

# NEPAL: LIVELIHOODS RECOVERY AND ENERGY ACCESS FOR THE POOR

United Nations Development Programme  
United Nations Capital Development Fund

POVERTY REDUCTION AND MDG ACHIEVEMENT



## Background

Nepal is a least developed and landlocked country with a population of 27.5 million, comprising over 100 ethnic groups and 92 languages. It experienced a decade-long armed insurgency by the Maoists from 1996 to 2006. Since the signing of a Comprehensive Peace Accord in November 2006, Nepal has been undergoing a political transition and moving through a complex process of peacebuilding, state restructuring and socio-political transformation. Nepal's 2009 Human Development Index HDI has gradually improved, currently ranking 144th of 182 countries. The Nepalese economy has been stagnating at below 4% growth rate for the last several years, and the effect of the global economic crisis may lower the growth to 3%. The GDP per capita was at US\$ 1,049 (PPP) as of 2009. The continuous rise in food prices is a serious concern in Nepal.

More than 74% of Nepal's total labour force is engaged in the agriculture sector. Tourism is one of the principal sources of foreign exchange earnings and employment, contributing almost 2.5% of GDP. Remittances add up to 20% of the national income. Despite a steady reduction in the poverty levels from 42% in 1996 to 25.4% in 2009, the reduction has been highly disproportionate. Inequality during this period, measured by the Gini coefficient, increased from 0.342 to 0.414 – the highest increment among the Asian countries in recent years.

Despite the conflict and its aftermath, Nepal's progress towards some of the MDGs has been noteworthy. Nepal may very well meet the MDG goal of halving poverty by 2015. Poverty has gender, caste, geographic and social dimensions. Geographically, the far western and midwestern regions have the worst HDI. Similar disparities exist among social groups or geographic locations when other development indicators are also disaggregated. For example, while the national adult literacy rate is 56%, that of women is only 43%, and 85.4% of urban households have access to sanitation, compared to only 41.8% among rural households.

Nepal prepared its first Poverty Reduction Strategy Paper (PRSP 2002-2007) in line with the MDGs. Following this PRSP, the Three-Year Interim Plan (2008-2010) was developed with a focus on poverty reduction and employment generation, reconstruction and rehabilitation, given the post-conflict context of the country. It has incorporated various policies and programs aimed at attaining the MDGs.

## MDG Localization and Local Development Programmes

UNDP, UNCDF and other UN agencies and partners accompanied local governments in preparing and implementing MDG localization programmes. District Development Committees (DDCs) and Village Development Committees (VDCs) have implemented a range of MDG investment projects through the Decentralized Local Governance Support Programme (DLGSP) and Local Governance and Community Development Program (LGCDP). DLGSP contributed significantly to enhancing citizens' effective participation in local governance and to strengthening local governments' capacity. It has contributed to poverty reduction through inclusive and accountable local governance. Block grants to local government bodies, performance-based monitoring of investments, strengthening of citizens' engagement with local governments, and civil society engagement are some of the distinct features of the joint programme. Over the period 2008-2012, LGCDP will continue to support decentralized service delivery and community empowerment in Nepal. Of special attention are the pilots for decentralized social protection, which link cash transfers for poor households to improve access to primary education.

The Micro-Enterprise Development Programme (MEDEP) has created 46,180 micro-enterprises and 55,400 jobs in 36 program districts. 68% of the beneficiaries are women, 25% Dalits, 35% indigenous communities, and 66% youth. In the upcoming national development plan, the government is prioritizing micro-enterprise development as a national strategy for poverty reduction and employment creation. The



Photo by Adam Rogers

Rural Energy Development Programme (REDP) has built 290 micro-hydro plants connecting 49,987 households in 325 remote VDCs, thus enabling poor communities to improve agriculture production and to electrify schools and health clinics. It has also supported 40 districts to mainstream energy for poverty reduction into local planning. A recent evaluation showed 52% income growth in the targeted communities, part of it associated with a reduction in the time spent on fuel wood collection.

The Livelihood Recovery for Peace (LRP) Project restores the foundations for sustainable development through an area-based approach. The project started in August 2009 in three vulnerable districts: Mahottari, Sarlahi and Rautahat, targeting more than 30,000 people. Typical investments include: schools and health centre rehabilitation, drinking water, toilets, irrigation, culverts and disaster mitigation structures. The initiative has created more than 200,000 short-term jobs and 1,600 long-term employment opportunities.

## Opportunities for Scaling Up

Drawing on lessons from past and current experiences, it is proposed that the LRP Project be expanded and scaled up to cover other geographic areas, with strengthened emphasis on income-generation interventions. The multiple dimensions encompassed by this project in an integrated fashion make it possible to raise the poor while mitigating their vulnerability. While this five-year (2009-2014) project currently has a funding gap of US\$ 9 million, there is an urgent need to have similar kinds of area-focused programmes in numerous hill districts, especially in mid- and far-western regions. As the project provides a

## THE ROLE OF LOCAL GOVERNMENTS IN ACHIEVING THE MDGS:

Nepal is divided into five regions, 75 districts, 58 municipalities and 3,915 villages organized under a two-tier local governance system. VDCs serve as the lower tier and DDCs as the higher tier of local government. The Local Self-Governance Act (LSGA, 1999) has provided a solid institutional and legal basis for local governments. The principles envisioned in the LSGA include the devolution of power and granting local governments the authority to mobilize revenues.

In line with the Interim Constitution 2007 that states that Nepal will move to a federal structure, the Interim Plan (2008-2010) deepens the decentralization process. The key components include: operationalizing devolution, restructuring local bodies, strengthening fiscal decentralization, and improving the fiscal transfer model from the central government. Local governments are responsible for managing, implementing and coordinating development activities in agriculture, rural drinking water, local transport, education, irrigation, soil-conservation, health services, and the environment. However, there is significant overlap and lack of clarity among the local authorities, agents of line ministries, and the central government, and also among local bodies (DDCs and VDCs). Sectoral laws conflicting with the LSGA undermine the effective functioning of local governments.

framework for a broad range of community-led investments, it may also scale up on the basis of the lessons and interventions that REDP developed for access energy and MEDEP developed for economic empowerment.

The proposed synergy lies in empowering women and communities that have been historically marginalized and discriminated against (e.g., Dalits, disadvantaged ethnic groups). The scaling up proposal intends to cover an additional 3-5 poorest hill districts while continuing with the current coverage of three central plains districts, benefiting about 70,000 households (343,000 individuals) through income generation, vocational education, and micro-finance outreach. It will also improve access to community infrastructure such as schools, drinking water and sanitation, health centres, and community buildings for more than 150,000 households. Besides delivering tangible results in MDG 1, expected spillover effects are across education, gender empowerment, maternal and child health, and control of infectious diseases.

To expand access to energy services in the remote areas of Nepal, the off-grid electricity systems offer more promising opportunities, as they can be installed relatively quickly and at lower costs, making them more affordable to communities. Since the decentralized energy systems are promoted through a holistic model of rural development, communities further benefit from several end-use applications such as micro and small-scale enterprises linked to power generation. Further, the supply of clean energy at the household level, helps reduce the rate of destruction of forests in watersheds and protects women from health hazards, thereby contributing to achieving the MDGs on health, education, gender and environment.

It is expected that a total of up to 15,000 households will have access to energy services through this intervention, and an additional 50,000 people will benefit from the end-use of electricity. This intervention will also link micro-hydro production of electricity with the national grid, helping generate additional income for communities. In addition, it will also promote the public-private partnership (PPP) model in energy services and bring the private sector on board as a more active development partner. The estimated resource requirements for this initiative are about US\$ 10 million for the period 2011-2014.