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Small Steps, Big Gains: Nepal's Puzzling Pace of Poverty Reduction

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The recent protests in Nepal have reinforced its reputation as a political trouble spot, long assailed by the twin enemies of poverty and instability. That image draws on the country's notoriously difficult history: a landlocked, mountainous terrain that constrains opportunity, compounded by corruption, weak governance, a decade-long insurgency, entrenched caste divisions, deep inequality and grinding poverty. However, the protests are less surprising than they might seem. Popular frustration has simmered for years, and in many contexts uprisings are most likely to boil over during periods of improvement, when expectations rise faster than opportunities. The question, then, is whether Nepal's new leaders will respond by repeating the cycle of false promises, or by drawing lessons from the very strategies that drove the country's poverty down in recent decades.

To understand this backdrop of discontent, it is worth recalling how stark Nepal's poverty once was. In 1995, half of the rural population lived in severe poverty,[1] surviving on less than US$1.20 per day, while nearly all fell below a broader poverty line of US$8.30.[2] Multiple barriers, both natural and man-made, stymied efforts at poverty reduction. Farmers in this Himalayan country—wedged between two of Asia's largest economies—struggled to make a living in a harsh environment, while corruption, exclusion, and inequality deepened their vulnerability.

In contrast, less than three decades later, the picture looked dramatically different. By 2022, poverty rates had fallen by more than 50 percentage points,[3] and severe deprivation had nearly disappeared. For decades, observers regarded Nepal as a stubborn case, yet the country defied expectations and reduced poverty to levels below the global average—gains achieved largely in spite of, rather than because of, successive governments. This remarkable trajectory makes the country's recent political upheaval less a contradiction than a continuation of its ongoing struggle for equity, accountability, and inclusive growth—elusive promises of Nepal's democratic system.

Not only are Nepal's poor experiencing less poverty, but they are also healthier and better educated. During this period, life expectancy at birth rose from 54.8 years to 70.4 years, while expected years of schooling nearly doubled from 7.3 in 1990—barely a middle school equivalent—to 13.8 in 2023.[4] These gains are reflected in the country's

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rapid rise on the Human Development Index, which in 1990 stood at 0.404, a level comparable to Mauritania and Yemen. By 2023 Nepal's HDI had climbed well above these comparable cases, reaching 0.622,[5] a level that graduated Nepal from "low human development" to "medium human development."

Improvements are equally visible in basic living standards. In 2006, one in two Nepalis lacked access to proper sanitation; by 2022, that figure had fallen to one in ten.[6] Access to electricity, drinking water, clean cooking fuel, and decent housing followed similar trajectories. What is more, Nepal's progress has not been confined to material well-being.

To be sure, poverty in Nepal remains far too high, and the road to reducing it further is long. However, the country's recent performance suggests the country offers a lesson.

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Was Nepal's a simple case of economic growth trickling down to help the poor? The World Bank certainly frames the story this way, crediting steady growth while lamenting the persistence of a large informal economy. Its prescriptions—private investment, urbanization, and large-scale infrastructure, all to support sustainable business growth—are consistent with this view. However, although Nepal's economy expanded steadily, it did so at an average of 4.2 percent annually between 1996 and 2023,[7] a pace too slow to account for such dramatic reductions in poverty. Moreover, unless governments act deliberately to channel the largess of growth—which Nepal's previous government rarely did—the benefits of growth often bypass the poor.

Understanding what enabled Nepal—despite its natural and man-made barriers—to reduce poverty so quickly is key to unlocking the Nepal puzzle. Insights from its experience can also inform strategies in other countries facing similar challenges. Despite the scale of its achievement, Nepal's success has drawn little notice outside of a handful of development experts—an oversight that reinforces its reputation as a perennial trouble spot rather than a source of valuable lessons.

The Nepali State: False Promises and Hollow Outcomes

Beyond economic growth, analysts often point to three characteristics of government that commonly drive poverty reduction: capital expenditure, good governance, and equitable land distribution. Yet none of these explains Nepal's performance.

First, capital expenditure has not played the role it does elsewhere. Capital spending as a share of the budget actually fell from 21.8 percent in 2019 to 16.5 percent in 2023,[8] and disbursements remained inadequate. What spending did occur went largely to public works. In FY2022/23, the government devoted NPR126.32 billion (US$956 million) to infrastructure such as roads, bridges, railways, airports, and hydropower, with NPR55.03 billion (US$416 million) allocated to roads and bridges alone.[9] Yet this focus on construction—even that intended to benefit the public—does not solve the Nepal puzzle. A public expenditure review commission set up by the finance ministry found poor planning, disregard for standards, and chronic delays. As economist Chandramani Adhikari lamented, "The budget is announced without preparation. The process of selecting the projects is haphazard. Then, the budget is allocated for those projects without assuring the financial source."[10] Given the divide between budget and actual accomplishment in Nepal's investments in large-scale infrastructure, the country's gains in poverty reduction, then, must have come from other sources.

Second, the notion that good governance may have played a role—to be fair, few outside the government have proffered it—has little merit, given the depth and entrenchment of official corruption. On the Corruption Perceptions Index, Nepal scored 34 in 2024, ranking 107 out of 180 countries[11]—a level that has barely shifted over the past decade. Political graft has been common,[12] and every year brings a scandal larger than the last. In 2025, it also led to the collapse of the government. It is hardly suprising that subsidies intended to support rural farmers have too often vanished into administrative overhead, consultant fees, training seminars, and poorly targeted purchases—categories that are wasteful at best[13] and more often serve as covers for corruption.

Third, equitable land distribution—a terrific idea that drew substantial effort—has never been realized. Roughly 1.5 million families, about a quarter of households, own no land at all, while 53 percent of farmers control only 18 percent of cultivable land.[14] The 1964 Land Act promised reform but failed. In the three decades that followed, the government managed to acquire and redistribute barely 1 percent of cultivated land.[15] Landowners evaded redistribution ceilings by reassigning plots within families, while the lack of a centralized landholding database crippled enforcement. Amendments since then have likewise fallen short.

Remittances in Nepal: Reducing Poverty, Perpetuating Dependence

If capital expenditure, governance, and land reform cannot explain Nepal's poverty reduction, what about another commonly cited suspect—remittances? In fact, the few development experts to notice Nepal's record of poverty reduction credit remittances. And consistent with that view, hundreds of thousands of Nepalis have ventured overseas over the last several decades, largely to the Middle East. Today more than two million live and work abroad. Their remittances exceeded US$11 billion in 2023—more than one quarter of Nepal's GDP.[16] Given that most migrants leave to support their families, it is unsurprising that remittances have alleviated poverty. Nepal's Central Bank estimates that remittances reduce the poverty headcount by 5.3 percent[17] among recipient households. Households that receive them are 2.3 percent less likely to fall into poverty than those that do not, according to another study.[18] By boosting disposable income, remittances have improved living conditions and helped families meet their basic needs.

As impressive as their volume may be, remittances have two major downsides. First, they cannot directly assist the families that never receive them—and the share of

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households that receive remittance income is shrinking. In 2011, 58 percent of Nepali families received remittances; by 2018 the figure had fallen to 38 percent.[19] Remittances thus create a divide between households that benefit and those that do not, contributing to inequality within villages. Second, while remittances help poor families, their effect is largely short-term. Enduring progress depends on investment in assets, skills, health, and education. One study found that even modest increases in family assets strengthen the protective role of remittances: the likelihood of falling into poverty drops by 4.8 percent for every one percent rise in assets. Yet remittance-receiving families invested only 2 percent of their transfers into assets.[20] Instead, remittances have entrenched dependence on foreign labor markets, leaving Nepal vulnerable to global shocks and constraining the foundations of durable growth.

Remittances, then, are one piece of the Nepal puzzle. They may explain 5.3 percentage points of the current poverty rate—yet overall poverty has fallen by more than 50 percentage points.[21] Many pieces remain to be identified, let alone fitted into place.

Laying the Foundation: Roads, Schools, and Electricity as Enablers

Some of the most important gains in Nepal's fight against poverty came not from large-scale industrialization but from social investments that expanded basic capabilities. Roads, schools, and electricity may not directly reduce poverty, but they created the conditions in which other interventions could take root and accelerated poverty reduction.

Road expansion was one of the earliest and most visible shifts. Between 2002 and 2011, Nepal's road density more than doubled from 3.3 km per 100 square km to 7 km. Over roughly the same period, poverty fell from 41.8 percent in 1995-96 to 25.2 percent in 2010-11.[22] Research has found a positive correlation between rural road construction and reductions in multidimensional poverty, especially through improvements in household assets and access to durable goods. Rural roads shortened the time to market, increased household savings, and opened opportunities for off-farm employment. They also made migration easier, allowing households to send money home and accumulate assets. Nepal provides another example of development which illustrates that it isn't just highways that have socio-economic impact.

Education followed a similar pattern. The phased Education Sector Program, implemented with support from the Asian Development Bank and the World Bank, expanded access to schooling, especially for girls. The number of schools increased by nearly 30 percent, teacher training improved, and years of expected schooling rose.[23] These shifts may not have immediately lifted households out of poverty, but they represented long-run investments in human capital and likely contributed to reducing gender inequality.

Electrification carried the same enabling logic. Launched in 1996 with joint funding from two international organizations and Nepal's central and local governments, the Rural Energy Development Programme extended micro- and mini-hydropower to more than 100,000 households. In participating communities, average household income rose by 52 percent between 1996 and 2005.[24] Electricity supported small enterprises and farm processing, but it also improved daily life in ways that made other livelihood strategies more feasible.

It is difficult to disentangle the precise relationships among these investments, and their poverty impacts have often been indirect. Yet together, roads, schools, and electricity laid the groundwork for later initiatives. They reduced isolation, expanded capabilities, and created the basic conditions for rural households to seize new opportunities.

Building Livelihoods: Skills and Entrepreneurship Beyond Subsistence

If roads, schools, and electricity laid the foundation, skills and entrepreneurship programs built on it. These initiatives provided poor households not with factory jobs but with the training, credit, and opportunities to strengthen their own farm- and home-based livelihoods.

The Nepal Poverty Alleviation Fund (PAF), a World Bank-supported community-driven program, reached more than 2.5 million people across 40 poor districts between 2004 and 2011. It provided grants for income-generating activities and small-scale infrastructure, alongside training in farming and husbandry. Beneficiaries reported notable improvements: food insecurity dropped by 19 percent, real per capita consumption rose by 19 percent, and school enrolment rate climbed by 15 percent.[25] By the end of project completion on 31 December 2018, 71.43 percent of beneficiary households reported to have increased their incomes by 15 percent.[26]

The International Fund for Agricultural Development (IFAD) pursued a similar approach. Between 2015 and 2024, one of its flagship projects targeted 179,000 beneficiaries across 16 districts, supporting the creation of 60,000 rural entrepreneurs and providing vocational training or apprenticeships for 21,000 youth. By the project's close, 28,000 households reported asset gains of at least 20 percent, nearly 70 percent of trained youth had found employment lasting at least six months, and supported enterprises saw consistent profit growth.[27]

These interventions succeeded because they offered more than temporary relief. They created durable improvements in human capital and local entrepreneurship, enabling rural households to capture greater value from their own labor and land for millions of rural households. Moreover, given multilateral support and shepherding of these programs, a higher proportion of the aid actually went to their intended targets.

Image by Ravi Sharma

Importantly, these projects targeted small-scale farming and animal husbandry and the successful establishment of family businesses. Although done at a large-scale, the opportunities these projects promoted were strikingly small, thereby providing easier access for poorer households.

Sustaining Rural Production: Irrigation, Forestry, and Farming for Resilience

Small-scale infrastructure and resource management projects pushed this logic further by enhancing rural production systems directly. The Small Irrigation Programme (SIP), launched in partnership with the Swiss Agency for Development and Cooperation, established nearly 1,800 irrigation systems benefiting 30,000 households, including women-headed and disadvantaged families.[28] In its first phase alone, farmers doubled their income, increased food sufficiency by up to 100 percent,[29] and boosted staple crop production by 38 percent.[30] The second phase, now underway, aims to reach 65,000 farmers by 2026.[31]

Community forestry projects followed the same logic. FECOFUN's ongoing five-year initiative (2024-29) promotes sustainable harvesting and trade in Himalayan wild plants and fungi across 10 districts. It aims to support 10,000 local harvesters by training them in farming and trade while conserving fragile ecosystems.[32]

Even smaller initiatives delivered outsized outcomes. In southern Nepal, Helvetas Nepal trained marginalized Mushar Dalit women in riverbed farming and marketing. Women who once earned just NPR600 (US$5) for 12 hours of hard labor can now make up to NPR40,000 (US$250) in six months from extra vegetable sales. Some have even purchased land—an unthinkable step for this historically landless group.[33]

Together these initiatives show that rural poverty fell because farming households gained tools to make farming and resource use more productive and profitable, in many cases allowing small-scale farmers to shift from subsistence to commercial farming.

When Small Becomes Big: Scaling Up Poverty Reduction Through Local Interventions

Taken together, these interventions share a common thread. Echoing the British economist, E.F. Schumacher's (1973) well-known dictum that "Small is Beautiful,"[34] these projects emphasized small-scale over large-scale. Rather than investing in massive state-led projects or industrial employment, Nepal and its development partners supported myriad localized initiatives—roads that connected villages, schools that served communities, micro-hydro plants that powered households, training programs that equipped individuals, and irrigation systems that watered small plots.

The effect was not to pull rural residents into urban factories but to strengthen their participation in markets on their own terms. Households sold more crops, processed more goods, managed more forests, and ran more small businesses. The cumulative effect of these micro initiatives was macro change: poverty fell sharply as millions of households expanded their livelihood options and income sources.

These small initiatives form another large piece of the Nepal puzzle. They reveal how broad poverty reduction can come not from sweeping reforms or high growth alone, but from persistent, small-scale investments that multiply across households and communities.

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From Protest to Policy: Learning from Nepal's Small-Scale Path

Nepal's recent history shows that poverty reduction cannot be explained by the usual suspects alone. Growth—though substantial and sustained—was too slow, governance too corrupt, and land reform too limited. Remittances helped, but neither sufficiently nor sustainably enough to shake off Nepal's dependence on them. Instead, the sharp decline in poverty seems tied to the aggregation of hundreds of small-scale interventions—roads, schools, electricity, training, irrigation, forestry, household industries—that, taken together, enabled rural households to participate in markets with greater autonomy. Education, roads, and electricity appear to have laid the foundation for the development of a rural-based economy that did something remittances could not—promote household assets and sustainable rural incomes.

This reading stands in sharp contrast to a common alternative narrative that credits economic growth and remittances, while dismissing the informal economy. Nepal's experience suggests a more nuanced conclusion: poverty fell because households and communities—in partnership with a variety of aid agencies—promoted livelihoods in the informal economy, supported by small but strategic investments.

While more work is needed to substantiate this alternative view, one takeaway is clear. The ongoing protests remind us that growth alone cannot satisfy public demands. As Nepal forms a new government following elections in March 2026—one hopefully more responsive to the people—it would do well to remember its own recent past. Large-scale projects have too often bred corruption and waste. By contrast, small-scale initiatives, often led by non-state actors (and supported by the government), delivered broad improvements in well-being and helped channel Nepal's growth into the hands of lower income families. The challenge now is for the state to put the weight of good government behind these proven approaches.

In the end, Nepal's story shows that initiatives focused on a human scale, when widely replicated, can yield big outcomes—an echo of Schumacher's reminder that Small is Beautiful.

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