys to primary education has shown major progress. The under-five mortality rate has decreased in the recent years and this target is also like to be met, so the government data indicates (NPC 2010b). However, the goal on environmental sustainability is not being adequately addressed, and will require major efforts to achieve the goal. Energy production and use also remain a major challenge. All these indicators and their current status as well as projections are shown in Matrix 1 given in Annex I. One should hasten to add here, however, that all the goals and the targets of the MDGs are interlinked with each other in such a way that meeting all the goals demands integrated and consolidated approach, both from the government and the international donors.

Even if one were to accept that the progress on the MDGs has generally been good, it is apparent that critical development issues remain persistently in Nepal. Nepalese have the lowest life expectancy in Asia, the largest share of undernourished children, and most importantly, development has been significantly unequal across social groups – an aspect that is not reflected through MDG indicators that measure national averages. Ensuring equitable growth is of paramount importance at this point. In order for MDG 1 to be realised, it is extremely crucial that these issues are also timely addressed and that other goals are also met, since poverty is multidimensional by nature and it cannot be treated in isolation.

For making progress towards the MDGs in their entirety, several weak spots need to be paid attention to and critical measures taken. There should be no illusion that the major challenge regarding poverty is identifying and capturing those who are currently below the poverty line. What needs to be done to pull up the poorest of the poor? How can the rural-urban disparity be reduced? What needs to be done to urgently address the situation of food insecurity in remote and resource scarce areas? These issues need to be urgently addressed. In the context of the fragile national political situation as well as the larger geopolitics, it is a major challenge to generate employment opportunities, create a more conducive environment for private-sector investment, reduce the national trade imbalance and ensure transparent and effective use of foreign aid. It will be absolutely necessary to ensure a place in the development process for all

groups of people in the nation, particularly in light of the country's new focus on inclusion and restructuring.

Before going into the debate surrounding the MDGs, it is worthwhile here to have a broad overview of the national economy of Nepal, so that it would help one put the achievements, challenges and opportunities of all the MDGs in proper perspective.

### 3 A Bird's Eye View on the Nepalese Economy

With virtually no modern physical infrastructure in a highly rugged and difficult terrain, limited exploitable natural resources, a small skilled labour force, and a landlocked situation, options for rapid development in Nepal have been very limited and the choices uncertain. Most people who have lived in the hills and mountains have survived on a precarious balance with the fragile environment. These difficulties have been well demonstrated by the extremely limited impact of 11 Development Plans<sup>2</sup> in bringing about overall improvement in the economic well-being of the people and the failure of the economy to overcome existing short-run problems and promote sustainable longer-run solutions.

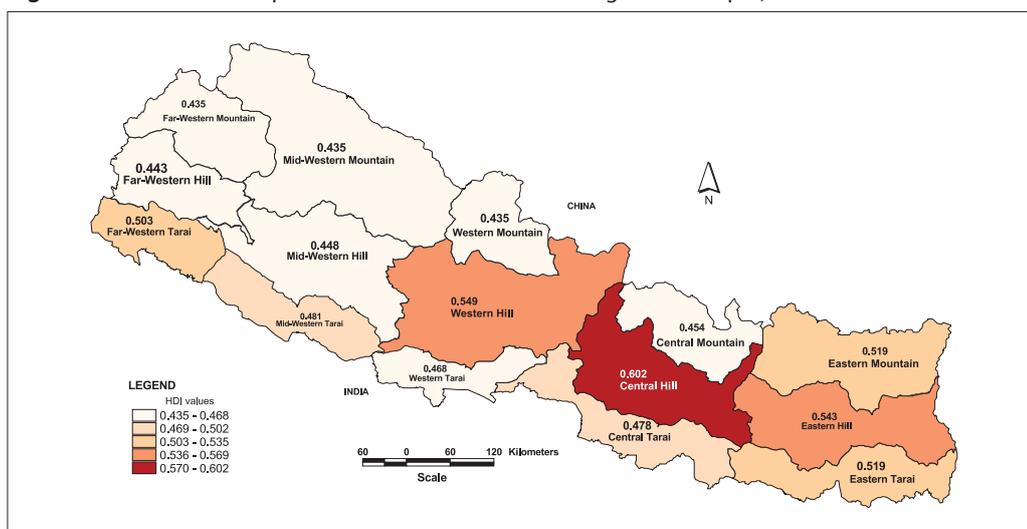
In the past six decades since the introduction of a planned framework, the population has more than tripled, from 8 million in 1952 to over 28 million in 2009 (World Bank 2010a). There has been some growth in food production but per capita availability of food grains is declining. While there has been rapid expansion in the physical infrastructure, such as roads and electricity, many people still do not have access to basic infrastructure. Public sector expenditure has increased substantially over the years, yet the eradication of poverty and improvement in the standard of living of the majority has not been satisfactory. The Human Development Index (HDI) is also very low with 0.509 in 2006 (UNDP 2009). Looking more closely at the HDI from an ethnic perspective, out of the 101 officially registered ethnic groups in Nepal, the Madhesi Bhramans/Chhetris have the highest HDI with 0.625 while the Madhesi Dalits have the lowest HDI with 0.383 (Figure 1). Whatever the achievements in other areas, the need to bring about rapid improvements in the living standards of the diverse groups cannot be sidetracked because, as long as human poverty remains unabated, it will continue to be a major cause of social and environmental problems. Although, as discussed above, the national poverty level is reported to have decreased significantly over the last decade, to sustain this poverty reduction, however, Nepal faces the dual challenges of accelerating domestic growth and sharing this growth more broadly across the population. The disparities across different regions and ethnic groups are shown in Table 4 and Figure 1.

Agriculture is the mainstay of the Nepalese economy, providing a livelihood for three-fourths of the population and accounting for almost 34 percent of GDP in 2008. However, agricultural production continues to be influenced by weather conditions and the lack of arable land, and has not always kept pace with population growth. The share of industry and service sectors in the GDP during the same year was 17 and 50 percent respectively (Table 5). Major industrial activities include the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain.

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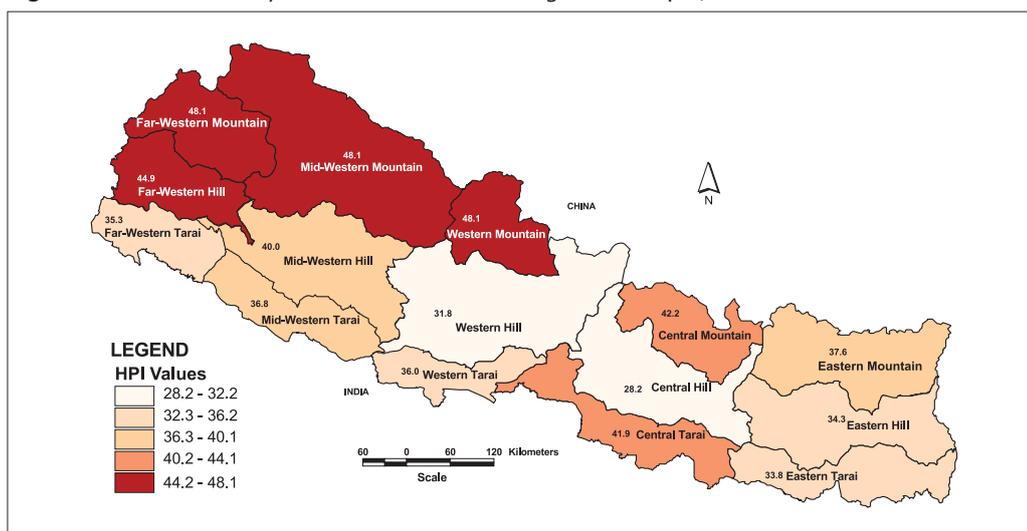
<sup>2</sup> The process of planned economic development commenced in 1956 with the inception of the First Five-year Plan (1956-1961). Eleven such periodic plans have been implemented so far and the country is now in its 12<sup>th</sup> plan.

**Figure 1:** Human Development Index across different regions of Nepal, 2006



Source: Nepal Human Development Report 2009, p 34, UNDP

**Figure 2:** Human Poverty Index across different regions of Nepal, 2006

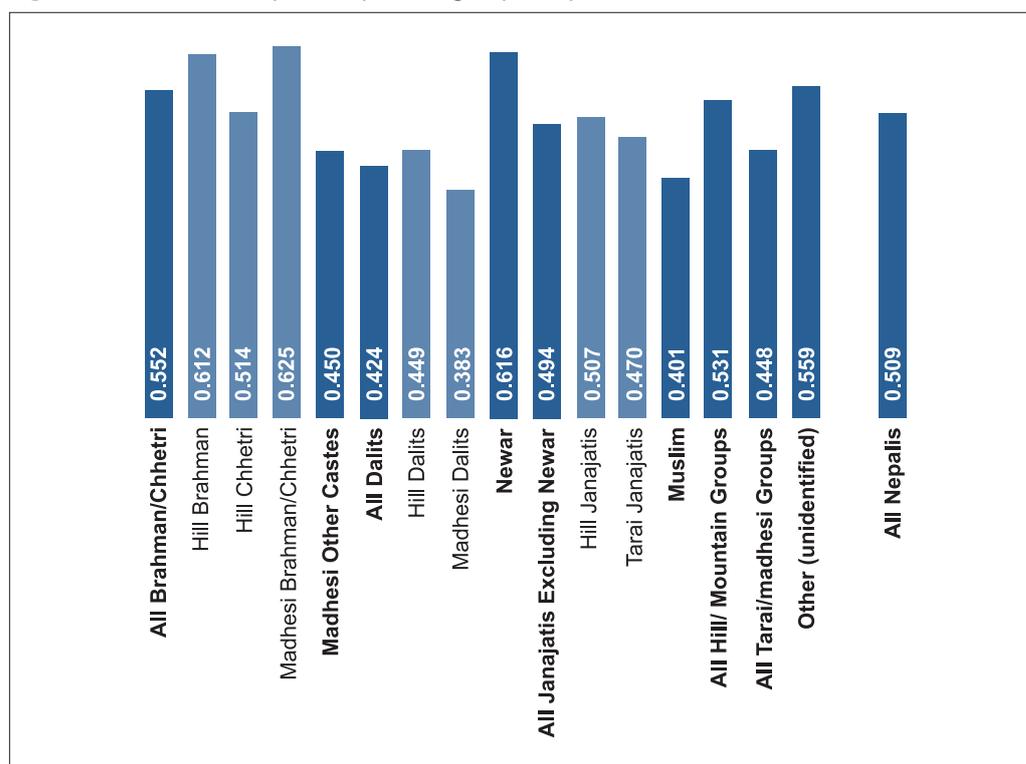


Source: Nepal Human Development Report 2009, p 42, UNDP

**Table 4:** Human development by regions, Nepal 2006

	Life Expectancy at Birth	Adult Literacy (%)	Per Capita PPP income (US \$)	Human Development Index
<b>Nepal</b>	63.69	52.42	1597	0.509
<b>Urban</b>	68.06	72.30	3149	0.630
<b>Rural</b>	63.09	48.35	1286	0.482
<b>Mountain</b>	57.91	44.67	1158	0.436
<b>Hill</b>	66.48	57.60	1683	0.543
<b>Tarai</b>	62.76	49.02	1584	0.494

Source: UNDP 2009

**Figure 3:** Human development by ethnic groups, Nepal 2006.

Source: UNDP 2009

### 3.1 Recent trends and prospects

According to the Global Economic Prospects of the World Bank (2010c), Nepal has one of the slowest growth rates amongst its neighbours in South Asia. Although the recent global financial crisis has affected all of the countries in this region in one way or another, most of the other countries seem to be faring rather well, with some achieving even double-digit growth rates.

**Table 5:** Nepal at a glance

	2000	2005	2007	2008
Population (millions)	24.42	27.09	28.11	28.58
GDP Growth (annual %)	6.2	3.1	3.3	4.7
Inflation (annual %)	4.5	6.5	7.7	6.7
Agriculture (% of GDP)	41	36	34	34
Industry (% of GDP)	22	18	17	17
Services (% of GDP)	37	46	49	50
Export of goods and services (% of GDP)	23	15	13	12
Import of goods and services (% of GDP)	32	29	31	33
Gross Capital formation (% of GDP)	24	26	28	32
Revenue, excluding grants (% of GDP)	10.6	11.5	11.9	12.3
Merchandise trade (% of GDP)	43.3	38.7	36.9	37.0

Source: World Bank 2010a

**Table 6:** GDP growth rates in regional countries

	95–05	2007	2008	2009	2010*	2011*	2012*
Bangladesh	5.4	6.3	5.9	5.6	5.7	6.0	6.1
China	9.1	13.0	9.6	8.7	9.5	8.5	8.2
India	6.5	9.9	6.4	5.7	8.3	8.6	8.2
<b>Nepal</b>	<b>4.0</b>	<b>4.4</b>	<b>5.0</b>	<b>3.8</b>	<b>3.5</b>	<b>4.1</b>	<b>4.2</b>
Pakistan	4.2	3.8	2.9	3.3	3.5	4.2	4.5
Sri Lanka	4.5	6.8	6.0	3.5	5.8	5.7	5.9

\* Forecast data – Source: World Bank 2010c.

For the last several years, the economic growth rate in Nepal has continuously been meagre, sometime going even below the population growth rate. After increasing slightly in 2008 to 5.0 percent, it fell to 3.8 in 2009 and is expected to fall further in 2010 (Table 6). The performance of agriculture sector, the backbone of the country, has not been satisfactory either, particularly when considering its importance in terms of employment generation, poverty alleviation and food security. One reason often cited for this bleak performance is poor rainfall, heavy floods and adverse weather conditions. However, rainfall alone explains only a small share of the variations in agricultural output and a much greater role is played by poor infrastructure, quality and availability of inputs, and lack of markets.

## 3.2 Impact of externalities

### Remittances and their impact

Foreign employment has a long history in Nepal. It started before early 19th century when some of the Nepalese travelled to India to join the army of various rulers there. Various treaties signed with India since then have granted movement of workers on reciprocal basis, and the Nepalese workers do not need work permit to work in any sector in India. In 1985, an act concerning foreign employment called the Foreign Employment Act was enacted that resulted in the migration of Nepalese workers outside and beyond India, particularly to the Gulf nations that had a huge demand for foreign labour. Since the launch of the Maoist insurgency in 1996, thousands of Nepalese have been internally displaced, many of whom have crossed the border to India or migrated to other countries in search of secure and better livelihood options. Consequently, foreign employment has emerged as an important livelihood alternative for Nepalese workers.

The government has now opened 107 countries for foreign employment, and besides India, where one study estimates the number of Nepalese residing in India to be anywhere between 1.3 to 3 million (Thieme, et al 2005), most of the Nepalese are found to go for work in Malaysia, Qatar, Saudi Arabia, UAE, Israel, Kuwait, Bahrain, Macau, South Korea, and Singapore (MoF 2009). All of this has had a significant impact on the national GDP. A recent report by the World Bank (2010b) suggests that the share of remittances in the national GDP was 23 percent in 2009, making Nepal one of the largest recipients in the world in terms of share of GDP for that year. It is wide-

ly believed that this huge influx of remittances has played a very crucial role in sustaining the livelihoods of the rural population and has contributed in reducing the national poverty level.

### Foreign aid and its impact

Ever since Nepal started receiving foreign aid, the international community has been increasingly involved in its development process. The assistance received from them has been on the rise to a level where at one point disbursements constituted around 80 percent of the development budget (Sharma 2002). Such a high degree of aid dependency has inevitably had some serious political implications. In the last decade of the *Panchayat* period, there was a tendency in the domestic political debate to see a relationship between the dominant powers in the country and foreign assistance. While the government projects were by and large unable to reduce poverty, development through foreign aid essentially became a metaphor for the maintenance and strengthening of the traditional power structure. The political picture has gone through several changes since then; however, foreign aid continues to constitute a very large share of the development budget.

Table 7 gives a summary of income and expenditure for the fiscal years 2007/08 – 2010/11. One thing that becomes clear from this data is the high degree of dependence on foreign aid. Foreign loans and grants together have financed more than a third of the development expenditure in the last three years, and in the latest budget of 2010/11, it is estimated to be almost 50 percent! Also, the share of grants has been consistently higher than that of the loans. Despite this significant inflow of aid, people at large feel that the aid channelled through government line ministries has not resulted in effective poverty reduction, and that much of the aid money has been misplaced and misused. Even the seemingly large aid for agriculture has not resulted in acceptable growth in agricultural production (Sharma 2008). When comparing the inflow of Official Development Assistance (ODA) into Nepal with that of its neighbours in South Asia, it becomes clear that, Nepal is the only country where ODA as a percentage of GNI has been consistently high since 1980 (Table 8).

**Table 7:** Government budget: Summary of income and expenditure (NRs. in '000)

Description	2007/08	2008/09	2009/010	2010/11
	Actual Expenditure	Actual Expenditure	Provisional Expenditure	Estimate Expenditure
<b>Total Expenditure</b>	<b>161,349,894</b>	<b>219,661,918</b>	<b>259,146,064</b>	<b>337,900,000</b>
Regular	92,582,342	120,073,714	137,013,842	159,286,113
<b>Development (A)</b>	<b>68,767,552</b>	<b>99,588,204</b>	<b>122,132,222</b>	<b>178,613,887</b>
<b>Revenue</b>	107,622,481	143,474,489	179,940,305	216,644,355
Tax Revenue	85,155,458	117,051,907	156,290,629	188,730,903
Non Tax Revenue	19,783,843	22,892,174	21,695,912	25,628,517
Principal Refund	2,683,180	3,530,408	1,953,764	2,284,935
Surplus (+) Deficit (-) before Foreign Grant	-53,727,413	-761,87,429	-79,205,759	-121,255,645
<b>Foreign Grant (B)</b>	<b>20,320,727</b>	<b>26,382,867</b>	<b>37,117,413</b>	<b>65,344,230</b>
Bilateral Grant	9,575,640	8,720,180	17,126,266	29,485,420
Multilateral Grant	10,745,087	17,662,687	19,991,147	35,858,810
Surplus (+) Deficit (-) after Foreign Grant	-33,406,686	-49,804,562	-42,088,346	-55,911,415
<b>Source of Deficit Financing</b>				
<b>Foreign Loans (C)</b>	<b>8,979,876</b>	<b>9,968,861</b>	<b>11,492,699</b>	<b>22,231,415</b>
Bilateral Loans	632,108	612,920	4,602,778	5,867,404
Multilateral Loans	8,347,768	9,355,941	6,889,921	16,364,011
Domestic Borrowings	20,496,400	18,417,100	29,914,000	33,680,000
<b>Cash Balance Surplus (+) Deficit (-)</b>	<b>-3,930,410</b>	<b>-21,418,601</b>	<b>-681,647</b>	
<b>(B + C) as % of A</b>	<b>42.6</b>	<b>36.5</b>	<b>39.8</b>	<b>49.03</b>

Source: Modified and adapted from Ministry of Finance 2010

**Table 8:** ODA in South Asia (% of GNI)

Country	1980	1990	1997	2001	2006	2008
Bangladesh	9.9	6.9	2.3	2.1	1.8	2.4
India	1.3	0.4	0.4	0.4	0.2	0.2
Nepal	8.3	11.8	8.3	6.7	5.6	5.6
Pakistan	5.1	2.7	1.0	3.4	1.6	0.9
Sri Lanka	9.8	9.2	2.3	2.1	2.8	1.8

Source: OECD, 2010

To get a true picture of foreign aid and its relationship to development in Nepal, one has to go beyond its mere trends and financial dimensions and look at other aspects of this relationship too. Because Nepal has been depending on foreign aid for so long and so heavily, it has affected the entire thought processes of important societal agents concerning development. It has deeply affected not only the values assumed by the society, but also the functioning of the democratic polity and the development of a responsible civil society. Lack of ownership by poor and often targeted population of the development projects and programs funded by donors; and lack of political will from recipients have been the major causes for 'failure' of development projects and programs in Nepal. Similarly,

there have been a poor and often unrealistic, top-down planning and budgeting process with little or no involvement of other stakeholders such as local level bodies, community groups and targeted population (Sharma 2008).

During the *Panchayat* period, foreign aid played a big role in the disillusionment of the people with the political economy of the system. The rulers locked themselves in an aid mentality in such a manner that they not only craved for more aid but also emphasized this aspect in official propaganda. Getting more aid from friendly countries and international institutions abroad became an end in itself. The people who did not get the benefit from aid felt cheated, reinforcing their suspicion that it was being diverted to personal enrichment of a few in powerful positions. Even today, after so much change has occurred socio-politically in Nepal, a prime minister's main achievement is recorded and vaunted publicly in terms of the number of foreign aid agreements signed and the amount of aid received. All the major political parties have been seen using this weapon, both when out of or in power. When in power, they seek legitimacy in the increased flow of foreign aid into the country, not in support of the people. When out of power, they try to use foreign aid to hit the opposition with, in the hope that the aid donors will shun their rivals. The concern for the general public does not figure in this picture.

The figures quoted here underestimate the actual level of dependence on foreign aid. A large number of development activities that were previously carried out from within the government's budget are now implemented through non-governmental organizations (NGOs). There is no reliable account of the amount of aid processed and used through this avenue. The emergence of the non-governmental sector as a recipient of foreign aid has implications that go beyond the concern of public finance. This suggests that not only the government but also the civil society including various professionals, individually or collectively, are becoming increasingly dependent on foreign aid. These professionals include legislative and judicial branches of the state, social science practitioners, medical and engineering professionals, the media, environment protection activists, and even the human rights movement, although their degree of dependence may vary. How will such important activities and engagements be sustained in the interest of development is a question that is difficult to answer for at this stage. Should there be a sudden decline in the official aid flow for some reason, this degree of exposure is very likely to dislodge not only the economy but also the larger society from their precarious positions.

This is where the question of the donors' role comes in. Although there have been some occasional grumblings from some of the donors regarding the handling of ODA (several countries removed Nepal from their priority list of ODA-receiving countries during the direct rule by the King), there does not seem to have been much discussion going on among the donor countries themselves regarding their roles, effectiveness and transparency of the aid. Given the current post-conflict situation of Nepal where almost every sector is going through uncertain and volatile times, it often looks as if the donors are struggling with their trial and error approach, and in doing so their manifest role is becoming less clear or agreeable. They are often criticised of profoundly lacking coordination among them and as a result they are not satisfied with one another. Also, there

seems to be an increasing inability to establish a framework of cooperative coordination with governments in the recipient countries. As a result, they are less satisfied with what they do and achieve while working with these governments. So they blame the state for its continual ineptness and lack of performance. In return, the state blames the society and its politics that the donors fail to appreciate; and the society blames both, the government and the donors.

In this context, and because Nepal is now in the process of building peace for political and socio-economic transformation, it is indeed timely to give a microscopic examination at the aid establishment and examine the factors affecting the performance of foreign aid in democratization. After all, the achieving of MDGs by 2015 is as much in the interest of the donor countries as it is in Nepal's interest. Much of the aid money is directly or indirectly related to MDGs and how that money is spent should be a matter of concern for all.

### International trade

Historically, Nepal's international trade before the 1950s was limited with India and Tibet. Nepal's exports have consisted of primary agricultural produce, while everything not produced locally has been imported. But since the 1950s Nepal gradually opened up to other countries in the international arena and the volume of trade also started to increase. Throughout the years, the imports have included industrial inputs, fertilizers, and petroleum. Exports, particularly to India, are generally supplied by agricultural surplus from the fertile Tarai region – mostly rice, but also tobacco, jute, and vegetable oils. Raw materials such as hides, skins, herbs, textile fibres, metal ores, and some manufactured goods, such as bamboo products, wooden furniture, textiles, carpets and pashmina, are also exported. Imports also consist of daily necessities such as salt, sugar, tea, medicines, petroleum products, and items such as chemicals, machines, cement, coal, and spare parts that are needed for development work. The trading relationship with India was first established with the Treaty of Trade and Transit in 1950, which lowered tariffs and tax duties on goods passing between Nepal and India. In successive modifications and renewals of the treaty (notably in 1960), transit facilities for trade between Nepal and other countries were established in India at the port of Calcutta, after which the trade with other countries such as the United States, Britain, Germany, and Japan started to significantly increase.

But despite these increases, Nepal's trade balance is still skewed towards imports, partly because the demand for industrial inputs and consumer goods has grown while local production has not. Although various governments have attempted to increase export earnings by diversifying products, and have obtained favourable agreements with the leading trade partners to offset Nepal's landlocked status, occasional treaty crisis with India and the failure to agree on access to a port in Bangladesh via India highlight the country's limited bargaining power. As one of the poorest nations, Nepal is unable to influence the global market to which it exports primary goods, and the geographical diversification of its trade needs to include a shift towards a wider array of manufactured products.

Looking at the data for 2007/08, total trade was 34.3 percent of GDP, decreasing slightly from 34.9 percent one year earlier. During the same year, trade with India increased to 64.3 percent as compared with the previous year's share of 62 percent (NRB 2009). On the other hand, Nepal total exports have been decreasing for the past two years. Share of exports in the GDP was 7.2 percent in 2007/08 as compared to 8.2 percent which is significantly lower than in the early years of this decade. At the same time though, imports have shown some increase, especially in 2008/09 (Ibid.).

## Tourism

Another sector, with huge potential for creating employment opportunities and contributing to the overall development of Nepal, is the tourism sector. Nepal has been a popular destination for many from all over the world for decades. Although during the conflict years the number of tourists arriving in Nepal declined, it has again started increasing, crossing the 500,000 mark for the first time in 2007/08 (NTB, 2008). However, very little has been done by the stakeholders, including the government and the private sector, to create more opportunities and make tourism more attractive to both domestic and international tourists. Tourism can also be developed in such a way that it can be both eco-friendly and beneficial to the rural communities, such that it creates new employment opportunities, increases foreign currency earnings and thereby contributes to decrease the regional imbalances within the country. These potentials have not been fully realized yet. The government has declared 2011 as the Nepal Tourism Year, but its success will largely depend on addressing these issues.

## Entry into WTO

Nepal was formally inducted into the WTO in April 2004, becoming its 147th member and the first LDC to become a member of the multilateral trading regime. Being an LDC, Nepal naturally faces considerable opportunities as well as challenges in enhancing its capacity and competitiveness. As per the commitment to WTO, some acts and regulations have been formulated, and some others have been amended so as to make them WTO-friendly. But there still remains a lot that needs to be done. Until the business sector get focused on converting market access to market entry, it would be very difficult to meet the goals. It is of utmost importance that Nepal and its business enterprises make efforts towards addressing the supply side constraints, for which an integrated approach is required from all of the stakeholders. By the virtue of becoming a WTO member, Nepal has also exposed some of the vulnerable sectors of its economy to the global competitors. Without enhancing the competitiveness of its domestic sector, it would be very difficult to protect Nepal from being engulfed by the global competitors. For that, Nepal needs to put in place a coherent trade integration strategy to address constraints in the business environment, institutional, supply, demand and capacity issues.

In this macro-economic context, attaining MDGs as well as sustaining the progress of those that look to be achievable look to be quite challenging for Nepal. Although the

government data may have suggested that poverty is declining by percentage points and both the chronic and transitory food security situation have improved, there is a declining trend in production of some staple crops, and some remote areas of the country are facing chronic hunger. Unemployment is increasing, and remittance growth rate is declining, mainly due to the global economic crisis. The balance of payment deficit continues, as dependence on imports and foreign aid increases. All these need to be seriously studied and properly addressed. It is within this macroeconomic context that one needs to analyse the effectiveness of MDGs. The overall macro-economic performance of the country is very bleak, as it becomes apparent from the discussions above. Unless the MDGs are linked clearly with the economic policies and plans, not just in paper but in actual implementation, it will still be miles before one can rest assured. Meeting all the MDGs is indeed a daunting task for a poor and fragile country like Nepal, but it is often the policies and their implementation that decide the success or failure of missions of the scale and nature as that of the MDGs. All the stakeholders, including the international community, need to be more focused and show a sense of urgency, particularly since the time is running out.

## 4 Debate on the MDGs

Needless to say, with all the hype surrounding the MDGs at both national and international levels, there has been a fair share of debates and discussions (although not to the desired level and frequency at the national level) about them and about the performance so far and the challenges facing them. At the national level, the government, most visibly through the National Planning Commission and the UNDP, at regular intervals, publishes data, figures and the state of the progress of MDGs. However, the presence of a strong and independent body able to verify the data provided by the government and raise critical questions is conspicuously lacking. Therefore most of the critiques come from independent freelancers, academicians and journalists, but even that is not to the desired frequency. There is a general feeling among the populace that the government published figures, particularly those to do with MDG 1, do not actually reflect the reality of the country and its people. The prevalence of persistent poverty is perceived by the common man, and many fail to relate to the government's claim that the poverty level is declining and that Nepal is on track to achieve the first goal of the MDGs.

In July 2010, the Oxford Poverty and Human Development Initiative (OPHI) announced that according to the Multidimensional Poverty Index (MPI3) approach it had come up with, Nepal's MPI for the year 2006 was 0.35, with the incidence of poverty at 64.7 percent (much higher than the government's claim of 31%) and the average intensity across the poor at 54 percent. This was the lowest for overall poverty in the region and ranked 82 out of 104 surveyed countries. Sri Lanka topped South Asia with the rank of 32, followed by Pakistan (70), Bangladesh (73) and India (74) and Nepal (82). Obviously, the government of Nepal was not too happy with this announcement, not with the ranking per se but with the MPI incidence of poverty itself and the way the local and national media picked up this news and highlighted the figures in front pages and editorials. It was almost as if the media and the people finally got hold of the 'real' figures, which they could more relate to, and it was coming not from the government but from an international institution.

The government looked very much at unease with this media attention and very hastily a press conference was organized by the National Planning Commission to clarify the government's take on this issue. The NPC basically lamented that the MPI had overlooked the achievements made by Nepal so far and that some of the indicators used to measure MPI were not in conjunction with the local context. The Vice Chairman of the NPC himself claimed that the MPI had undermined Nepal's efforts to reduce poverty and that the figure of 64.7 percent of poverty incidence was irrationally higher. He argued that with-

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<sup>3</sup> The MPI was constructed by OPHI for the UNDP's 2010 Human Development Report (<http://hdr.undp.org/en/>). The MPI reflects both the incidence (H) of poverty – the proportion of the population that is multidimensionally poor – and the average intensity (A) of their deprivation – the average proportion of indicators in which they are deprived. The MPI is calculated by multiplying the incidence of poverty by the average intensity across the poor. A person is identified as poor if he or she is deprived in at least 30 percent of the weighted indicators. The following table shows the multidimensional poverty rate (MPI) and its two components: incidence of poverty (H) and average intensity of deprivation faced by the poor (A). The first and second columns of the table report the survey and year which was used to generate the MPI results. <http://www.ophi.org.uk/wp-content/uploads/Nepal.pdf>

out taking into consideration the limitations of developing countries, such figures would not portray the real picture! That response by the government was further ridiculed in some of the press media in the immediate days after that, but Professor Alkire from Oxford University, a member of the OPHI, attempted to cool down the heated controversy by saying that the difference in the poverty index had come because MPI had used a different and more complex methodology to measure poverty, where income was taken as only one of the indicators of poverty ([www.nepalnews.com](http://www.nepalnews.com), August 25, 2010).

The United Nations, through either its occasional visitors from the headquarters or its local representatives, have also been giving their own opinions regarding the achievement of MDGs at occasional intervals. The UN Millennium Campaign's representative, in one such occasion in October 2008, voiced his opinion that Nepal needed to focus more on social inclusion in policy plans and invest in basic services such as water and health as well as fight corruption by adopting a zero tolerance policy against it. Only then could Nepal have the possibility of achieving the MDGs. He said that Nepal had made quite remarkable progress, if government statistics are anything to go by, towards achieving MDGs despite conflict and political instability, adding that Nepal was likely to meet all MDGs except in two areas i.e. achieving universal primary education and combating HIV/AIDS, Malaria and other diseases. The government has been by and large following this same line of thought, as is apparent in its latest MDGs Progress Report 2010 (NPC 2010b).

However, another report by UNESCAP, ADB and UNDP in 2009, titled 'Achieving the Millennium Development Goals in an Era of Global Uncertainty', cautions about the possible risks associated with the MDGs. The analyses presented in the report indicate that Nepal is one of the countries, along with Lao People's Democratic Republic and Cambodia, which faces the greatest risks in achieving MDG 1, due to the combination of high poverty and vulnerability to externalities. This perspective highlights the fact that even in the reports where UNDP itself is involved, the analysis and the interpretations are different, particularly regarding MDG 1, suggesting the multidimensionality and complexity of poverty.

From a different perspective, Bhattarai (2010) argues that it is the rampant corruption that is present in developing countries like Nepal that can actually push back the global targets. He points out to the fact that although the much-hyped Millennium Development Goals Review Summit in New York held in October 2010 churned out an action plan with the heads of state, governments from developed and developing countries, along with the private sector, international organizations and civil society pledging over \$ 40 billion for the next five years, and endorsed action plans to combat corruption, it failed to strategize concrete actions for translating promises into deeds. This insensitivity to ensure active-corruption measures, the author argues, may push back the global targets as corruption and poor governance undermine global efforts and increase the risk of funds being lost, misused, or misallocated (Ibid.).

All these debates suggest, rightly, that no single intervention can defeat poverty. Poor people need employment, schooling, health care and even immediate relief to survive.

The debates reiterate the fact that poverty is indeed complex and multidimensional. Nepal's approach so far has been half-hearted, mainly due to the political instability and an uncertain and volatile economic environment. There are, however, important lessons to be learned, and if we want to think beyond MDGs, we cannot afford to ignore them.

#### 4.1 Lessons to be learned

One of the contributing factors for the government-claimed reduction of the national level poverty has been attributed to the growing inflow of remittances from Nepalese working abroad. However, the recent global economic crisis has shown that remittance is not something that can be relied on completely. The situation in other countries plays a huge role in both the regularity and the volume of the inflow.

Moreover, the national data also shows that poverty is significantly higher in the rural areas (28.5 %) than in urban areas (7.6 %). Poverty correlates strongly with the availability of and access to physical resources, particularly land. As such, the incidence of poverty is much higher among the landless/marginal farmers than among those with small and medium/large land holdings across all the three ecological belts (for more details and discussions on land and poverty in Nepal, see Upreti, et. al. 2008).

Meeting the MDG of reducing extreme poverty and hunger, and the targets of reducing by one half the proportion of the income-poor as well as halving the prevalence of underweight children under-five years of age could be achievable, given the actual realization of some of these potentials in certain commodities and geographical areas. However, their full realization will rest on recognizing the broader economic constraints and making genuine efforts toward addressing them.

Some of these constraints are, for example, weak governance, inadequate infrastructure, poor labour market, rampant corruption and a general lack of capacity to address market failures. But linked with these are the constraints to an inclusive growth that include, among others, lack of productive employment opportunities, unequal access to opportunities, and inadequate social safety nets (ADB, DFID, ILO 2009), all of which are closely linked with poverty. All of these can potentially be improved if the political situation gets stabilized and there is a more vibrant private sector.

Finally, one other lesson Nepal has dearly learned in the recent years is that development plans do not mean much if there lacks a proper local body with local support and mandate to implement those plans. The role of the local authorities becomes extremely important, as can be seen from the MDGs experience in Nepal. Nepal hasn't had any elected body at the local (village, district and municipality) level since the year 2000. As a result, there has been a very low level of local ownership and participation in development initiatives as most of them have been planned and designed at the central level, which are often manipulated with vested political interests. Despite some good progress towards MDGs, significant 'pockets of poverty' are still being left behind. The urban-rural divide is still very wide. This is because poverty is very much a local issue – po-

litical processes that matter most to the poor are at local level. As such, for poverty programs to be effective they need local ownership and accountability. Local authorities are pivotal in promoting locally driven MDGs, unlocking inherent local potentials and bring decision making and resources reallocation closer to the people. Ownership at the local level, where constituencies and problems of poverty exist, plays a crucial role in the achievement of the MDGs.

## 4.2 Looking ahead: the MDGs and beyond

Now that there are less than five years left until 2015, it is important to ask some questions that would assist in taking this debate to a new level. Finding answers to all of the questions are not always easy, and would demand further research at national, regional and global levels. NCCR North-South could continue to play a meaningful role, and perhaps even take the lead in this issue, particularly in the following areas of research and debate in the months and years to come.

### What works for the MDGs?

From the research and experience of different countries of the NCCR North-South network and beyond, there is now a lot of accumulated evidence on what works in different contexts, which is not yet fully collated and discussed. As the global community prepares to launch into a new set of goals and priorities after 2015, it would be important to ask what sort of policies, institutional changes, and resourcing work for global poverty reduction? What are the comparative advantages and the role of different actors such as bilateral and multilateral agencies, governments, I/NGOs, private sector, and the civil society in bringing about that change? What are the commonalities in MDGs success stories and what made them successful?

### What kind of pro-poor policies are needed in the new context?

Strengthened ownership and due respect to the cultural, social, economic and political needs and conditions in the developing countries is essential for the achievement of the MDGs. Endemic corruption and continuing capital flight are just as much hindrances to development as the economic exploitation of natural resources and exclusive policies, all of which undermine good governance and democracy. In a world that is facing post-crisis fiscal constraints, challenges of climate adaptation, demographic shifts, urbanisation, and where new and innovative technological changes are taking place, what kinds of pro-poor policies support resilience of the poor and the most vulnerable groups of the world? How should the global and local actors respond to the changing context? These are questions that demand careful scrutiny and analysis as well as collaborative research at the global level.

## What lies beyond 2015 and after the MDGs?

The changing global and local level contexts, as well as the success stories showing progress of the MDGs indicate that there is disparity both between the goals and the geographical regions of the world. This has nevertheless brought an opportunity to rethink progress and validity of the goals and the indicators. Although many of the core concerns of the MDGs – starting with poverty, but also issues such as nutrition, health, education - are likely to remain valid after 2015, what new issues will be relevant then and need to be addressed? Identification of these issues as well as the institutions that need to play greater roles is essential if we want to look ahead to and beyond 2015. The overarching question is, what sort of global initiatives are desired, and who is to take the lead for building that momentum? A significant political dialogue that includes all the stakeholders backed by in-depth research at the global level must be part and parcel of that momentum, as well as of development planning and implementation.

It would be equally worthwhile at this critical junction to ask what role foreign aid could play, if any, in bringing about a more inclusive growth in countries like Nepal? After all, a growth rate at an average of a mere 3 percent per annum will not have much impact on the lives of the poor, nor would it assist in achieving the MDGs. If they are to be achieved by 2015, donors and national policy makers must explicitly link development and governance as two sides of the same coin. Bulky aid alone would not suffice to ensure that goals are met. As Easterly (2006) has argued in *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, "massive aid infusions can be harmful as well when there is no receiving capacity of the countries." Nepal's capacity to effectively utilize the aid money needs to be drastically improved. At the same time, it is crucially important for the donors to fulfill their own pledges related to better coordination, good governance, transparency and accountability, if they are to meet their aid commitments related to the MDGs.

Nepal's overall economic growth during the last 6 decades has not been very impressive in comparison to other of its South Asian neighbours. Despite some important reforms made in the early 1990s, Nepal's economic performance remains poor. The per capita growth has been even less favourable, being the lowest in the region since 1990. While the government's claim of the reduction of poverty incidence to 25 percent is a welcome development, the level and the perception of poverty, particularly in the rural areas, remains high. Equally concerning is the fact that while at the national level poverty incidence might have been reduced, inequality has risen over the same period. But despite these adverse initial conditions and poor macroeconomic settings, understanding how poverty and other related indicators have moved positively needs more careful scrutiny. Moreover, this is happening notwithstanding the challenges of a post-conflict transformation, successive unstable governments and general instability. This raises interesting questions. How is it possible to reduce poverty and child mortality when the government has been almost non-functional for the last several years? Does this imply that the role of the government is non-significant in achieving these goals? Or is it precisely because of successive weak governments that the non-government actors were better able to do their jobs and produce results? Would strong and stable government improve or worsen

the situation? All this definitely demands further scrutiny and research at a higher level. A lot of the positive contribution is attributed primarily to the remittances and their trickle-down effect, but are remittances alone responsible to the extent claimed by the MDGs progress report 2010? If so, why has the rural-urban gap widened? Either way, there is a need for more coherent assessment accompanied by distinguishing the role of remittances in addressing poverty more candidly. This will enable in making honest interpretations, which can be followed by evolving a more appropriate policy course that could be both effective and sustainable.

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## Annexes

Annex 1: Nepal's Progress towards the MDGs: Current Status

Goals	Likelihood of the achievement of the Goal				Status of Supportive Environment				
	Achieved	Likely	Potentially Likely	Unlikely	Lack of data	Strong	Fair	Weak but improving	Weak
<b>Goal 1: Eradicate Extreme Poverty and Hunger</b>									
1A: Halve the proportion of people whose income is less than 1 dollar a day		✓					✓		
1B: Achieve full and productive employment and decent work for all				✓				✓	
1C: halve the proportion of people who suffer from hunger			✓				✓		
<b>Goal 2: Achieve Universal Primary Education</b>									
Ensure children everywhere – boys and girls – complete primary schooling			✓			✓			
<b>Goal 3: Promote Gender Equality and Empowerment of Women</b>									
Eliminate gender disparity in primary and secondary education by 2005 and in all levels of education no later than 2015			✓				✓		
<b>Goal 4: Reduce Child Mortality</b>									
Reduce under-five mortality by two-thirds		✓				✓			
<b>Goal 5: Improve Maternal Health</b>									
5A: Reduce the maternal mortality ratio by three-quarters		✓				✓			
5B: Achieve universal access to reproductive health				✓			✓		
<b>Goal 6: Combat HIV/AIDS, Malaria and Other Diseases</b>									
6A: Halt and reverse the spread of HIV/AIDS		✓				✓			
6B: Achieve universal access to treatment for HIV/AIDS for all those who need it			✓				✓		
6C: halt and reverse the incidence of malaria and other major diseases		✓				✓			
<b>Goal 7: Ensure Environmental Sustainability</b>									
7A: Climate change and GHG emission					✓				✓
7B1: Reverse loss of forest			✓				✓		
7B2: Reduce biodiversity loss					✓				✓
7C1: Halve proportion of population without sustainable access to improved water source		✓					✓		
7C2: Halve proportion of population without sustainable access to improved sanitation				✓				✓	
7D: Improve lives of slum dwellers					✓				✓
<b>Goal 8: Develop a global partnership for development</b>									

Source: Adapted from NPC 2010b.

**Annex 2:** 40 Point Demand

4 February, 1996

Right Honourable Prime Minister  
Prime Minister's Office,  
Singha Darbar, Kathmandu  
Sub: Memorandum

Sir,

It has been six years since the autocratic monarchical partyless Panchayat system was ended by the 1990 People's Movement and a constitutional monarchical multiparty parliamentary system established. During this period state control has been exercised by a tripartite interim government, a single-party government of the Nepali Congress, a minority government of UML and a present Nepali Congress-RPP-Sadbhavana coalition. That, instead of making progress, The situation of the country and the people is going downhill is evident from the fact that Nepal has slid to being the second poorest country in the world; people living below the absolute poverty line has gone up to 71 per cent; the number of unemployed has reached more than 10 per cent while the number of people who are semi-employed or in disguised employment has crossed 60 per cent; the country is on the verge of bankruptcy due to rising foreign loans and deficit trade; economic and cultural encroachment within the country by foreign, and especially Indian, expansionists is increasing by the day; the gap between the rich and the poor and between towns and villages is growing wider. On (lie other hand, parliamentary parties that have formed the government by various means have shown that they are more interested in remaining in power with the blessings of foreign imperialist and expansionist masters than in the welfare of the country and the people. This is clear from their blindly adopting so-called privatisation and liberalisation to fulfil the interestes of all imperialists and from the recent 'national consensus' reached in handing over the rights over Nepal's water resources to Indian expansionists. Since 6 April, 1992, the United People's Front has been involved in various struggles to fulfil relevant demands related to nationalism, democracy and livelyhood, either by itself or with others. But rather than fulfil those demands, the governments formed at different times have violently suppressed the agitators and taken the lives of hundreds; the most recent example of this is the armed police operation in Rolpa a few months back. In this context, we would like to once again present to the current coalition government demands related to nationalism, democracy and livelihood, which have been raised in the past and many of which have become relevant in the present context.

Our demands

### Concerning nationality

1. All discriminatory treaties, including the 1950 Nepal-India Treaty, should be abrogated.
2. The so-called Integrated Mahakali Treaty concluded on 29 January, 1996 should be repealed immediately, as it is designed to conceal the disastrous Tanakpur Treaty and allows Indian imperialist monopoly over Nepal's water resources.
3. The open border between Nepal and India should be regulated, controlled and systematised. All vehicles with Indian licence plates should be banned from Nepal.
4. The Gurkha/Gorkha Recruitment Centres should be closed. Nepali citizens should be provided dignified employment in the country.
5. Nepali workers should be given priority in different sectors. A 'work permit' system should be strictly implemented if foreign workers are required in the country.
6. The domination of foreign capital in Nepali industries, business and finance should be stopped.
7. An appropriate customs policy should be devised and implemented so that economic development helps the nation become self-reliant.
8. The invasion of imperialist and colonial culture should be banned. Vulgar Hindi films, videos and magazines should be immediately outlawed.
9. The invasion of colonial and imperial elements in the name of NGOs and INGOs should be stopped.

### Concerning people's democracy

10. A new constitution should be drafted by representatives elected for the establishment of a people's democratic system.
11. All special privileges of the king and the royal family should be abolished.
12. The army, the police and the bureaucracy should be completely under people's control.
13. All repressive acts, including the Security Act, should be repealed.
14. Everyone arrested extra-judicially for political reasons or revenge in Rukum, Rolpa, Jajarkot, Gorkha, Kabhrc, Sindhupalchowk, Sindhuli, Dhanusa, Ramechhap, and so on, should be immediately released. All false cases should be immediately withdrawn.

15. The operation of armed police, repression and state-sponsored terror should be immediately stopped.
16. The whereabouts of citizens who disappeared in police custody at different times, namely Dilip Chaudhary, Bhuwan Thapa Magar, Prabhakar Subedi and others, should be investigated and those responsible brought to justice. The families of victims should be duly compensated.
17. All those killed during the People's Movement should be declared martyrs. The families of the martyrs and those injured and deformed should be duly compensated, and the murderers brought to justice.
18. Nepal should be declared a secular nation.
19. Patriarchal exploitation and discrimination against women should be stopped. Daughters should be allowed access to paternal property.
20. All racial exploitation and suppression should be stopped. Where ethnic communities are in the majority, they should be allowed to form their own autonomous governments.
21. Discrimination against downtrodden and backward people should be stopped. The system of untouchability should be eliminated.
22. All languages and dialects should be given equal opportunities to prosper. The right to education in the mother tongue up to higher levels should be guaranteed.
23. The right to expression and freedom of press and publication should be guaranteed. The government mass media should be completely autonomous.
24. Academic and professional freedom of scholars, writers, artists and cultural workers should be guaranteed.
25. Regional discrimination between the hills and the tarai should be eliminated. Backward areas should be given regional autonomy. Rural and urban areas should be treated at par.
26. Local bodies should be empowered and appropriately equipped.

#### Concerning livelihood

27. Land should belong to 'tenants'. Land under the control of the feudal system should be confiscated and distributed to the landless and the homeless.

28. The property of middlemen and comprador capitalists should be confiscated and nationalised. Capital lying unproductive should be invested to promote industrialisation.
29. Employment should be guaranteed for all. Until such time as employment can be arranged, an unemployment allowance should be provided.
30. A minimum wage for workers in industries, agriculture and so on should be fixed and strictly implemented.
31. The homeless should be rehabilitated. No one should be 'relocated until alternative infrastructure is guaranteed.
32. Poor farmers should be exempt from loan repayments. Loans taken by small farmers from the Agricultural Development Bank should be written off. Appropriate provisions should be made to provide loans for small farmers.
33. Fertiliser and seeds should be easily available and at a cheap rate. Farmers should be provided with appropriate prices and markets for their produce.
34. People in flood and drought-affected areas should be provided with appropriate relief materials.
35. Free and scientific health services and education should be available to all. The commercialisation of education should be stopped.
36. Inflation should be checked. Wages should be increased proportionate to inflation. Essential goods should be cheaply and easily available to everyone.
37. Drinking water, roads and electricity should be provided to all villagers.
38. Domestic and cottage industries should be protected and promoted.
39. Corruption, smuggling, black marketing, bribery, and the practices of middlemen and so on should be eliminated.
40. Orphans, the disabled, the elderly and children should be duly honoured and protected.

We would like to request the present coalition government to immediately initiate steps to fulfil these demands which are inextricably linked with the Nepali nation and the life of the people. If there are no positive indications towards this from the government by 17 February, 1996, we would like to inform you that we will be forced to adopt the path of armed struggle against the existing state power.

Thank you.

Dr Baburam Bhattarai

Chairman

Central Committee, United People's Front, Nepal

## Working Paper Series, SRP 4 “MDGs”

**The present study is part of the Working Paper Series for the Special Research Project on “Poverty-oriented development policy beyond the Millennium Development Goals”.**

With 2015 fast approaching, a sense of disenchantment is growing in some circles as many working towards the high-profile Millennium Development Goals realise how far out of reach they remain. Disillusionment is already giving way to critical reflection, however, and the contours of a new critical discourse on global poverty and development are beginning to emerge. Many have begun questioning implicit norms and assumptions that underpin the MDGs. Critics see the first goal in particular – “to reduce by half the proportion of people living on less than a dollar a day” – as subtly re-enforcing a mainstream view of poverty couched in ideals of global capitalism and market growth.

An NCCR North-South working group is examining the emerging critical debates, which are likely to shape development policy and interventions for years to come. The working group is seeking to generate an overview of the debates within a range of specific countries, i.e. India, Nepal, Pakistan, Ethiopia, Ivory Coast, Costa Rica, Bolivia, and Switzerland. The overviews will define core dimensions that characterise these debates, and critically assess them in light of NCCR North-South research findings. This will help formulate recommendations for a post-2015 development agenda based on differentiated experiences and understandings – globally and locally – of poverty, poverty alleviation, and well-being. Please follow the project at <http://www.north-south.unibe.ch/content.php/page/id/320>

The present Working Paper by Sagar Raj Sharma provides the working group with an overview of related debates in Nepal. Responsibility for its content rests with the author.

Zurich / Bern, November 2011, Urs Geiser and Didier Péclard, Project Coordinators

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- 35 *Miles to Go Before We Sleep: Poverty and the Millennium Development Goals in Nepal*. Sagar Sharma. 2011

Nepal is one of the 189 countries that have committed to achieving the MDGs by 2015. This pledge was most recently renewed in the government's Three Year Plan 2010/11 – 2012/13. Nepal's commitment can also be judged, to some extent, by the fact that despite having been engulfed by violent conflict, political instability and rapidly changing socio-political structures since the time it endorsed the MDGs, it has consistently incorporated the MDGs into the strategic framework of the country's Tenth Plan (2002/03 – 2006/07), Poverty Reduction Strategy Paper (PRSP), and the Three-year Interim Plan 2007/08 – 2009/10.

However, given Nepal's vulnerable geopolitical situation and a fragile economic environment, it looks to be a daunting task to meet all of the MDGs in the stipulated time. Nepal's overall economic growth during the last six decades has not been very impressive in comparison to other South Asian neighbours. Despite some important reforms made in the early 1990s, Nepal's economic performance remains poor. The per capita growth has been even less favourable, being the lowest in the region since 1990. While the government's claim of the reduction of poverty incidence to 25 percent is a welcome development, the level and the perception of poverty, particularly in the rural areas, remains high. Equally concerning is the fact that while at the national level poverty incidence might have been reduced, inequality has risen over the same period. Notwithstanding these adverse initial conditions and poor macroeconomic settings: understanding how poverty and other related indicators have moved positively needs more careful scrutiny, despite the challenges of a post-conflict transformation, successive unstable governments and general instability. This paper discusses these issues in connection with Nepal's performance regarding MDGs and the need to look beyond 2015 for future development strategies.

The NCCR North-South Dialogue Series presents reflections on research topics of concern to programme members throughout the world.

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