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Abstract

Country insights vary according to analyses of their inclusive growth (IG) experiences. Looking at the trends in stylized facts of Nepal, a land-locked, least developing country in South Asia, is at first glance paradoxical. That is, Nepal experienced a costly domestic insurgency situation from the early 1990s. This, however, was accompanied by a sharply decreasing trend in poverty headcount rate from 41.8% in 1996 to 30.9% in 2004 and 25.2% in 2011. This result is attributed to labour migration and a sharp growth in the remittances-to-gross domestic product (GDP) ratio; in 2011/12 it was about 23%. The conventional IG explanation highlights the contribution of remittances to household income and poverty reduction. However, households are spending remittances largely on consumer activities; therefore, this situation is labeled as "short-term" IG. Using a broader and holistic system-wide perspective suggests that there are both intended (positive/negative externalities) and unforeseen consequences. The unforeseen consequences are the societal changes as well as positive externalities of remittances in Nepal, which have facilitated an increase in access to services. The latter perspective changes the analysis and reverses the priority of policy recommendations, thus providing a cautionary note to policymakers in formulating policy prescriptions.

JEL Code: O15

Keywords: inclusive growth, Nepal, poverty, Gini coefficient, remittances

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Introduction

Poverty reduction is the ultimate goal of almost all policymakers in developing countries. To achieve this, the dominant view in the early 1970s was that economic growth could be a primary objective of economic policy, as it would contribute to poverty reduction. However, with liberalized markets, a period of accelerated economic growth followed. This led to a reduction in overall poverty levels, a situation that also resulted in increasing income inequality (partly as a result of wide-spread market failures and follows discussion on the inverted U-shaped relationship between income inequality and economic growth – called the Kuznets curve) and which contributed to social tension and, in the extreme, economic and political instability (United Nations, 2010). In other words, the different components of society did not respond equally to economic growth and the subsequent poverty reduction. To address this issue of unequal poverty reduction, policymakers have focused on the quality of growth, (see, for example, Bourguignon, 2003; Vetterlein, 2007; and Ali and Son, 2007) while acknowledging that growth is a necessary contributor (yet also suggesting that a slow and low growth rate has limited power to generate employment). In this regard, there have been many alternative policy schools of thought such as having pro-poor growth or broad-based growth (Klasen, 2010). However, one recent line of thought has been support for inclusive growth (IG), which is described as growth that allows all members of society the opportunity to participate in, and contribute to the growth process.

While there is no widely accepted definition of IG, the following description given by Ianchovichina and Lundstrom (2009) appears balanced (and is thus appropriate for use by this paper): "Inclusive growth refers both to the pace and pattern of growth, which are considered interlinked. In other words, inclusive growth focuses on productive employment (and its opportunities) rather than on income redistribution, and that there should be equality of opportunity for individuals and firms within an economy." IG therefore takes a longer-term perspective, as its focus is on productive employment, rather than on direct income redistribution, as a means of increasing incomes for excluded groups. The literature suggests that economic growth and productive employment opportunities have a negative and generally linear relation with poverty levels, i.e., they either generally estimate IG using a cross tab of input versus outcome or use the Ordinary Least Squares (OLS) estimation method.

However this narrower analysis, described in this paper as the conventional perspective, gives less importance to the system-wide effects and consequences among the actors of an economic system. On the other hand, this later and broader analysis, which is referred to in this paper as a holistic perspective, provides more extensive insight and information for policymakers by including economic system-wide effects such as access to services (e.g., education, finance, health care, markets etc); which internalises the apparent externalities in measuring growth, and analyses the growth process with solid economic reasoning on how the economic variables and people change their behaviour to make positive changes in output. Thus, it is suggested that a much broader and wider body of data, both from a qualitative and a quantitative approach, can provide the system-wide effects than data that result simply from a statistical analysis. This paper uses both these perspectives on IG (i.e., conventional and holistic) through a case study on the experience of Nepal, a land-locked, least developing country in South Asia, where trends in stylized facts have been contrary to expectations. The country experienced a decreasing poverty trend in the face of a costly domestic insurgency, which resulted in a contraction of domestic productive employment opportunities).

The objective of this paper is to discuss this paradox from the case perspective, using methodology based upon qualitative analysis from publicly available data as well as the three National Living Standard Survey (NLSS) data sets to provide: (a) a discussion on trends in stylized facts; (b) an analysis from both a conventional perspective and a broader, holistic perspective; and (c) a general insight and comments.

Jumping ahead, the insight gained from this paper is that using a holistic approach (versus conventional perspective) to analyse the stylized facts is necessary to gain a more detailed diagnosis. This paper also provides a cautionary note to local policymakers, (and which can be applied by all policymakers) regarding both diagnosis and formulation of policy prescriptions. However, in preparing this paper, the authors faced several limitations, such as the present domestic fluid political situation and issues with data quality.

1. Overview of Nepal

Nepal is a land-locked, least developing country in South Asia, located between China to the north and India to the west, south and east (see figure 1).

Figure 1. Map of Nepal

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

Area	147,181 km^2	
Population (2011 Census)	26,494,504	
GDP growth 2011/2012	4.63%	
GDP growth	Average	St.
1984/85-2011/2012 (whole)	4.54%	Deviation
1984/85-1994/1995	4.94%	0.016228
1995/96-2002/2003	4.23%	0.018906
2003/04-2009/2010	4.29%	0.019456
2010/2011	4.27%	0.009846

Source: Government of Nepal.

Although the history of unified Nepal starts from the late eighteenth century, this paper focuses on the period after 1990, which marks both a regime shift from absolute monarchy to