

Poverty & Equity Brief

South Asia

Nepal

April 2024

Nepal has continued to experience a substantial reduction in poverty over the last decade, as evidenced by new data from the fourth Nepal Living Standards Survey (NLSS-IV). Living standards have improved across the income distribution and in both urban and rural areas. Average real per capita consumption increased by 66.0 percent between 2011 and 2023, with larger gains of 70.8 percent for the bottom 40 percent of the population. The newly revised 2023 poverty line, which reflects significant improvements in living standards and shifting consumption patterns since the last survey conducted 12 years ago, shows that one-fifth of Nepal's population currently lives in poverty. The new line increases the real value of the poverty threshold by 70 percent from the one used in 2011. This improvement was also accompanied by progress on non-monetary indicators of welfare with Nepal's Multidimensional Poverty Index (MPI) also reporting a substantial decrease from 30.1 to 17.4 percent between 2014 and 2019. Under this new official poverty threshold, the NLSS-IV, the first survey implemented since Nepal transitioned to federalism, also highlights significant variation in the incidence of poverty and the distribution of the poor across the seven provinces. Poverty is highest in Sudarpaschim (34.2 percent), followed by Karnali (26.7 percent), while Madhesh and Lumbini provinces account for the largest share of the poor (25.1 and 22.8 percent). Albeit modest, inequality has also reduced over the last decade. The 2023 Gini index for consumption inequality is estimated to be 30.0.

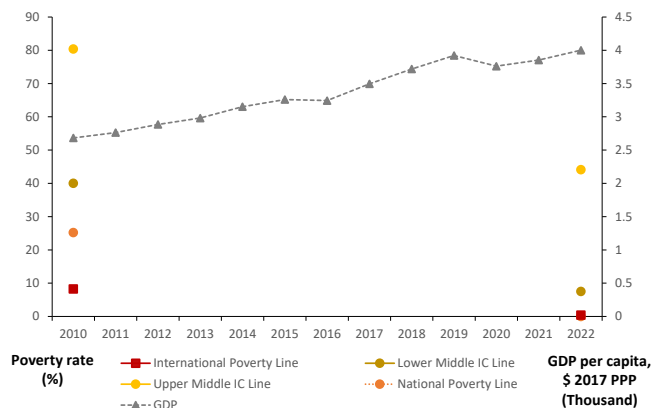
Migration and remittances remain key drivers of progress in living standards and poverty reduction, directly contributing to 32 percent of all observed poverty reduction between 2011 and 2023. Limited job opportunities at home and higher wages abroad make emigration a preferred option for Nepalis across the income distribution. On average, migrant workers earned three times more than domestic workers, thus favoring emigration over working domestically. Migration, however, remains predominantly a young male phenomenon. While the median age of migrant workers was 28, women accounted for less than 10 percent of the total number of permits issued for foreign employment in 2021-22. The indirect impact of rapidly increasing migration is rising domestic wages and employment in the non-agricultural sector, particularly among women, which is another major source of observed poverty reduction over this period (35 percent). When excluding subsistence activities from employment, share of employment in wage-non-agriculture increased from 29.9 to 44.5 percent from 2018 to 2023 for female workers, as opposed to 54.4 to 66.9 percent for male workers.

Progress remains at significant risk from economic and climate shocks, primarily due to the lack of targeted policy instruments for the poor and a weak domestic labor market. Out-of-labor-force rates remain high, even among the secondary (52 percent) and tertiary educated (28 percent), with high unemployment across all educational levels. Nepal also faces increasing climate risks; it ranks 10th globally as a country most affected by past climate hazards but is 44th most vulnerable to future climate risks. Current social assistance programs, however, are largely categorically targeted, with limited reach among the poor and cannot be flexibly reoriented to meet emerging needs during emergency. In the face of Nepal's high vulnerability to climate change and weak insurance markets, this adds to increasing risks of having people fall back into poverty.

POVERTY	Number of Poor (million)	Rate (%)	Period
National Poverty Line	5.9	20.3	2022
International Poverty Line US\$2.15 (2017 PPP) per day per capita	0.1	0.4	2022
Lower Middle Income Class Poverty Line US\$3.65 (2017 PPP) per day per capita	2.3	7.5	2022
Upper Middle Income Class Poverty Line US\$6.85 (2017 PPP) per day per capita	13.5	44.1	2022
Multidimensional Poverty Measure		26.5	2010
SHARED PROSPERITY			
Annualized Consumption Growth per capita of the bottom 40 percent		8.28	2003-2010
INEQUALITY			
Gini Index		30.0	2022
Shared Prosperity Premium = Growth of the bottom 40 - Average Growth		3.60	2003-2010
GROWTH			
Annualized GDP per capita growth		3.51	2003-2010
Annualized Consumption Growth per capita from Household Survey		4.68	2003-2010
MEDIAN INCOME			
Growth of the annual median income/consumption per capita		7.62	2003-2010

Sources: WDI for GDP, National Statistical Offices for national poverty rates, PIP as of October 2023, and Global Monitoring Database for the rest.

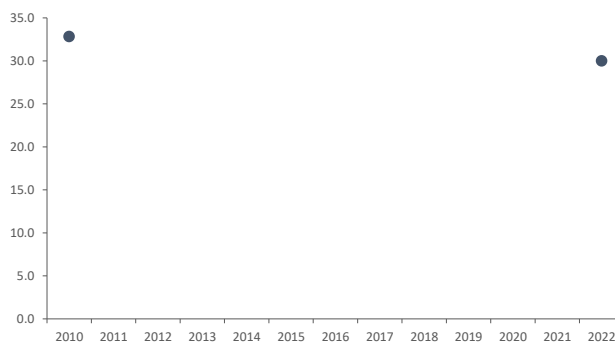
POVERTY HEADCOUNT RATE, 2010-2022



#N/A

INEQUALITY TRENDS, 2010-2022

Gini Index



#N/A

KEY INDICATORS

	International Poverty Line(%)		Relative group (%)		Multidimensional Poverty Measures: 2010 (% of population)
	Non-Poor	Poor	Bottom 40	Top 60	
Urban population	N/A	N/A	N/A	N/A	Monetary poverty (Consumption) Daily consumption less than US\$2.15 per person N/A
Rural population	N/A	N/A	N/A	N/A	
Males	N/A	N/A	N/A	N/A	Education At least one school-aged child is not enrolled in school N/A No adult has completed primary education N/A
Females	N/A	N/A	N/A	N/A	
0 to 14 years old	N/A	N/A	N/A	N/A	Access to basic infrastructure No access to limited-standard drinking water N/A No access to limited-standard sanitation N/A No access to electricity N/A
15 to 64 years old	N/A	N/A	N/A	N/A	
65 and older	N/A	N/A	N/A	N/A	
Without education (16+)	N/A	N/A	N/A	N/A	
Primary education (16+)	N/A	N/A	N/A	N/A	
Secondary education (16+)	N/A	N/A	N/A	N/A	
Tertiary/post-secondary education (16+)	N/A	N/A	N/A	N/A	

#N/A

Source: World Bank using LSS-III/SARMD/GMD

Notes: N/A missing value, N/A* value removed due to less than 30 observations

POVERTY DATA AND METHODOLOGY

The National Statistics Office (NSO) of Nepal produces poverty estimates based on the Nepal Living Standard Survey (NLSS). The NLSS Surveys (first 1995-96, second 2003-04, and third 2010-11) were conducted based on The World Bank's Living Standards Measurement Survey (LSMS). The latest survey, NLSS-IV (2022-23), incorporated selected updates to its themes and topics in alignment with current international best practices. The NLSS-IV interviewed 9,600 households using sampling frame from the 2021 population census and is representative of the population nationally, across three agricultural seasons, and within 15 urban/rural analytical domains. Nepal follows the cost of basic needs methodology to define its national poverty line, which it revised using the NLSS-IV in 2023. A new norm for measuring living standards was considered necessary due to the lengthy gap since the last survey round and significant improvements in household expenditure in real terms. This shift was also prompted by the transition to a federal system, which necessitated poverty estimates at the sub-national level, in addition to Nepal's aspirations to attain middle-income status. Due to the updated methodology, the official 2023 welfare aggregate and poverty indicator are not strictly comparable to 2011. A separate comparable welfare aggregate was created and was used with the 2011 poverty line to compare poverty rates between the years.

The national poverty line is the aggregate of the food and non-food poverty lines. The new official national poverty line in 2022-23 is estimated at 72,908 Nepali rupees per person per year, with a food poverty line of 35,029 Nepali rupees and a non-food poverty line of 37,879 Nepali rupees. This new poverty line will be used for monitoring national and provincial poverty trends going forward, with 2022/23 as the base year. International poverty estimates are based on the international poverty line of \$2.15 per person per day in 2017 US dollars, converted to Nepali rupees using the 2017 Purchasing Power Parity, which translates to 32,927 Nepalese rupees per person per year in 2022-23. International poverty estimates for Nepal should be used cautiously due to following 2017 PPP issues: (i) Price data favor urban markets (96%), and neglect rural areas with higher poverty rates; and (ii) CPI relies on outdated data and methodology. In 2017, the Government of Nepal also announced the Multidimension Poverty Index (MPI) as an official measure of non-monetary poverty, to align with the Sustainable Development Goals.

Note on new global poverty lines: Poverty data are now expressed in 2017 Purchasing Power Parity (PPP) prices, versus 2011 PPP in previous editions. As price levels across the world evolve, global poverty lines have to be periodically updated to reflect the increase of the value of the lines in nominal terms. The new global poverty lines of \$2.15, \$3.65, and \$6.85 reflect the typical national poverty lines of low-income, lower-middle-income, and upper-middle-income countries in 2017 prices. In addition to reflecting updates in nominal terms, upper-middle-income countries raised the standards by which they determine people to be poor from 2011 to 2017. Hence, the increase in the upper line is larger, and the population that does not meet the new standard is higher in most countries than it was with 2011 PPPs. See pip.worldbank.org.

HARMONIZATION

The numbers in this report are based on SARMD. The South Asia Micro Database (SARMD) is a regional database of socio-economic indicators established in 2014 managed by SARTSD. It includes 40 surveys covering 8 countries. It follows the Global Monitoring Database (GMD) Harmonization guidelines, including the construction of the welfare aggregate which is used for the Global Poverty Monitoring. Terms of use of the data adhere to agreements with the original data producers.