



Remittances, Migration and Inequality: Unraveling Nepal's Poverty Dynamics

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Abstract

Poverty and inequality remain critical issues in Nepal despite significant poverty reduction over recent decades. Rural and urban poverty trends differ with rural poverty decreasing due to remittances and agricultural productivity, while urban poverty has risen due to migration pressures. This study examines the socio-economic determinants influencing poverty and inequality, focusing on regional differences and policy impacts. Utilizing data from four rounds of the Nepal Living Standards Survey (1995-2023), this study applies descriptive statistics and graphical analysis to assess poverty and inequality trends. Key metrics include the poverty headcount ratio, poverty gap, and Gini coefficient, analyzed across both rural and urban regions to identify distinct socio-economic drivers. Findings indicate a significant reduction in national poverty, primarily driven by remittances although urban poverty has intensified with rapid rural-to-urban migration. The poverty gap and Gini coefficient reveal that inequality remains higher in rural areas despite some improvements. This study highlights the need for region-specific policies that address rural poverty drivers and urban challenges tied to migration and inadequate infrastructure. The study concludes that a dual policy approach—targeting rural development and urban poverty management—is necessary for sustainable poverty reduction

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in Nepal. Future research should further explore long-term impacts of remittances and urban-focused poverty interventions.

Keywords: Poverty, inequality, rural-urban poverty, remittances, migration

Introduction

Poverty in Nepal remains a critical socio-economic issue despite multiple decades of poverty alleviation efforts and significant economic growth. The country has witnessed a substantial reduction in poverty, evidenced by a decline from 41.76% in 1995-96 to 20.27% in 2022-23, according to the latest Nepal Living Standards Survey (NLSS-IV) (National Planning Commission, 2022; NSO, 2023). This progress, particularly in rural areas, can largely be attributed to remittances and targeted rural development programs. Nevertheless, a growing concern lies in the rising poverty levels in urban regions, driven by increased rural-to-urban migration, leading to infrastructural strain and limited access to essential services in cities. The increase in urban poverty underscores the need for more region-specific poverty alleviation strategies that address both rural and urban challenges (NSO, 2023).

While the overall decline in poverty is a positive outcome, the contrast between rural and urban poverty dynamics highlights persistent challenges. Rural poverty has significantly decreased, dropping from 43.27% to 24.34% over the past few decades, largely due to remittance inflows and improvements in agricultural productivity (National Planning Commission, 2022). However, in urban areas, poverty levels have risen sharply, with the urban poverty rate climbing from 9.55% in 2003-04 to 18.34% in 2022-23 (NSO, 2023). This stark reversal of urban poverty trends calls for a critical analysis of underlying socio-economic drivers.

Migration from rural to urban areas is a critical factor shaping the poverty landscape in Nepal. As more individuals migrate to urban centers in search of better livelihoods, cities face growing pressure on their infrastructure. Rapid urbanization has created significant socio-economic challenges, with many migrants employed in informal sectors, lacking job security, and without access to social protection measures, further entrenching poverty in urban areas. This trend aligns with global experiences

in developing economies, where rapid rural-to-urban migration often leads to urban poverty pockets due to inadequate planning and infrastructure development.

Globally, poverty trends reveal similar patterns of divergence between rural and urban contexts. Studies from South Asia and Sub-Saharan Africa indicate that remittances play a critical role in rural poverty reduction by supplementing household incomes (Abduvaliev & Bustillo, 2020). However, over-reliance on remittances poses risks of economic vulnerability to external shocks, such as downturns in labor-exporting countries. Urban poverty, on the other hand, is increasingly driven by migration and insufficient infrastructure, as seen in countries like India and Bangladesh, where rapid urbanization has outpaced service provision (Alkire et al., 2021).

Despite Nepal's substantial progress in poverty reduction, significant research gaps remain. First, there is limited understanding of how inadequate urban infrastructure exacerbates poverty among migrants in informal settlements. Second, while rural poverty reduction has largely been attributed to remittances, the long-term sustainability of this income source remains underexplored. Finally, the intersection of poverty and inequality, particularly in urban areas, warrants further investigation to design inclusive policies that address structural barriers to socio-economic mobility.

This study aims to address these gaps by providing a comprehensive analysis of poverty trends in Nepal, drawing on data from four rounds of the NLSS conducted between 1995 and 2023. The research will examine the socio-economic factors influencing poverty in both rural and urban areas, highlighting the challenges and opportunities for targeted poverty reduction efforts. By offering insights into the drivers of poverty and inequality, the study seeks to inform policies that promote sustainable, inclusive economic growth and contribute to the long-term reduction of poverty in Nepal (NSO, 2023; Nepal Living Standards Survey, 2022-23).

Literature Review

The ongoing challenges and improvements in poverty reduction in Nepal align closely with the dynamics explored in broader regional and global studies. Abduvaliev and Bustillo (2020) emphasize the positive impact of remittances on

economic growth and poverty reduction, particularly within the Commonwealth of Independent States (CIS) countries. Their findings underscore that remittances play a crucial role in improving living standards and reducing poverty headcounts in rural areas, which parallels Nepal's experience with remittances as a substantial income source, representing almost 25% of the GDP in recent years. Chaudhary (2020) further supports this perspective, noting that remittance inflows have helped stabilize rural incomes and reduce poverty, especially in areas where traditional agricultural employment is less viable.

The Nepal Living Standards Surveys (NLSS) have provided critical data on poverty trends, capturing how remittances and targeted rural development efforts have shaped poverty reduction across Nepal. However, the literature cautions against over-reliance on remittances. Lokshin et al. (2010) observe that while remittances bolster rural household resilience, they may also lead to increased dependency, which poses risks in the face of economic shocks in labor-exporting countries. The findings by Gauchan (2008) on Nepal's agricultural sector similarly reflect this concern, indicating that while remittances improve rural welfare, they may deter local economic initiatives, especially when paired with limited agricultural productivity improvements. This dependency exposes rural Nepal to vulnerabilities that could reverse poverty gains if remittance inflows decrease due to global economic shifts.

Urban poverty, on the other hand, presents different challenges. As shown by Alkire et al. (2021), multidimensional poverty reduction efforts must account for the socio-economic complexities unique to urban environments. Unlike rural poverty, which is often tied to lack of infrastructure and agricultural limitations, urban poverty in Nepal has been exacerbated by rural-to-urban migration, as migrants seek better opportunities but face inadequate housing and limited access to formal employment. The rapid urbanization discussed by Thapa et al. (2022) underscores these dynamics, highlighting how economic migration often overwhelms urban infrastructure, resulting in "poverty pockets" in cities. These poverty pockets are marked by high levels of deprivation in housing, sanitation, and informal employment, which, as Adhikari et

al. (2021) point out, lead to persistent poverty cycles that are difficult to break without targeted policy interventions.

Alkire and Seth (2015) advocate for a multidimensional approach to poverty, identifying critical non-income-related factors that contribute to overall deprivation, including health, education, and living standards. Their work suggests that poverty reduction efforts need to be tailored to the specific needs of various regions. Nepal's urban poverty trends align with this multidimensional perspective, particularly as urban poverty has increased from 9.55% in 2003-04 to 18.34% in 2022-23, according to the NLSS. This rise is largely attributed to the surge in migration and lack of adequate urban planning, emphasizing the importance of region-specific interventions that address both structural and immediate urban poverty factors.

Efforts to address poverty through infrastructure and economic growth are further supported by studies on development policies and the Sustainable Development Goals (SDGs). Aziz et al. (2020) discuss the role of zakat and targeted welfare programs in poverty alleviation, emphasizing the need for systematic frameworks to achieve sustainable poverty reduction. This approach resonates with Nepal's Poverty Alleviation Action Plan (2022), which also stresses the need for sustainable income-generating programs in both rural and urban areas. However, infrastructure constraints in urban areas remain a concern, as the current rate of urbanization outpaces service provision, leading to increased informal settlements, as observed in various NLSS rounds.

Dollar and Kraay (2002) provide insights into how economic growth directly benefits the poor by creating job opportunities and enhancing income levels. Their research suggests that policies promoting inclusive economic growth are effective for poverty alleviation. Nepal's rural poverty reduction, driven by remittances and growth in the agricultural sector, aligns with these findings. However, the situation in urban areas diverges, as rising urban poverty due to limited job opportunities and strained infrastructure suggests that economic growth alone may not be sufficient without equitable resource distribution and region-specific policies.

The interaction between poverty and inequality in Nepal has significant implications for policy development. Alkire et al. (2017) demonstrate that poverty reduction does not necessarily lead to reduced inequality. Nepal's Gini coefficient has indeed decreased nationally, from 0.41 in 2003-04 to 0.30 in 2022-23, reflecting some progress in income distribution. However, the persistent income gaps between urban and rural areas, as indicated in the NLSS, suggest that gains in poverty reduction have not been evenly distributed. Balasubramanian et al. (2023) highlight similar challenges in low- and middle-income countries, where poverty reduction through economic growth often fails to reduce inequality unless paired with targeted social policies. In Nepal's case, while rural inequality has decreased due to remittance inflows, urban inequality remains concerning, particularly in informal employment sectors where income disparities are more pronounced.

Migration and its effects on poverty trends in Nepal are central themes in the literature. Uematsu et al. (2016) discuss how migration from rural to urban areas influences poverty dynamics, often creating challenges in urban regions ill-equipped to accommodate rapid population growth. In Nepal, rural-to-urban migration has strained city resources, resulting in informal settlements and inadequate access to basic services such as water, sanitation, and education. Paudel and Acharya (2022) add that while cooperatives and local enterprises can play a role in mitigating these issues by providing economic opportunities, more robust urban policies are necessary to sustainably reduce poverty in urban areas.

To address these issues, Nepal's Poverty Alleviation Action Plan (2022) advocates for a dual policy approach that considers both rural and urban contexts. In rural areas, the focus remains on enhancing agricultural productivity and supporting remittance-driven incomes, while in urban areas, the emphasis is on addressing infrastructural challenges and creating formal job opportunities to accommodate growing migrant populations. Timilsina et al. (2020) underscore that infrastructure development is vital for poverty alleviation, as it facilitates access to markets, education, and healthcare, which are crucial for sustained poverty reduction. Nepal's experience highlights the importance of infrastructure investment, particularly in rural areas, to mitigate poverty and prevent excessive migration to urban centers.

In conclusion, the literature indicates that Nepal's poverty landscape requires a multifaceted approach that addresses the distinct socio-economic realities of rural and urban areas. Remittances, as highlighted by Lokshin et al. (2010) and Abduvaliev and Bustillo (2020) remain central to rural poverty reduction, but reliance on them poses risks to economic stability. For urban areas, the need for targeted interventions, as shown by Alkire et al. (2021) and Thapa et al. (2022), is critical, particularly in light of growing migration pressures and limited infrastructure. The insights provided by studies on poverty reduction strategies, such as those by Dollar and Kraay (2002) and Alkire and Seth (2015) suggest that sustainable poverty alleviation in Nepal will require integrated policies that promote economic growth while addressing both rural and urban poverty's structural challenges.

Methods and Procedures

This study investigates the trends and determinants of poverty and inequality in Nepal between 1995 and 2023 using data from multiple rounds of the Nepal Living Standards Survey (NLSS). By focusing on both rural and urban regions, the research aims to identify the key drivers influencing poverty and inequality over time. The analysis uses descriptive statistics, cross-tabulations, and graphical tools to provide a comprehensive view of socio-economic trends and their impact on these variables.

Data Sources

The primary data for this study are drawn from four rounds of the NLSS, conducted by Nepal's National Statistics Office (NSO) in collaboration with the World Bank. These rounds are:

- NLSS-I (1995-96)
- NLSS-II (2003-04)
- NLSS-III (2010-11)
- NLSS-IV (2022-23)

Each round employs a stratified, multi-stage sampling design to ensure representativeness across diverse regions and populations. The surveys include detailed data on household income, consumption, and access to services, providing a reliable basis for poverty and inequality measurement. Additional reports from international organizations such as the World Bank and Asian Development Bank are used to contextualize macroeconomic trends.

Variables and Measurement

The study focuses on two key variables: poverty and inequality, measured through the following indices:

- i. Poverty Headcount Ratio (P0):** The proportion of the population living below the national poverty line, calculated using household consumption data.
- ii. Poverty Gap (P1):** Measures the intensity of poverty by indicating how far below the poverty line poor households are.
- iii. Square Poverty Gap (P2):** The Square Poverty Gap (P2) quantifies the severity of poverty by assessing the squared deviations of the incomes of poor households from the poverty line.
- iv. Gini Coefficient:** A widely-used measure of income inequality, ranging from 0 (perfect equality) to 1 (maximum inequality).

Additionally, the study explores rural versus urban disparities by calculating these metrics separately for both regions to highlight socio-economic differences.

Statistical Tools and Analysis

- i. Descriptive Statistics:** Basic descriptive statistics (e.g., means, medians) will be calculated for the poverty headcount ratio, poverty gap, and Gini coefficient. This data will be presented in tables to illustrate how poverty and inequality have evolved from 1995 to 2023.
- ii. Cross-Tabulations:** The study uses cross-tabulations to explore the relationship between poverty, inequality, and socio-economic variables such

as education, household size, and access to services. For instance, the poverty headcount will be compared across education levels.

iii. Graphical Analysis: Line graphs, bar charts, and pie charts will visually depict trends in poverty and inequality over time, distinguishing between rural and urban areas. For example, line graphs will show changes in the Gini coefficient, highlighting urban-rural differences.

Focus on Rural and Urban Differences

A key focus of the study is on rural-urban disparities. Historically, rural areas in Nepal have experienced higher poverty rates due to limited infrastructure and access to services. However, recent rounds of the NLSS indicate a growing concern over urban poverty driven by rural-to-urban migration. The analysis will detail these contrasting trends using both graphical and tabular tools, providing policymakers with actionable insights into the different poverty drivers in each region.

Limitations

The NLSS data offer a robust foundation for analysis, but some limitations must be acknowledged. First, the survey may under-represent the informal economy, which is critical in both rural and urban areas. Additionally, the reliance on household consumption data means other dimensions of poverty, such as social exclusion and vulnerability, may not be fully captured.

This study employs descriptive and graphical analysis to track the evolution of poverty and inequality in Nepal from 1995 to 2023. By focusing on rural-urban differences, it aims to provide insights into how poverty alleviation strategies have impacted different regions and where future interventions are needed. The findings will offer valuable inputs for policymakers working to address the diverse challenges of poverty in Nepal.

Results

The results of the study provide an insightful analysis of poverty and inequality trends in Nepal from 1995 to 2023, emphasizing both rural and urban dynamics. The

analysis draws on data from the four rounds of the Nepal Living Standards Survey (NLSS), supplemented with descriptive statistics, tables, and graphical representations. The findings are categorized into three key areas: trends in the poverty headcount ratio, changes in the poverty gap, and patterns of inequality measured by the Gini coefficient, with a comparison between rural and urban areas throughout the study.

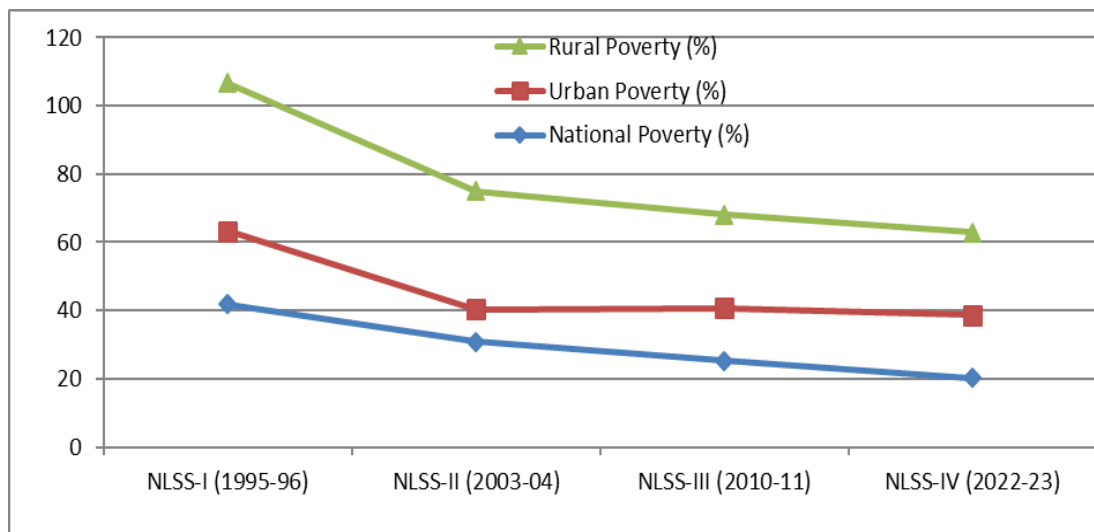
Poverty Headcount Ratio

National Trends

The poverty headcount ratio (P0), which measures the percentage of the population living below the national poverty line, exhibits a substantial decline over the study period. The national poverty rate dropped from 41.76% in 1995-96 (NLSS-I) to 20.27% in 2022-23 (NLSS-IV), reflecting significant progress in poverty reduction (see Figure 1). This improvement is largely attributed to economic growth, remittances, and targeted poverty alleviation programs. The influx of remittances has provided vital support to households, particularly in rural areas, boosting consumption and household resilience.

Figure 1

Poverty Headcount Ratio in Nepal (1995-2023)



The poverty headcount ratio in Nepal, as illustrated in Figure 1 (1995-2023), demonstrates a significant reduction in national poverty rates, declining from 41.76% in 1995-96 to 20.27% in 2022-23. This decline reflects Nepal’s efforts toward poverty alleviation, driven largely by remittances and rural development programs. However, there is a pronounced rural-urban divide, with rural poverty decreasing more steadily due to these external income sources and infrastructure investments, while urban poverty has recently risen due to migration pressures. Urban poverty increased from 9.55% in 2003-04 to 18.34% by 2022-23, reflecting growing infrastructural strain and employment issues in cities. This disparity emphasizes the need for targeted, region-specific policies that address both rural and urban challenges in the country's economic development.

Rural vs. Urban Trends

The disparity in trends emphasizes the uneven pace of economic development across regions. While rural poverty has declined, urban poverty has surged, indicating that urban centers face significant challenges in terms of employment generation, housing, and infrastructure development.

Figure 2

Poverty Headcount Ratio in Urban and Rural Nepal (1995-2023)

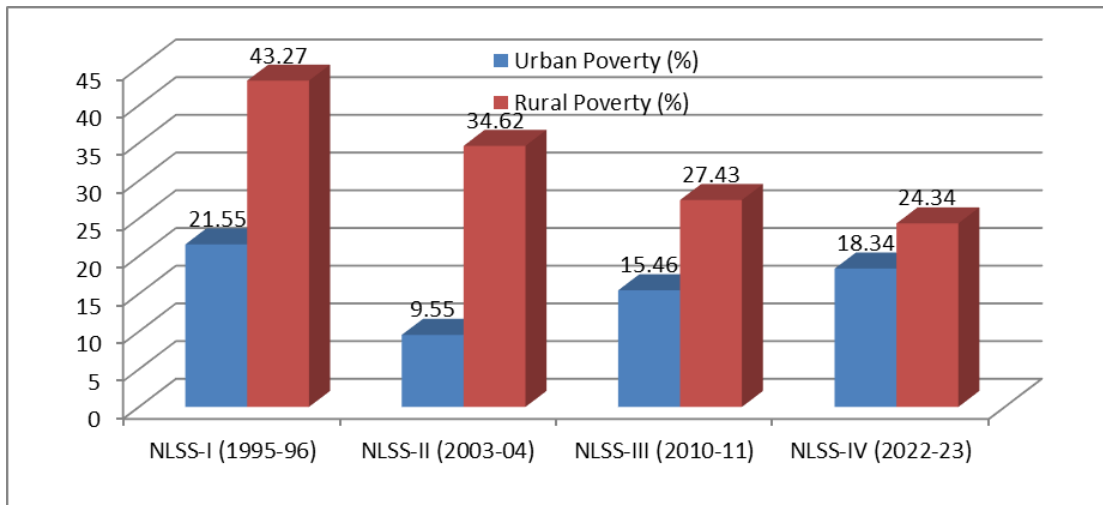


Figure 2, which compares the Poverty Headcount Ratio in urban and rural Nepal between 1995 and 2023, highlights the persistent rural-urban disparity in

poverty reduction. Rural poverty started at 43.27% in 1995-96, declining to 24.34% in 2022-23, largely driven by remittance inflows and targeted rural development initiatives. Urban poverty, in contrast, showed an initial decline from 21.55% in 1995-96 to 9.55% by 2003-04, but it subsequently surged to 18.34% by 2022-23 due to the rapid rural-to-urban migration. This migration has strained urban infrastructure and created "urban poverty pockets" characterized by inadequate housing, sanitation, and informal employment. The divergent trends underscore that while rural poverty has declined steadily, urban poverty has emerged as a critical challenge, demanding more robust urban-focused poverty alleviation policies

Poverty Gap (P1)

The poverty gap index (P1), which measures the depth of poverty, shows improvement nationally, though disparities between rural and urban areas persist. Nationally, the poverty gap decreased from 11.75% in 1995-96 to 4.52% in 2022-23, indicating that the average poor household is closer to the poverty line than before. However, the poverty gap remains higher in rural areas, where the intensity of poverty is more severe.

In rural areas, the poverty gap was 12.14% in 1995-96, falling to 5.64% by 2022-23. In urban areas, the gap initially decreased to 2.18% in 2003-04 but rose to 4.03% by 2022-23, aligning with the increase in urban poverty. The deepening urban poverty gap suggests that many urban poor are experiencing severe deprivation, often linked to informal employment and inadequate access to services.

Figure 3

Poverty Gap in Nepal (1995-2023)

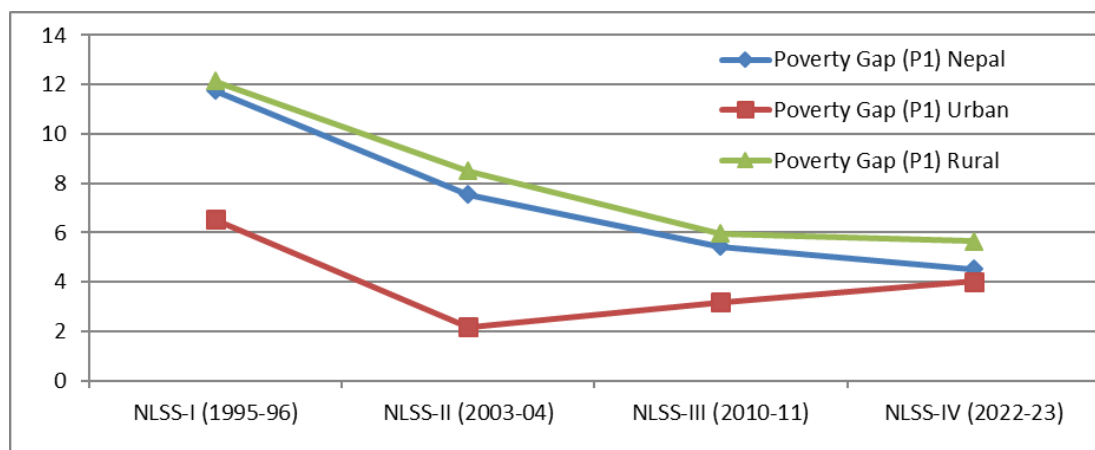


Figure 3, illustrating the Poverty Gap in Nepal from 1995 to 2023, captures the depth of poverty, showing the average shortfall of the poor below the poverty line. Nationally, the poverty gap decreased significantly, from 11.75% in 1995-96 to 4.52% in 2022-23. However, disparities between urban and rural areas persist. The rural poverty gap, which was 12.14% in 1995-96, improved but remained higher at 5.64% by 2022-23. Urban areas showed a contrasting trend: while the gap initially dropped to 2.18% in 2003-04, it later increased to 4.03% by 2022-23, reflecting deepening poverty in urban regions due to migration pressures. These patterns highlight that although the intensity of poverty has reduced across the country, rural areas still face more severe deprivation, and urban poverty has worsened in recent years, pointing to the need for targeted interventions in both areas.

Figure 4

Poverty Gap in Rural and Urban Nepal (1995-2023)

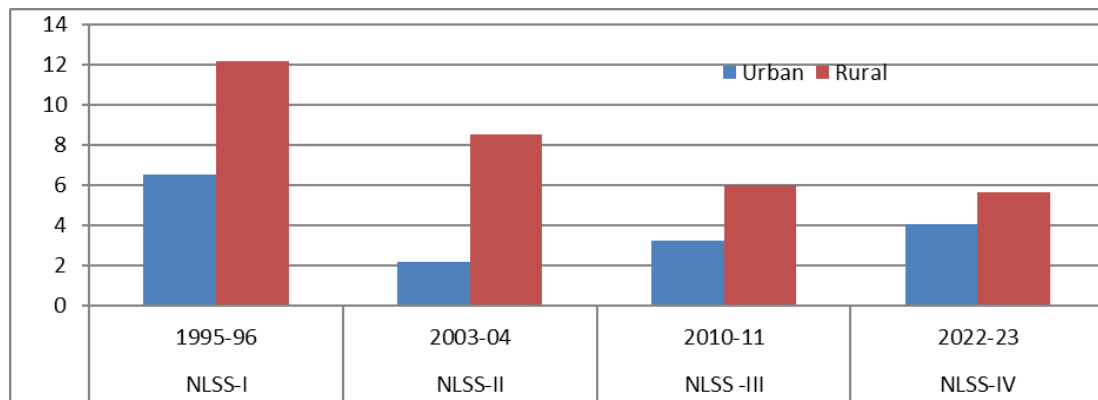


Figure 4, which compares the Poverty Gap in rural and urban Nepal from 1995 to 2023, reveals persistent disparities in the depth of poverty across these regions. The rural poverty gap, which was 12.14% in 1995-96, decreased to 5.64% by 2022-23, showing a steady reduction due to remittance inflows and rural development programs. In contrast, the urban poverty gap initially dropped from 6.54% in 1995-96 to 2.18% in 2003-04 but increased to 4.03% by 2022-23. This reversal is indicative of the growing challenges in urban areas, where rising rural-to-urban migration has strained resources

and exacerbated poverty. Despite improvements in both regions, rural areas still exhibit deeper poverty, while the urban gap has worsened, signaling that targeted policies are needed to address the specific challenges in each area.

1. Squared Poverty Gap (P2)

The Squared Poverty Gap (P2) is a measure of poverty intensity, extending beyond the Poverty Gap Index (P1). It squares the distance between each poor individual's income and the poverty line, placing greater emphasis on those further below the poverty threshold. This index accounts for both the depth and severity of poverty.

Figure 5

Squared Poverty Gap in Nepal (1995-2023)

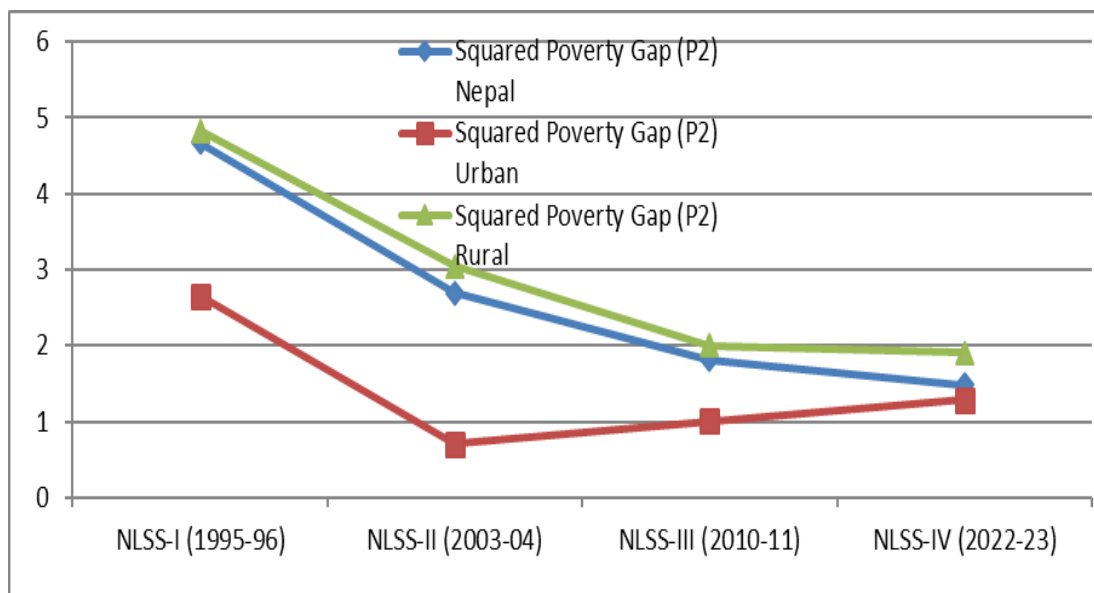


Figure 5, depicting the Squared Poverty Gap in Nepal from 1995 to 2023, provides a measure of the severity of poverty by giving more weight to poorer individuals who are further below the poverty line. Nationally, the squared poverty gap decreased from 4.67% in 1995-96 to 1.48% in 2022-23, reflecting a significant reduction in the severity of poverty over time. However, rural areas, despite improvements,

consistently exhibit higher severity than urban areas. The rural squared poverty gap fell from 4.83% in 1995-96 to 1.91% in 2022-23, while the urban gap, after an initial decrease, rose from 0.71% in 2003-04 to 1.29% in 2022-23. This rise in urban poverty severity is linked to increasing urban migration, highlighting the growing vulnerability of urban poor populations. The overall reduction suggests progress, but the persistent rural-urban gap underscores the need for region-specific interventions.

Figure 6

Squared Poverty Gap in Urban and Rural Nepal (1995-2023)

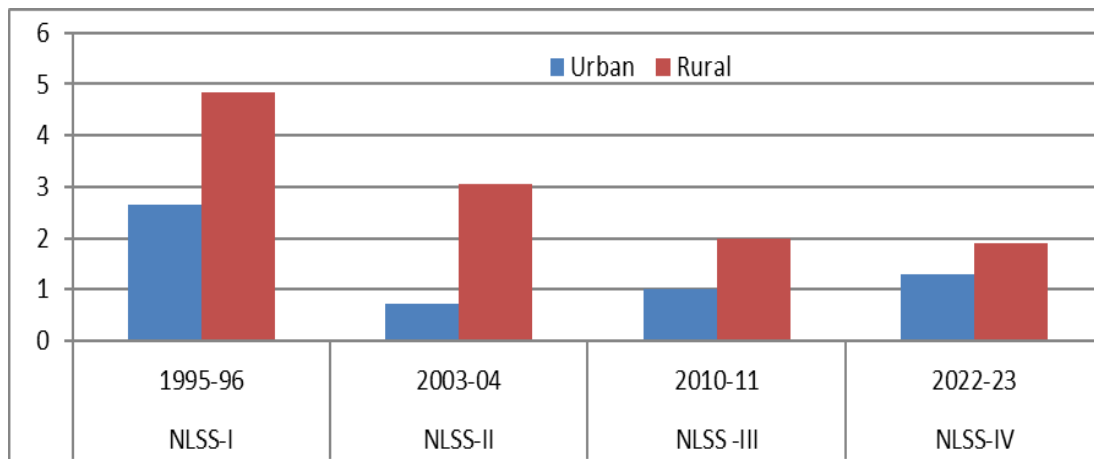


Figure 6, illustrating the Squared Poverty Gap in urban and rural Nepal between 1995 and 2023, highlights the differences in the severity of poverty across these regions. The rural squared poverty gap, which was 4.83% in 1995-96, decreased to 1.91% by 2022-23, reflecting gradual improvements in poverty alleviation through remittances and rural development programs. In contrast, the urban squared poverty gap saw an initial decline from 2.65% in 1995-96 to 0.71% in 2003-04 but later increased to 1.29% by 2022-23, signaling rising poverty severity in urban areas. This increase is largely attributed to rural-to-urban migration, which has overwhelmed urban infrastructure and social services, exacerbating poverty conditions. The contrasting trends suggest that while rural poverty severity has steadily decreased, urban areas are facing heightened challenges, requiring focused urban poverty reduction strategies.

4. Inequality (Gini Coefficient)

Income inequality, as measured by the Gini coefficient, has decreased at the national level, from 0.41 in 2003-04 to 0.30 in 2022-23 (see Table 3). This reduction reflects better income distribution across the country, aided by remittances and government efforts to address poverty. However, disparities between rural and urban areas remain, with rural inequality consistently higher than urban inequality.

Rural inequality was particularly high in 1995-96, with a Gini coefficient of 0.43, compared to 0.31 in urban areas. By 2022-23, rural inequality had decreased to 0.30, reflecting the equalizing effect of remittances and development initiatives. Urban inequality, after rising to 0.35 in 2003-04, decreased to 0.29 by 2022-23, though persistent income disparities remain due to the high concentration of informal employment and insufficient social safety nets for the urban poor.

Figure 7

Inequality in Nepal (1995-2023)

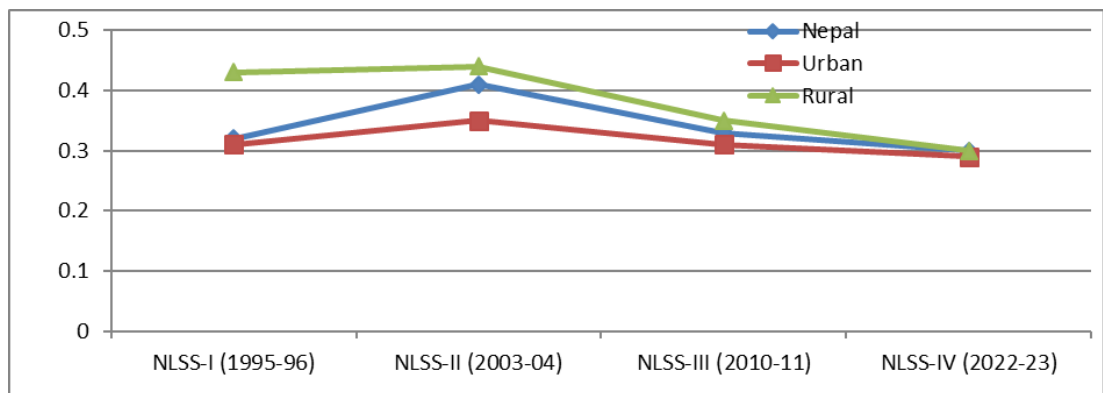


Figure 7, depicting inequality in Nepal from 1995 to 2023, shows a notable reduction in income inequality, as measured by the Gini coefficient. Nationally, the Gini coefficient decreased from 0.41 in 2003-04 to 0.30 in 2022-23, indicating an improvement in income distribution. This decline is largely attributed to the positive impact of remittances, which have helped raise household incomes across various regions, especially in rural areas. However, inequality trends vary between urban and

rural regions. While rural inequality, which stood at 0.43 in 1995-96, dropped to 0.30 by 2022-23, urban inequality decreased from 0.35 in 2003-04 to 0.29 in 2022-23. These shifts highlight the progress in reducing inequality, but the persistence of disparities between urban and rural areas suggests that income distribution improvements have not been uniform across the country.

Figure 8

Inequality in Rural and Urban Nepal (1995-2023)

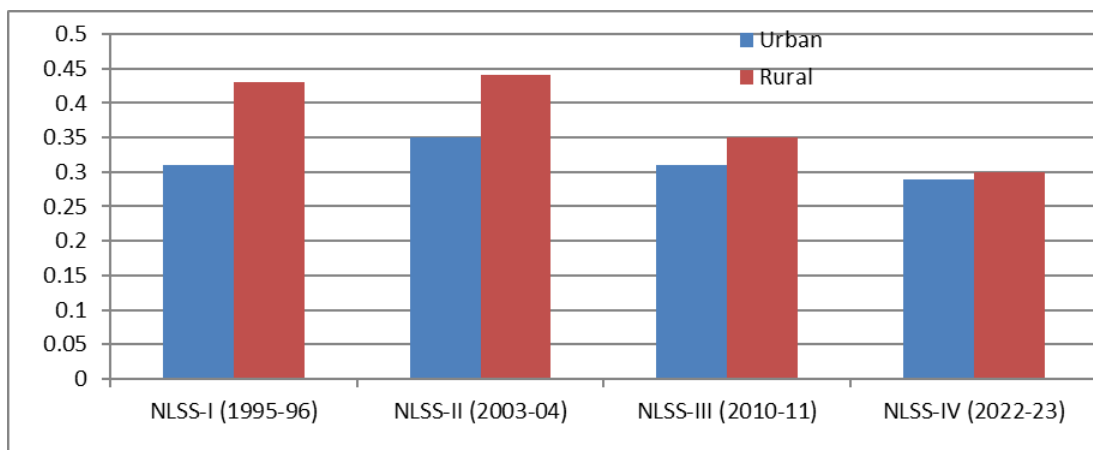


Figure 8, illustrating inequality in rural and urban Nepal from 1995 to 2023, highlights divergent trends in income distribution across these regions. Rural inequality, as measured by the Gini coefficient, was significantly higher at 0.43 in 1995-96 but saw a marked decline to 0.30 by 2022-23. This reduction is largely due to remittance inflows and rural development initiatives, which have helped improve income distribution. In contrast, urban inequality, which was lower at 0.31 in 1995-96, initially increased to 0.35 by 2003-04 before decreasing to 0.29 in 2022-23. Despite this improvement, urban areas continue to face challenges in addressing the income disparities created by informal employment and rapid urbanization. The consistent improvement in both rural and urban inequality suggests progress, but the persistence of income gaps, particularly in urban areas, calls for targeted policies to address the underlying socio-economic factors.

Relationship between Poverty and Inequality

This section provides a detailed analysis of the relationship between poverty and inequality in rural and urban areas of Nepal from 1995 to 2023. By examining data from multiple rounds of the Nepal Living Standards Survey (NLSS), we explore how poverty and inequality have evolved differently in these two contexts. The interplay between rising urban poverty, improving rural conditions, and shifting inequality patterns is central to understanding the socio-economic changes taking place in Nepal.

Rural Poverty and Inequality Trends

Rural Poverty: A Gradual Decline

Poverty in rural Nepal has been a persistent challenge for decades, but the results show a steady decline in the poverty headcount ratio over the past three decades. As seen in Annex, rural poverty fell from 43.27% in 1995-96 (NLSS-I) to 24.34% in 2022-23 (NLSS-IV). This represents a significant reduction in rural poverty, largely driven by remittance inflows, improved agricultural productivity, and targeted rural development programs.

Despite this improvement, rural poverty remains higher than urban poverty throughout the study period. The persistence of rural poverty is tied to structural challenges, such as limited access to infrastructure, healthcare, and education in remote regions, as well as dependency on agriculture, which remains vulnerable to climate change and market fluctuations.

Rural Inequality: A Marked Reduction

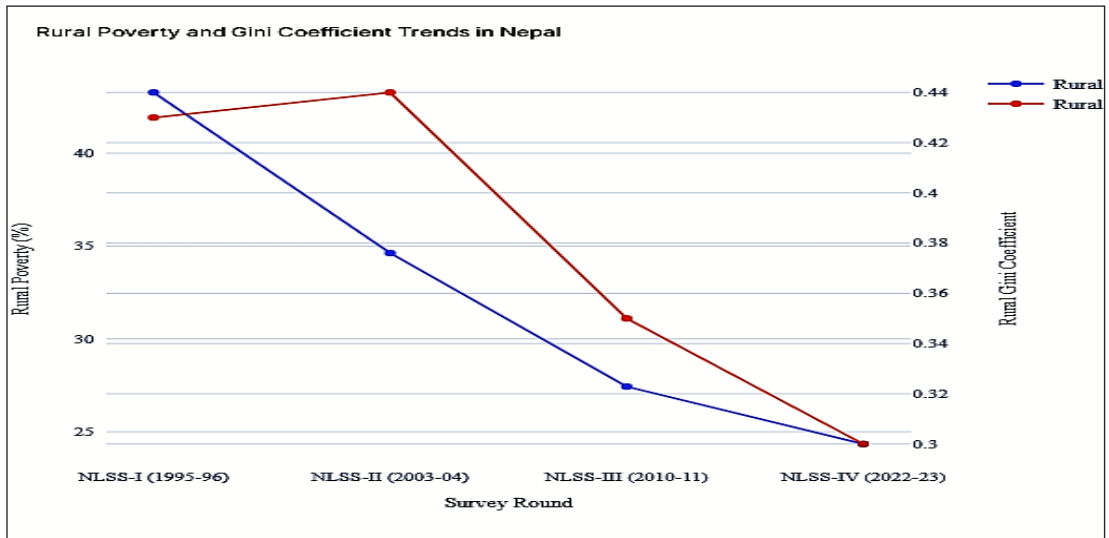
In terms of inequality, rural Nepal has seen significant progress. The rural Gini coefficient, which measures income inequality, was 0.43 in 1995-96, indicating severe income disparities within rural communities. However, by 2022-23, the Gini coefficient had fallen to 0.30 (see Annex), reflecting a notable improvement in income distribution.

This reduction in rural inequality is likely due to the positive impact of remittances, which have helped to raise household incomes across various rural

regions. As remittance flows reached almost a quarter of Nepal's GDP in recent years, they contributed significantly to reducing income disparities within rural communities. Moreover, government programs targeting rural poverty, such as infrastructure development, microfinance initiatives, and community-driven projects, have played a key role in distributing economic gains more equitably.

Figure 9

Trend in Rural Poverty and Inequality (1995-2023)



This interactive line graph shows the trends for both Rural Poverty (%) and Rural Gini Coefficient over the four survey rounds. The blue line represents the trend in rural poverty. Figure 9, which tracks the trend in rural poverty and inequality in Nepal from 1995 to 2023, highlights significant progress in poverty reduction and income distribution. Rural poverty declined from 43.27% in 1995-96 to 24.34% in 2022-23, primarily driven by remittance inflows, improvements in agricultural productivity, and rural development programs. Similarly, rural inequality, as measured by the Gini coefficient, decreased from 0.43 in 1995-96 to 0.30 in 2022-23, reflecting a more equitable distribution of income. However, despite these improvements, rural areas still face structural challenges such as limited access to services, infrastructure,

and markets, which contribute to persistent pockets of poverty. The overall trends in Figure 9 underscore the need for sustained efforts to continue reducing both poverty and inequality in rural Nepal.

Despite these improvements, rural areas still face challenges. The Poverty Gap Index (P1), which measures the intensity of poverty, remains higher in rural areas compared to urban centers. This suggests that although the number of people below the poverty line has decreased, those who remain in poverty tend to be deeply impoverished, with household incomes far below the poverty line. In 2022-23, the rural poverty gap was 5.64%, a reduction from 12.14% in 1995-96, but still higher than the urban poverty gap (4.03%) in the same year.

Urban Poverty and Inequality Trends

Urban Poverty: A Worsening Situation

While rural poverty has steadily declined, urban poverty presents a different and more troubling picture. Initially, urban poverty decreased from 21.55% in 1995-96 to 9.55% in 2003-04. However, this trend reversed in the following decades, with urban poverty rising to 18.34% in 2022-23 (see Annex).

This rise in urban poverty can be attributed to several factors, including rapid rural-to-urban migration. As people from rural areas move to cities in search of better economic opportunities, many find themselves in informal settlements with poor access to housing, sanitation, and job security. The influx of migrants has outpaced the development of infrastructure and formal employment opportunities, resulting in the creation of "urban poverty pockets." These pockets are characterized by overcrowded living conditions, lack of basic services, and informal employment, which is often low-paid and insecure.

The reversal of urban poverty trends highlights the need for targeted urban poverty alleviation programs. Without adequate housing policies, infrastructure investment, and formal job creation, urban poverty is likely to remain a pressing issue, with inequality potentially exacerbating the problem.

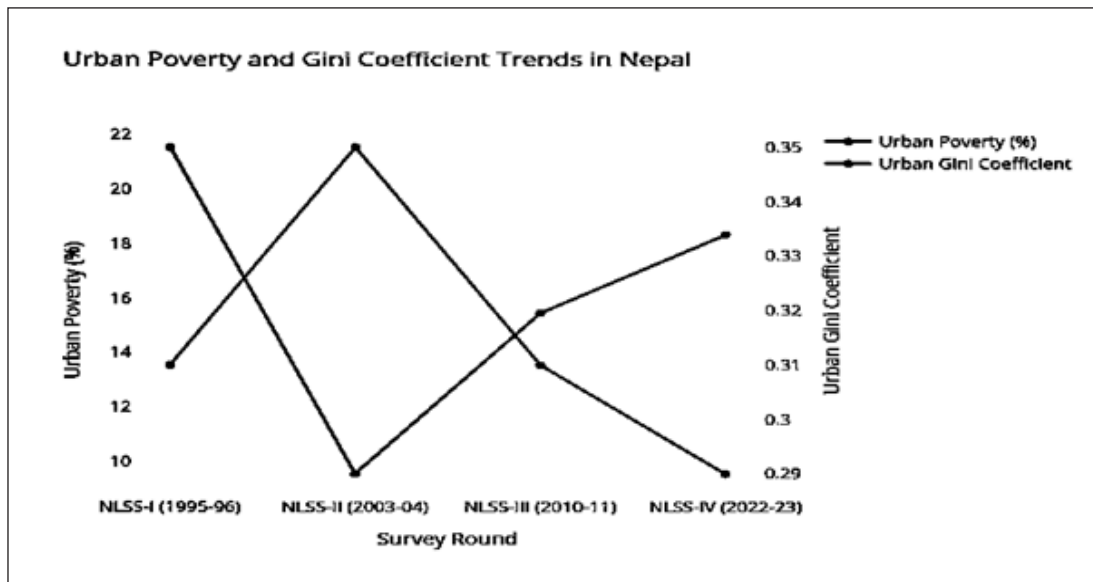
Urban Inequality: Mixed Outcomes

Urban inequality has fluctuated over the study period. The Gini coefficient for urban areas was 0.31 in 1995-96 and rose to 0.35 by 2003-04, likely due to uneven access to the benefits of economic growth and job opportunities in urban centers. However, by 2022-23, the urban Gini coefficient had decreased slightly to 0.29, reflecting some improvement in income distribution (see Annex).

The decrease in urban inequality may be attributed to the growing middle class and improvements in access to education and formal employment for some urban households. However, the persistence of informal employment and the rapid growth of low-income settlements have limited the overall reduction in inequality. While urban areas have seen improvements in formal sectors, those in informal employment continue to face significant income disparities, contributing to uneven progress in addressing inequality.

Figure 10

Trend in Urban Poverty and Inequality (1995-2023)



This interactive line graph shows the trends for both Urban Poverty (%) and Urban Gini Coefficient across the four NLSS survey rounds. The blue line represents the trend in urban poverty. The red line represents the trend in the Urban Gini

Coefficient. Figure 10, showing the trend in urban poverty and inequality in Nepal between 1995 and 2023, reflect a more volatile trajectory compared to rural areas. Urban poverty initially decreased significantly, from 21.55% in 1995-96 to 9.55% in 2003-04, but subsequently reversed, rising to 18.34% by 2022-23. This increase is largely attributed to rapid rural-to-urban migration, which has overwhelmed urban infrastructure, leading to overcrowded informal settlements and limited access to formal employment. Meanwhile, urban inequality, as measured by the Gini coefficient, fluctuated: it rose from 0.31 in 1995-96 to 0.35 in 2003-04 but improved slightly to 0.29 by 2022-23. Despite this decline in inequality, the persistence of urban poverty highlights the challenges facing urban areas, suggesting that income distribution gains have not sufficiently alleviated the conditions of the poorest segments of the population. This underscores the need for targeted urban policies to address poverty and inequality simultaneously

Comparative Analysis: Rural vs. Urban

The analysis highlights a significant contrast between rural and urban poverty and inequality trends in Nepal. Rural areas have seen a notable reduction in both poverty and inequality, primarily driven by remittances and government intervention. However, poverty remains deeper in rural regions, as reflected in the poverty gap, with ongoing structural challenges limiting access to essential services and markets.

In urban areas, while poverty rates are generally lower than in rural regions, urban poverty exhibits greater fluctuations over time, contrasting with the steady decline observed in rural poverty. The Urban Gini Coefficient has been more stable and lower than the Rural Gini Coefficient, indicating differing patterns of poverty and income inequality. Despite slight improvements in urban inequality, overall urban poverty has increased, particularly affecting recent migrants and the urban poor. This trend suggests that reductions in inequality have not necessarily improved living conditions for the most disadvantaged urban residents, with informal settlements experiencing concentrated poverty that highlights shortcomings in income distribution.

These divergent trends emphasize the need for region-specific policy responses. Continued support for agricultural development and remittance-based income growth is crucial in rural areas to sustain poverty reduction efforts. In urban areas, addressing the root causes of rising poverty—such as inadequate housing, informal employment, and insufficient social services—is urgently needed to curb the growing urban poverty rate and reduce inequality.

Summary of Key Findings

- i. Rural Poverty Decline:** Rural poverty has significantly decreased from 43.27% in 1995-96 to 24.34% in 2022-23, largely due to remittances and government interventions. Nonetheless, challenges in addressing the depth of rural poverty persist.
- ii. Urban Poverty Increase:** Urban poverty has risen to 18.34% in 2022-23, following an initial decline, primarily due to rapid migration and insufficient urban infrastructure, highlighting an urgent urban poverty challenge.
- iii. Inequality Trends:** Inequality has declined in both rural and urban areas, with the rural Gini coefficient falling from 0.43 to 0.30. Although urban inequality has also decreased, it remains a concern, especially for those in informal sectors.
- iv. Rural vs. Urban Dynamics:** Rural areas have achieved more sustained reductions in both poverty and inequality, while urban areas face rising poverty rates despite some improvements in income distribution.
- v. Overall Poverty Reduction:** Nepal has significantly reduced national poverty, with the headcount ratio falling by more than half between 1995 and 2023; however, rural poverty remains higher than urban poverty.

These findings underscore the necessity for continued rural development efforts alongside robust urban poverty alleviation measures, particularly in addressing infrastructure and employment challenges in rapidly growing urban centers.

Discussion

This study aligns with the findings of Abduvaliev and Bustillo (2020), who argue that remittances significantly impact poverty reduction in low-income regions by enhancing household consumption and resilience, a trend seen in Nepal's rural areas where remittances form a substantial portion of household income. Similar to the observations by Alkire et al. (2017) on the effectiveness of multidimensional poverty reduction strategies, the Nepal Living Standards Survey (NLSS) data reflect that reducing poverty in rural Nepal has been successful largely through improved access to basic needs funded by remittance inflows. Yet, the urban poverty challenge observed in this study, where migration-induced overcrowding strains city infrastructure, contrasts with the expected urban poverty decline theorized by Adhikari and Khadka (2020). Furthermore, while the overall poverty gap has decreased, supporting findings by Thapa et al. (2022) that economic stability is improving; this study finds that urban areas still struggle with deeper poverty gaps, complicating the picture presented in studies suggesting uniform urban economic benefits from migration.

In addressing inequality, this study's evidence of a declining rural Gini coefficient due to remittance-driven income gains echoes findings by Maharjan and Upreti (2022), yet challenges Adhikari et al. (2021), who posited that migration would exacerbate inequality. Instead, urban inequality appears to have stabilized despite increased migration. Dollar and Kraay (2002) underscore that economic growth benefits the poor, a premise that holds for rural Nepal; however, urban poverty trends here show that without targeted support, economic gains may not uniformly benefit urban populations. Consistent with Timilsina et al. (2020), who advocate for infrastructure as a poverty alleviation mechanism, this study reveals that while rural infrastructure has contributed to poverty reduction, Nepal's rapid urbanization demands greater urban infrastructure investment to mitigate rising poverty rates. Finally, in contrast with the traditional view of migration as uniformly beneficial (Lokshin et al., 2010), our results suggest that migration without adequate urban planning can reinforce poverty rather than alleviate it, underlining the need for targeted urban policies.

Conclusion

This comparative analysis of rural and urban poverty and inequality trends in Nepal reveals significant disparities and evolving challenges that require targeted policy interventions. Migration, remittance, poverty, and inequality emerge as interconnected factors shaping these trends. Rural areas have made notable progress in reducing both poverty and inequality, primarily driven by remittance inflows and agricultural productivity improvements. However, the persistence of deeper poverty in rural areas underscores the importance of enhancing infrastructure and diversifying income sources to reduce vulnerability to external shocks.

Conversely, urban regions are grappling with rising poverty rates despite some improvements in income distribution. Rapid rural-to-urban migration has strained urban infrastructure, leading to the proliferation of informal settlements and limited access to essential services. This study highlights that while migration offers opportunities for economic mobility, inadequate urban planning exacerbates poverty and inequality in cities.

Remittances, which constitute a significant portion of Nepal's GDP, have been instrumental in rural poverty alleviation but also pose risks of economic dependency. Policymakers must ensure the sustainability of remittance-driven incomes by fostering local economic opportunities and reducing reliance on external labor markets. Addressing inequality, both rural and urban, requires targeted interventions that consider the structural barriers to socio-economic mobility, such as access to education, healthcare, and formal employment.

The findings of this study underscore the necessity for region-specific strategies that address the unique socio-economic realities of rural and urban areas. In rural regions, continued investments in agricultural development and infrastructure are critical to sustaining poverty reduction efforts. In urban areas, policies must prioritize affordable housing, formal employment generation, and improved social services to mitigate the adverse effects of migration and promote inclusive growth. By addressing these interconnected challenges, Nepal can advance toward sustainable poverty alleviation and reduced inequality, ensuring equitable economic development for all.

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