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Poverty and inequality in Nepal: an analysis of deprivation index 2003-04

Chirangivi Bista
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**POVERTY AND INEQUALITY IN NEPAL:
AN ANALYSIS OF DEPRIVATION INDEX 2003-04**

A thesis submitted in partial fulfillment of the requirements for the award
of the degree

Master by Research

from

University of Wollongong



School of Economics
Faculty of Commerce
New South Wales, Australia

by

Chirangivi Bista
Master of Economics
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August 2009

Certification

I, Chirangivi Bista, declare that this thesis, submitted in partial fulfilment of the requirements for the award of Master by Research, in the School of Economics of the Faculty of Commerce, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Chirangivi Bista

27 August 2009

Abbreviation

ADB	-	Asian Development Bank
ADO	-	Asian Development Outlook
BNI	-	Basic Need Income
BOP	-	Balance of Payment
CBN	-	Cost of Basic Need
CBS	-	Central Bureau of Statistics
CPI	-	Consumer Price Index
CPI	-	Corruption Perception Index
FAO	-	Food and Agriculture Organization
FDI	-	Foreign Direct Investment
FEI	-	Food Energy-Intake
FWDI	-	Factor Weighted Deprivation Index
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
HBS	-	Household Budget Survey
HDI	-	Human Development Index
HHs	-	Households
HPI	-	Human Poverty Index
IMF	-	International Monetary Fund
kcl	-	Calorie
LDC	-	Least Developed Country
MCPW-		Micro Credit Project for Women
MDGs	-	Millennium Development Goals
MPHBS-		Multipurpose Household Budget Survey
MIQ	-	Minimum Income Question
MTEF	-	Medium Term Expenditure Framework
MNI	-	Majority Necessity Index
NLSS	-	Nepal Living Standard Survey
NPC	-	National Planning Commission
NRB	-	Nepal Rastra Bank (Central Bank)
ODA	-	Official Development Assistance
PDI	-	Proportional Development Index
PPP	-	Purchasing Power Parity
PRSP	-	Poverty Reduction Strategy Paper
RMDC	-	Rural Micro-Credit Development Centre
SAM	-	Social Accounting Matrix
SOE	-	State Owned Enterprises
TI	-	Transparency International
UOW	-	University of Wollongong
WDI	-	World Development Indicators

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Abstract

Poverty in Nepal is widespread, complex and multi-dimensional phenomenon. Both the incidence of poverty (31%) and income inequality (0.37%) is high. This is the result of rapid urbanization process coupled with extended internal conflict and political instability. And, this has serious consequences especially in urban areas where the gaps between 'haves' and 'have not' is highly elevated. On the contrary, rural inequality is declining gradually. The key macro economic indicators for the country show generally poor economic conditions. A huge amount of resources is being injected in the form of nation wide poverty alleviation programmes. However, the achievement level has been very limited.

The main objective of the thesis is to study poverty and income inequality in Nepal during post reform period. This is undertaken by exploring the factors explaining the deprivation index from a recent household survey. For this purpose, the study employs factor analysis technique to formulate the deprivation index and run regression to analyse key determinants of deprivation.

The result shows that the age and gender of households head, place of residence, educational levels basically primary and secondary schooling, occupational status mainly in the service sectors, status of financial burden in a household and access to basic services are important indicators of deprivation and poverty in the context of Nepal.

Poverty levels are highly concentrated in rural areas. A rural resident is more likely to be vulnerable to deprivation than her/his urban counterpart. Deprivation is negatively associated with livestock and positively associated with the degree of indebtedness. The educational attainment of the household head is the most important factor determining the likelihood of a person being in poverty or suffering deprivation. Similarly, households which spends more time to access basic facilities i.e. schools, hospital, markets and road networks etc. are mostly deprived. Empirical evidences suggest that these key findings are also conventional to a developing country. Overall the study finds that the poverty level is still comparatively higher with its absolute and chronic in nature. On the whole deprivation in Nepal in general is high and profound(48%).