

## **Unfinished Promises in Federal Nepal: Provincial Disparities, Household Realities, and the Quest for Human Development**

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### **Abstract**

*This paper commences a comprehensive and deeply analytical examination of the profound socio-economic disparities that unambiguously define Nepal's contemporary provincial landscape. It critically assesses the complex and powerful relationship between the economic capacity of households and the realized human development of their communities. Drawing upon the rich, granular dataset of the Nepal Living Standards Survey IV (NLSS-IV, 2022/23) for household expenditure and provincial Human Development Index (HDI) data from the Nepal Statistical Yearbook 2023, this paper offers a statistically rigorous and deeply cultivated analysis of Nepal's federal promise. The study employs a mixed-method quantitative approach, including detailed descriptive statistics, Analysis of Variance (ANOVA), and simple linear regression, to meticulously explore these dynamics.*

*The findings shade a vivid and unsettling alienated picture of a nation. Descriptive analysis showcases a vast economic gulf, where the per capita annual household expenditure in the prosperous Bagmati Province overshadows the tragically insufficient resources available in Madhesh, Karnali and Sudurpaschim Provinces. The results from analysis of variance decisively confirm that these provincial differences are statistically significant, revealing a pattern of systemic, rather than random, inequality. The cornerstone of the analysis, a simple linear regression model, demonstrates an overwhelmingly strong, positive, and statistically significant correlation between per capita expenditure and the provincial Human Development Index. The model explains an exceptional variance, suggesting with stunning clarity that economic resources are the primary driver of human development outcomes at the provincial level.*

*Grounded in Amartya Sen's powerful Capability Approach, the discussion argues that the central obstacle to equitable human development in Nepal's lagging provinces is not primarily an inefficient conversion of resources into well-being, but rather a fundamental, crippling lack of resources to convert in the first place. This paper fervently posits that Nepal's federal project must urgently address economic disparities through targeted fiscal federalism, strategic infrastructure investment, and a profound commitment to human capital development in its most forgotten corners.*

**Keywords:** *Human Development, Household Expenditure, Provincial Disparity, Capability Approach, Federalism, Inequality, Social Justice*

## **Introduction**

The birth of federal Nepal in 2015 was more than a political reconfiguration; it was a profound national aspiration forged in the crucible of a decade-long armed struggle and shaped by generations of popular movements. It marked a deliberate and hopeful departure from a long history of centralized rule, where power, opportunity, and national wealth were overwhelmingly concentrated in the nation's capital, Kathmandu. The creation of seven provinces and 753 local governments was a solemn promise to dismantle the stubborn architecture of exclusion, to bring governance closer to the people, *gaun gaun ma Singh durbar*, and to finally cultivate a more inclusive and equitable form of development that could honor the unique character and potential of every corner of this geographically and culturally diverse nation (Government of Nepal, 2015).

Years into this monumental democratic experiment, the nation stands at a critical juncture, compelled to ask a difficult but essential question: How much of this transformative promise has been realized for the ordinary Nepali citizen, after new promise has been made? While the establishment of new political boundaries and administrative structures is a necessary first step, it does not, by itself, erase the deep-seated inequalities that have been etched into the national landscape over centuries. The true measure of federalism's success lies not in the halls of provincial assemblies, but in the lived realities of households across the country—in their ability to secure a dignified livelihood, to access quality healthcare, to educate their children, and to envision a future brighter than their past, and of course, their present.

The recent, long-awaited release of the Nepal Living Standards Survey IV (NLSS-IV, 2022/23) provides an unprecedented opportunity to hold a mirror up to the nation. As the first comprehensive survey of its kind conducted entirely within the new federal framework, its findings represent a vital baseline—a statistical portrait of a nation in transition. This report is a treasure trove of data, offering deep insights into the fabric of Nepali life. Among its many indicators, household consumption expenditure stands out as an exceptionally robust proxy for material well-being. Far more than a simple income figure, it captures the 'actual' use of goods and services, reflecting the complex economic realities of a nation where livelihoods are intricately woven from formal wages, informal labor, agricultural self-sufficiency, and a powerful inflow of remittances (Deaton & Zaidi, 2002).

Yet, to truly grasp the meaning of development, we must look beyond the contents of a family's purse or pantry. The ultimate goal of a just society, as eloquently articulated by Amartya Sen, is the expansion of human freedoms and capabilities—the real and substantive opportunities people have to be and to do things they have reason to value (Sen, 1999). It is the freedom to live a long life, free from preventable disease; the freedom to be educated and to engage with the world of ideas; and the freedom to enjoy a standard of living that accords with human dignity. The Human Development Index (HDI), a composite measure of health, education, and living standards, provides a powerful, if incomplete, lens through which to view these fundamental capabilities.

This study, therefore, positions itself at the critical nexus of economic means and developmental ends. It seeks to unravel the intricate relationship between the resources available to households and the human development outcomes achieved at the provincial level. The central research question that passionately drives this inquiry is: Within the new architecture of federal Nepal, how powerfully, and in what specific manner, does the economic reality of households, as measured by their per capita

expenditure, shape the landscape of human possibility, as measured by the Human Development Index?

To answer this question, this paper will embark on a multi-stage analytical journey. It will first paint a vivid, comparative portrait of the provincial disparities in both expenditure and human development, bringing the cold, hard numbers to life. It will then employ rigorous statistical methods—Analysis of Variance (ANOVA) and simple linear regression—to move beyond description, testing the significance of these divides and modeling the predictive power of economic well-being on human flourishing. Finally, and most critically, this paper will weave these statistical findings into a rich, analytical discussion, using the theoretical framework of the Capability Approach to interpret the results and to draw out urgent and actionable policy recommendations. This research is not merely an academic exercise; it is an attempt to provide an evidence-based roadmap for policymakers, a tool for accountability for citizens, and a solemn reminder of the profound human stakes involved in Nepal's unfinished journey toward a more just and equitable federal union.

## **Lensing Landscape of Inequality of Nepal through Sen's Approach**

To navigate the complex terrain of Nepal's developmental challenges, we require both a theoretical compass to guide our understanding of well-being and an empirical map to chart the contours of existing reality. This study is firmly grounded in Amartya Sen's Capability Approach, a framework that provides the necessary philosophical depth, while its analysis is informed by the historical and contemporary evidence of Nepal's deep-seated inequalities.

Amartya Sen's Capability Approach offers a revolutionary and deeply humanistic alternative to traditional, resource-centric views of development. It challenges us to move beyond the narrow confines of income and GDP and to ask a more fundamental question: What are people actually able to *do* and to *be*? This framework is built upon a set of core, interconnected ideas that are indispensable for understanding the Nepali context.

At its heart lies the distinction between *means* and *ends*. Resources like household income or expenditure are not the ultimate ends of development; they are merely instrumental *means*, but the most important one. The true *ends* are what Sen calls "functionings"—the various states and activities that constitute a person's life. These range from the most basic, such as being adequately nourished, avoiding preventable diseases, and being sheltered, to the highly complex, such as having self-respect, participating in community life, or enjoying meaningful relationships (Sen, 1993). A life, from this perspective, can be seen as a collection of interrelated functionings.

The framework's most powerful concept, however, is "capability." A person's capability represents the set of all possible combinations of functionings they could achieve. It is their substantive freedom, their real opportunity to choose a life they value. A simple example powerfully illustrates the distinction: a wealthy individual who chooses to fast for religious reasons and a destitute person starving from a lack of food may both share the same *functioning* of being undernourished. However, their *capabilities* are vastly different. The first person possesses the capability to be well-nourished but chooses not to exercise it; the second person tragically lacks that freedom. Development, therefore, is not merely about increasing achieved functionings, but about expanding the set of real choices and opportunities available to people—it is the expansion of human capability.

This leads to the crucial concept of "conversion factors." These are the personal, social, and environmental conditions that powerfully mediate the process of converting resources into valuable functionings. A family in a remote mountain village in Karnali and a family in a well-serviced neighborhood of Lalitpur might possess the exact same amount of money, but their ability to convert that money into, for instance, quality education for their children is dramatically different. The Karnali family faces formidable environmental conversion factors (harsh terrain, long distances to school), and challenging social conversion factors (a poorly funded school with absentee teachers, a lack of local economic opportunities that de-incentivizes education). The Lalitpur family, in contrast, benefits from a dense network of schools, better infrastructure, and a social milieu that places a high premium on educational attainment. Similarly, personal conversion factors like age, gender, or disability play a critical role; a household with a chronically ill member will need to spend far more of its resources just to achieve a basic level of health, leaving less for other essential functionings.

In this study, we operationalize this elegant framework by treating per capita household expenditure as the vital economic *resource*. The Human Development Index (HDI) serves as our composite proxy for a set of core achieved *functionings* (health, education, standard of living). The seven provinces, with their unique geographies, infrastructures, social norms, and governance structures, are treated as distinct constellations of social and environmental conversion factors. Our statistical analysis is, therefore, a test of how these provincial "conversion engines" are performing and, more fundamentally, whether the primary constraint on human development is the efficiency of the engine or a critical lack of fuel.

The theoretical insights of the Capability Approach become starkly relevant when applied to the empirical map of Nepal's socio-economic history. The disparities we see today are not recent accidents; they are the accumulated result of centuries of political, social, and economic forces.

Historically, Nepal functioned as a classic "core-periphery" state. Power and investment were fiercely centralized in Kathmandu and the surrounding central hills, creating a self-reinforcing cycle of growth and opportunity (Sharma, 2006). The best schools, the most advanced hospitals, all major government offices, and the nascent industrial and financial sectors were all concentrated in this core. This created a powerful "gravitational pull," drawing in talent, capital, and labor from the rest of the country, while the periphery was largely left to its own devices, treated as a source of raw materials and seasonal labor rather than a site for meaningful investment.

The geography of the nation amplified these political choices. The vast, fertile plains of the Terai, while agriculturally productive, were often governed with a sense of distance. The rugged, remote Hill and Mountain regions, particularly in the western half of the country, faced immense challenges in infrastructure development and service delivery. The findings of previous Nepal Living Standards Surveys have consistently and painfully charted this geography of neglect. The NLSS-III (2010/11) report, for instance, showed that poverty was not just a condition but a location, with its incidence in the Far- and Mid-Western Development Regions being more than double that of the Eastern region (CBS, 2011). These were not just differences in income; they were differences in every conceivable aspect of human life—from child mortality and literacy rates to the very time it took to reach a doctor or a market.

The ten-year militant conflict (1996-2006) was, in many ways, a violent eruption of the deep-seated grievances fueled by this total and systemic inequality. It was a conflict that found its strongest footing

in the very regions that had been most systematically marginalized by the state. The move to federalism was, therefore, a direct response to this history—an attempt to redraw the political map to better reflect the human map and to empower the periphery to chart its own developmental course.

The NLSS-IV (2022/23) report, our primary data source, provides the first comprehensive post-federalism check-up. Its pages are filled with evidence of both remarkable progress and stubborn persistence. For example, access to electricity has become nearly universal, a phenomenal achievement in the country. Yet, access to a paved road remains a distant dream for nearly half of all rural households. The proportion of female-headed households has surged to an unprecedented 37.1%, a powerful indicator of the social transformation driven by mass male out-migration for foreign employment, which reshapes family structures and economic dependencies (NSO, 2024).

This study, therefore, stands on the shoulders of this rich body of descriptive work. It seeks to connect the dots, to move from documenting *that* disparities exist to statistically modeling *how* they are interconnected. By placing the hard economic data from NLSS-IV in direct conversation with the holistic human development data from the HDI, and by interpreting this relationship through the powerful lens of the Capability Approach, we aim to provide a nuanced, rigorous, and ultimately human-centered analysis of Nepal's ongoing struggle for equitable development.

## **Data and Methodology**

This paper uses a clear and unambiguous technique, based on the most reliable data sources, like NLSS, available, to carry out a thorough and significant inquiry into the regional dynamics of well-being in Nepal. Strong, fact-based conclusions are made possible by the method's logical progression from a general descriptive overview to a more concentrated and potent inferential examination.

The analysis is conducted at the provincial level, treating each of Nepal's seven provinces as a unique case study (n=7). This level of aggregation is deliberately chosen as it aligns directly with the new federal structures of governance, making the findings immediately relevant for sub-national policy and planning. The two principal variables for this study have been carefully selected to represent the core concepts of economic means and developmental ends.

### **Independent Variable (IV): Per Capita Annual Average Household Consumption Expenditure.**

The given independent variable, per capita annual average household expenditure, is the substratum of our analysis of economic well-being. It is sourced directly from the Nepal Living Standards Survey IV, 2022/23, a flagship publication of the National Statistics Office (NSO, 2024). The NLSS-IV stands as a monumental achievement in national data collection. Its two-stage stratified sampling design ensures that it is representative not only at the national level but also across the diverse analytical domains of the new federal structure. The consumption aggregate is particularly powerful because of its comprehensiveness. It meticulously accounts for:

- **Food Consumption:** Including the value of all food items purchased, produced at home for self-consumption, and received in-kind.
- **Non-Food, Non-Durable Goods:** Encompassing a wide array of expenditures, from fuel and apparel to education and healthcare services.

- **Imputed Use-Value of Durable Goods and Housing:** Crucially, it moves beyond simple cash expenditure by estimating the monetary value of the "flow of services" that households receive from assets they own, such as their house, vehicle, or major appliances. This sophisticated approach provides a far more accurate picture of a household's actual standard of living than simple income data would allow. All expenditure figures are presented in nominal Nepalese Rupees (NPR) for the 2022/23 survey year.

**Dependent Variable (DV): The Provincial Human Development Index (HDI).** To capture the multi-dimensional nature of human flourishing, this study utilizes the HDI. Sourced from the *Nepal Statistical Yearbook 2023* (NSO, 2023), the HDI provides a composite measure of provincial performance across three fundamental dimensions of human life:

- **A Long and Healthy Life:** Measured by life expectancy at birth.
- **Access to Knowledge:** Measured by a combination of mean years of schooling for adults and expected years of schooling for children.
- **A Decent Standard of Living:** Measured by Gross National Income (GNI) per capita, adjusted for purchasing power parity.

By using the HDI, our analysis elevates its focus from mere economic activity to the ultimate goal of development: the enhancement of human capabilities.

The quantitative analysis is structured as a deliberate, three-stage process, designed to build a comprehensive and compelling argument. In the beginning, a detailed descriptive analysis has been investigated. The core of this stage is the construction of a clear, comparative table presenting the per capita expenditure and HDI for each of the seven provinces. This is supplemented by calculations of basic summary statistics (mean, standard deviation, and range) to quantify the overall level and spread of these indicators. This initial step is crucial for "humanizing" the data, transforming abstract numbers into a tangible portrait of a divided nation and allowing the reader to immediately grasp the sheer magnitude of the provincial disparities.

Secondly, to ensure that the observed differences are not merely the product of sampling variability, a one-way Analysis of Variance (ANOVA) is performed on the per capita expenditure data. The ANOVA formally tests whether the means of the seven provincial groups are statistically different from one another. It evaluates the following hypotheses:

**Null Hypothesis (H<sub>0</sub>):** The mean per capita expenditure is not dissimilar across all seven provinces in Nepal.

**Alternative Hypothesis (H<sub>1</sub>):** The mean per capita expenditure of at least one province is different from the others.

The F-statistic and its corresponding p-value are the critical outputs. A p-value below the conventional threshold of 0.05 will be interpreted as strong evidence to reject the null hypothesis, thereby providing statistical confirmation that the observed provincial economic divides are systemic and real.

The final stage of the analysis employs simple linear regression to explicitly model the functional relationship between our independent and dependent variables. This powerful technique allows us to go beyond simply noting a correlation and instead quantify the precise nature and strength of the

predictive link between economic resources and human development. The model is specified as:  $HDI_i = \beta_0 + \beta_1 (\text{Expenditure}_i) + \varepsilon_i$

The outputs from this model of goodness of fit have been examined as the value of r square, regression coefficient and p value, or the statistical significance. The r-squared value is taken as the centerpiece of the regression analysis that measures the proportion of the total variation in provincial HDI scores that is explained by the variation in per capita expenditure. A value approaching 1.0 would indicate an exceptionally strong predictive relationship. The value of regression coefficient ( $\beta_1$ ) quantifies the relationship, indicating exactly how much the HDI is expected to change for each one-unit increase in per capita expenditure. Its sign will confirm the direction (positive or negative) of the association. Finally, the p-value, statistical significance, associated with the coefficient will determine whether this observed relationship is statistically robust or likely due to random chance. Through this structured analytical path, the study ensures that its conclusions are not based on superficial observation but are grounded in a rigorous, transparent, and statistically validated exploration of the data.

## Results

The implementation of our three-phase analytical framework on the provincial data from Nepal reveals a narrative that is both statistically significant and deeply human. The results clearly highlight the profound divisions within the nation's socio-economic landscape and quantify the considerable impact of economic prosperity on human development results. The stark reality of provincial inequality is immediately illustrated by the initial descriptive analysis. A comparative analysis presented in Fact (Table 1) not only demonstrates a spectrum of development but also indicates the existence of two fundamentally different realities in Nepal coexisting within the same national borders.

**Table 1**

*Per Capita Annual Expenditure and Human Development Index by Province*

Province	Per Capita Expenditure (NPR)	Human Development Index (HDI)	Rank (Expenditure)	Rank (HDI)
<b>Bagmati</b>	208,626	0.685	1	1
<b>Gandaki</b>	159,931	0.640	2	2
<b>Koshi</b>	125,189	0.605	3	3
<b>Lumbini</b>	117,597	0.595	4	4
<b>Karnali</b>	97,889	0.560	5	6
<b>Sudurpaschim</b>	91,666	0.575	6	5
<b>Madhesh</b>	86,884	0.550	7	7
<b>Nepal</b>	<b>130,853</b>	<b>0.602</b>		

*Source: Nepal Statistical Office 2023-2024*

The economic chasm in Nepali society is breathtaking as in other developed and developing societies, following capitalist model of development. Bagmati Province, the nation's political and economic heartland, stands as an island of relative prosperity. Its per capita annual expenditure of NPR 208,626

is an astounding 140% higher than that of Madhesh Province, where the average citizen subsists on a mere NPR 86,884. This is not a marginal difference; it represents a gulf in material reality. Following Bagmati, Gandaki Province establishes itself as a clear second tier of economic well-being. A third, middle tier is occupied by Koshi and Lumbini provinces, both hovering closer to the national average. However, it is at the bottom of the table where the development crisis is most acute. The three provinces of Madhesh, Karnali, and Sudurpaschim form a distinct cluster of economic hardship, with per capita expenditures that are tragically below the NPR 100,000 mark.

The pattern of the Human Development Index (HDI) follows this economic hierarchy with almost perfect fidelity. Bagmati's high expenditure translates into a correspondingly high HDI of 0.685, placing it in a category of development far above its peers. At the other extreme, Madhesh Province's rock-bottom expenditure is mirrored by its rock-bottom HDI of 0.550. The provincial rankings for both indicators are virtually identical, providing a powerful initial visualization of an intensely strong, positive relationship between a province's wealth and its people's well-being.

Analysis of Variance (one way ANOVA) has conducted to make observed data statistically certain and significant. The test rigorously evaluated whether the observed differences in mean per capita expenditure across the seven provinces were large enough to be considered statistically significant.

The result is unambiguous, and statistically significant. The ANOVA yielded a highly significant F-statistic (**p < 0.001**), leading to a decisive rejection of the null hypothesis. This provides definitive statistical proof that the vast economic disparities between Nepal's provinces are not a fluke of data collection or random chance. They represent systemic, structural, and deeply entrenched differences in the economic realities faced by their populations. The province in which a Nepali citizen is born is, statistically speaking, a powerful determinant of their economic destiny. The final and most revealing stage of the analysis employed simple linear regression to model the functional relationship between provincial per capita expenditure and the Human Development Index. The goal was to quantify precisely how much of the difference in human development could be explained by the difference in economic resources.

The findings from the regression model are nothing short of stunning. The model produced a Coefficient of Determination ( $R^2$ ) of 0.928. This extraordinarily high value signifies that a remarkable 92.8% of the total variation in provincial HDI scores can be statistically explained by the variation in per capita household expenditure alone. This is an exceptionally powerful finding, suggesting that in the contemporary Nepali context, the availability of economic resources is the overwhelmingly dominant force shaping the landscape of human development. While other factors like governance and culture undoubtedly matter, their impact is dwarfed by the sheer weight of economic capacity. The overall regression model was highly significant (F-statistic p-value < 0.001), and the specific predictive equation it generated was: **Predicted HDI = 0.465 + (1.05 x 10<sup>-6</sup> \* Per Capita Expenditure)**

The coefficient for Per Capita Expenditure ( $1.05 \times 10^{-6}$ ) was also highly significant ( $p < 0.001$ ). This coefficient provides a tangible metric for policy consideration: for every NPR 10,000 increase in a province's average per capita expenditure, a corresponding increase of 0.0105 points in its HDI can be predicted. This quantifies the powerful leverage that economic growth and household-level prosperity have on achieving broader human development goals. To summarize, the results from all three stages of analysis converge on a single, powerful conclusion that is, 'Nepal's provinces are starkly and

significantly unequal and this economic inequality is the primary and most powerful predictor of the parallel inequality in human development'.

### **Discussion: The Vicious Cycle of Deprivation and the Challenge to Federalism**

The statistical results, while compelling in their clarity, demand a deeper, more interpretive discussion. They are not merely data points but reflections of the complex, interlocking systems that shape human lives in Nepal. When viewed through the humanistic lens of the Capability Approach, the findings from this study force us to confront a difficult truth about the state of the nation and the formidable challenges facing its federal project. The overwhelming statistical link between household expenditure and human development is the signature of a vicious cycle—a development traps that ensnares the nation's poorest regions and poses a fundamental threat to the promise of an equitable federal Nepal.

### **The Primacy of Resources: When the Engine Has No Fuel**

Amartya Sen's Capability Approach provides a crucial distinction between the *resources* people have and their ability to *convert* those resources into valuable life outcomes. A key policy debate in development often centers on whether to prioritize boosting resources (e.g., via economic growth) or improving "conversion factors" (e.g., through better governance, anti-discrimination laws, or more efficient public services). The findings of this study, particularly the staggering  $R^2$  value of 0.928, suggest that for Nepal's lagging provinces, this debate is largely moot. The primary, first-order crisis is a catastrophic lack of resources.

The near-perfect linear relationship between expenditure and HDI indicates that the problem in provinces like Madhesh and Karnali is not that their "development engines" are uniquely inefficient at converting rupees into well-being. The more tragic and fundamental problem is that these engines are being starved of fuel. It is impossible to build a robust public health system, staff schools with qualified and motivated teachers, or ensure food security when the underlying economic base of households and the provincial government is so perilously small.

This reality manifests as a cruel and self-perpetuating vicious cycle. Low levels of economic activity and productivity in a province lead to low household incomes and, consequently, low household expenditure. This directly impacts nutrition, private investment in health and education, and the quality of housing. Simultaneously, this low economic base translates into a meager provincial tax revenue, severely constraining the government's ability to fund high-quality public services. The resulting poor infrastructure and underdeveloped human capital (a less healthy, less educated workforce) make the province unattractive to private investment, which further suppresses economic activity, completing the cycle and locking the region in a low-development trap. Bagmati Province, in contrast, benefits from a powerful virtuous cycle, where high economic activity fuels high incomes, a strong tax base, better services, and further investment, creating an ever-widening gap with the periphery.

### **Humanizing the Divide: From Statistics to Lived Experience**

We can only be able to understand the import of these findings, when we step away from the aggregate numbers and imagine the real stories they represent. The chasm between an average per capita expenditure of NPR 208,626 in Bagmati and NPR 86,884 in Madhesh is the lived difference between

two worlds. Let's make it clear from example, which actually illustrated above. For a family in Lalitpur, this level of expenditure might mean the freedom to choose between several well-regarded private schools for their children, supplemented by after-school tutoring to ensure they are competitive. It means having access to a dozen specialized hospitals within a short drive, offering advanced diagnostics and a range of treatment options. It means a varied diet, reliable electricity, and the financial cushion to withstand an unexpected economic shock. This is the tangible meaning of a higher capability set.

For a family in a rural municipality of Saptari in Madhesh Province, the reality is starkly different. The NPR 86,884 average translates into a daily struggle for subsistence. It means the only educational option is a chronically underfunded public school, where teacher absenteeism is high and basic resources are scarce. It means the nearest health facility is a primary health post, often without a doctor or essential medicines, and a serious illness requires a costly and debilitating journey to a distant city. It means a monotonous diet, frequent power outages, and the constant, gnawing anxiety of knowing that a single crop failure or medical emergency could plunge the family into destitution. This is not just a lower standard of living; it is a profound constriction of human freedom and life chances.

### **Federalism at a Crossroads: An Unfinished Revolution**

Federalism has been considered as championed as the antidote to this centralized neglect. The hope was that empowered provincial and local governments would be more responsive, more innovative, and more effective at addressing local needs. However, the NLSS-IV data, captured several years into the federal experiment, suggests that while the political structure has changed, the underlying economic geography has remained stubbornly resilient. The central challenge for Nepali federalism is now clear: decentralizing political power without also decentralizing economic opportunity is a recipe for perpetuating, and perhaps even exacerbating, regional inequality.

Provincial governments in Karnali and Madhesh are handed the monumental task of uplifting their populations but are given a financial resource base that is a fraction of that available to Bagmati. They are expected to run a marathon with their legs tied together. This raises critical questions about the design and implementation of Nepal's system of intergovernmental fiscal transfers. Is it adequately compensating for the vast differences in provincial revenue-generating capacity? Are the formulas for resource allocation sufficiently progressive to enable the poorest provinces to begin closing the gap, or are they merely reinforcing the status quo?

The data subtly hints at the complexity of the conversion factors as well. The fact that Sudurpaschim Province has a slightly higher HDI than Karnali Province, despite having a lower per capita expenditure, is an intriguing anomaly. It suggests that there may be differences in social capital, governance effectiveness, or the impact of specific social programs that allow Sudurpaschim to be marginally more efficient in converting its meager resources into human well-being. These are critical areas for deeper, qualitative research that can complement the broad quantitative story.

Ultimately, this discussion leads to a sobering conclusion. The strong, linear relationship between expenditure and HDI is a sign of an underdeveloped and deeply unequal nation. In more mature, equitable societies, one would expect this relationship to weaken, as a robust social safety net and high-quality universal public services ensure that a person's health and education are not so tightly tethered

to their personal or regional economic fortune. For Nepal to move towards that more just state, it must first confront the foundational economic inequalities that this study has so starkly illuminated.

### **Findings, Conclusion and Recommendations**

This comprehensive analysis of the Nepal Living Standards Survey IV has laid bare the stark and statistically undisputable reality of Nepal's two-speed development. It has moved beyond a simple documentation of disparity to demonstrate, with overwhelming clarity, the powerful, almost deterministic, link between the economic capacity of households and the human development of their provinces. The core conclusion is both simple and profound: in contemporary Nepal, the primary obstacle to achieving the promise of equitable human flourishing is the vast and persistent chasm in economic resources between a prosperous core and a struggling periphery.

Amartya Sen's Capability Approach teaches us that development is about expanding freedoms. Our findings show that for a majority of Nepal's provinces, the most fundamental freedom—the freedom from basic material want—remains severely constrained. This economic deprivation acts as a powerful brake on all other forms of human progress, creating a development trap that political decentralization alone cannot solve. For Nepal's federal journey to be more than a new map for old inequalities a radical and courageous shift in national policy is not just recommended; it is an urgent moral and strategic imperative. This paper suggests the following policy imperatives based on above discussions:

**A Radical Recalibration of Fiscal Federalism:** The current system of intergovernmental fiscal transfers is insufficient. Nepal must move towards a model of asymmetrical fiscal federalism, where resource allocation is aggressively and unapologetically pro-poor and pro-periphery. This means designing transfer formulas that not only compensate for low revenue capacity but also provide additional, weighted funding to provinces like Madhesh, Karnali, and Sudurpaschim to address their historical infrastructure gaps and human capital deficits. This is not about penalizing success but about building a stable foundation for the entire national structure. A nation cannot stand strong when its pillars are of such dramatically unequal strength.

**Forging Province-Specific Economic Lifelines:** A national strategy of "one size fits all" is doomed to fail. The government, in close partnership with the private sector and international development partners, must champion the creation of province-specific economic corridors. This requires strategic, large-scale public investment to "de-risk" private investment in lagging regions. For Madhesh, this could mean massive investment in modern irrigation, agricultural logistics, and cross-border trade infrastructure. For Karnali and Sudurpaschim, it could mean a focus on high-value, organic agriculture, sustainable tourism infrastructure, and herbal processing industries. For Lumbini, it could mean developing a hub for both religious tourism and industrial manufacturing. Such a targeted approach can create local employment, raise household incomes, and begin to reverse the out-migration of talent.

**A "Human Capital Marshall Plan" for Lagging Regions:** While building the economic base is a long-term project, a direct, "front-loaded" assault on human capital deficits can yield immediate and lasting benefits. This requires a targeted campaign, almost a "Marshall Plan" for social services in the most deprived districts. This would involve ensuring every single public school is properly staffed and resourced, every local health post is functional and supplied, and every pregnant mother and young child has access to critical nutrition programs. This not only directly boosts HDI indicators but,

crucially, improves the population's "conversion factor," creating a healthier, more skilled, and more resilient generation capable of seizing the opportunities of the future.

**Empowering Governance through Data and Accountability:** The exemplary work of the National Statistics Office must be sustained and strengthened. A federal system thrives on information. Regular, reliable, and easily accessible sub-national data is essential for enabling provincial and local governments to engage in genuine evidence-based planning. Furthermore, making this data widely available to the public, media, and civil society is a powerful tool for fostering democratic accountability, allowing citizens to measure the performance of their elected officials against clear, objective benchmarks.

To conclude in few sentences, the success of Nepal's federal journey will not be measured by the glittering prosperity of its capital city, or by the eloquent text of its constitution. It will be measured by the tangible expansion of freedom and opportunity in the lives of its most vulnerable citizens. It should be measured by the health of a child in Humla, the education of a girl in Siraha, and the dignity of a farmer in Accham. This paper shows, with painful clarity, the distance yet to be traveled reality. The challenge may be immense, but with courage, vision, and a policy agenda firmly grounded in the principles of economic justice, Nepal can yet fulfill the profound and deeply human promise of its federal democratic revolution.

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