

Cracks in the Pavement: Balancing Assistance and  
Incentives to the Street Population of Nepal, 1990-2015

by

Michael Greenwald  
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# Abstract

In urban centers throughout Nepal, the period between 1990 and 2015 was marked by both a substantial increase in the number of children and adults economically engaging with the city streets—the “street population”—and a steady rise in the activities of non-governmental organizations (NGOs) responding to the apparent economic situation of street population—the “street-population sector.” Choosing a life on the streets has serious implications for citizens of Nepal, both in terms of acquiring their day-to-day basic needs as well as developing the social and vocational skills necessary for an economic transition off the streets. In the absence of a government response to the street population, privately operated street population-sector NGOs are the sole providers of social welfare services to members of the street population.

The provision of social welfare services by the street population-sector NGOs, however, does not yield the optimal outcome of eventually promoting economic independence for members of the street population. An unintended consequence of providing social welfare to the street population is the creation of incentive problems that perpetuate a portion of the street population rather than reduce it. Despite the multitude of NGOs working towards the same long-term goals (generally speaking), the services of the street population-sector NGOs inadvertently produce unsustainable short-term alternatives to the streets for service recipients.

Studying the period between 1990 and 2015, this thesis examines the emergence of Nepal's street population, the performance of the street population-sector NGOs, and the dynamic between the Government of Nepal and the street population-sector NGOs. After describing different conceptions of the "street population," it first illustrates how street population-sector NGOs create incentive problems for both the Government of Nepal and individual members of the street population. Second, it assesses how these incentive problems arise from organizations' failure to align with the economic realities of Nepal as a lesser-developed economy. Finally, it presents policy steps that the Government of Nepal may take with respect to the street population-sector NGOs in order to promote a "second-best" solution to the incentive problems impeding the optimal provision of services.

# Preface

It was August of 2014 when I first arrived in Nepal. I was lucky enough to study abroad in such a unique place, somewhere so different from my suburban hometown in the United States. While settling into Kathmandu, I gradually adjusted to the capital city's sights, smells, and tastes. About two weeks into my stay (while zipping down the wrong side of the road in a taxi headed directly for oncoming traffic), I saw something that first filled me with shock, then dismay, and finally confusion.

I judge that the two boys were likely around 11 years old. They were dressed in what had once been clothing, but now appeared to be rags. They passed an empty bag (a spent Lays "Masala"-flavored chip bag, I recall) between one another, breathing in and out of the plastic vessel. In my best (broken) Nepali, I asked my taxi driver "what are they doing with that bag?" His nonchalant reply was brief: "*dendrite*," he said.

I would later learn that "dendrite" is a type of rubber cement, the kind that one might use to repair hiking boots or to complete light construction projects. I would later learn the young boys I had seen earlier that day had squeezed dendrite glue into the Lays Masala chip bag to inhale the fumes emitted by the adhesive—a chemical called toluene—within the glue. I would later learn that boys like these also often used marijuana, alcohol, intravenous drugs, and a

number of other substances. I would later learn that the boys I had seen were only two of thousands like them: “street children” in Nepal.

Between October and December of 2014, I conducted field research in association with the Grassroots Movement in Nepal/WEGAIN, a locally operated non-governmental organization (NGO) that had a project to construct a “shelter for street children.” After conducting field research and observation of over 150 street boys in Kathmandu, I used my findings to generate a report in association with Tribhuvan University (in Kathmandu) profiling the street boys. My findings included fairly shocking facts (albeit from my perspective) about the historical patterns of street migration in Nepal, an up-close look at the sidewalk lifestyle, and an overview of the way in which NGOs staged their interventions.

I became particularly fascinated with the disparity between NGOs’ intentions in providing social welfare to street boys and the actuality of their service provision. As I dug deeper, I discovered that what I once regarded as “running away to the street” was youth economic migration. I learned about the greater extent of childhood autonomy in Nepal when compared to a typical “Western” childhood, and why choosing a life on the street might be viewed as an *economically responsible* choice for a family (or even a child), a phenomenon that challenged my preconceived view of homelessness. I also learned about atrocities occurring regularly on the street: beatings, pedophilia, drug abuse, and exploitation run rampant. In response, NGOs have intervened to advocate for

and serve the populations who have moved to the sidewalks of Nepal, and as their presence has increased the level of negative street behavior has decreased.

I was left, however, with dozens of questions. Do foreign aid organizations comprise the entire street-population sector? What role does the Government of Nepal play? Why do street population-sector NGOs seem to all be operating independently of one another, even when they have matching goals? Most of all, with thousands and thousands of NGOs, how does Nepal still have a street population at all?

I returned to Nepal in the summer of 2015 to get answers. After my second round of research in Nepal, I traveled to Oxford, UK to consult with Dr. Rachel Bray—an anthropological expert on Nepal’s street population with multiple published works on the subject from field research conducted in the 1990s—to gain a longitudinal understanding of foreign aid and its impact on the street population. This thesis is the result of my inquiry into the nature of the dynamic between the Government of Nepal, street population-sector NGOs, and the street population.

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# Introduction

## Who Comprise the Street Population of Nepal?

There are thousands of people currently living on the streets of Nepal. It is nearly impossible to get an exact count of the street population in Nepal due to confusion with people who are simply *on* the street (yet supported by their families or engaging in work); further, reports by non-governmental organizations (NGOs<sup>1</sup>) indicate that young boys comprise at least 90% of the street population, though estimates often fluctuate (Child Protection Centers and Services, 2014). Nevertheless, citizens of Nepal do not land on the street without cause. Despite the fact that many members of the street population have homes where their siblings and parents still reside, the majority of the street population actually chooses “street migration”—the informed, economically motivated migration from a home to the street; in other words, members of the street population are typically neither orphans nor “abandoned” citizens. Rather, economic instability (or resource scarcity) in the family unit often provides the impetus for street migration.

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<sup>1</sup> Henceforth, the term NGO will be used to describe non-governmental organizations within the street-population sector. It will additionally encapsulate “INGOs” in the street-population sector: INGO is simply an extension of NGO, the “I” designating the organization as “International” and therefore denoting that the organization operates in multiple countries.

Upon the city pavement, new members of the street population may be introduced to substance abuse, join a band of street youths, and engage in inherently risky activities that foster socially unacceptable behavior. The rules that apply at home are not applicable on the streets: substance abuse, stealing, and begging are neither uncommon nor frowned upon within the street community, and usually become a means to achieving peer acceptance on the street. Members of the street population respond to the harsh realities of life on the sidewalks, such as insecure food and living situations, with the unraveling of “sociable” behavior: they develop coping mechanisms such as abusing drugs and engaging in crime. Such behavior prompts intervention by NGOs from around the world.

Distinct from the government, NGOs extend a helping hand towards the street population by offering food, shelter, clothing, education, training, remedial skills, and rehabilitation. The provision of social welfare services provides the street population an alternative to finding its basic needs the street, an opportunity to learn a skill or craft, or even a chance to permanently transition off the streets. The availability of basic needs free of charge, however, inevitably empowers some members of the under-motivated or otherwise content street population to avoid entry into the formal labor market or education system, so that they subsequently live off the generosity of both NGOs and individuals until they are unqualified to be aid recipients (i.e. they do not meet internal NGO eligibility criteria, such as being below 16 years of age).

The street-population sector offers the target population greater economic freedom. Unlike the formal labor market, the street-population sector presents homeless Nepali citizens with a variety of generous organizations and individuals willing to offer resources and services. An incentive issue often cited with respect to welfare schemes is that recipients of welfare risk becoming dependent upon “handouts” from welfare providers; providers mitigate this risk, for example, by crafting welfare schemes that are means-tested and have a limited time frame in which recipients may receive welfare. By virtue of their economic position, members of the street population similarly risk becoming dependent upon the street-population sector<sup>2</sup> (Child Welfare Society, 1996: 93). Unlike most welfare schemes, however, the government is directly involved in neither the provision nor the regulation of the welfare services in question, and NGO programs are hardly means-tested.

Members of the street population become dependent upon NGOs because they discover the abundant availability of social welfare at no cost. Lacking the incentives to pursue alternatives such as education, vocational training, or employment opportunities, members of the street population become dependent upon the street lifestyle and do not plan for the day when an NGO will turn them away (Ryckmans, 2012: 269). They become dependent because they are either too young to understand the implications of their behavior, or too old to readjust

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<sup>2</sup> This is indicated by factors from a body of research including disinclination to return home, an inability to socialize outside of the “street context,” and a combined lack of money, employment-relevant skills, or education upon transitioning off the streets.

to sociable behaviors. The street population is a fixture in Nepal's urban centers; despite NGOs' best efforts to intervene, this is the life of the street population of Nepal—the “cracks in the pavement”—of which 60-70% will remain on the streets for the rest of their lives regardless of NGO intervention (Ryckmans, 2012: 10). Why doesn't the street-population sector function as intended?

### A Roadmap

This thesis will frame the problem of street population-sector NGOs as one of providing an optimal balance of assistance and incentives. Spanning the disciplines of history, anthropology, and political economy, it aims to give a comprehensive answer to the following: what is the nature of the dynamic between the Government of Nepal and street population-sector NGOs? Further, between these NGOs and their recipients on the street, what is the net cost/benefit to members of the street population as the Government of Nepal affords NGOs the agency to balance assistance and incentives uncoordinated?

To begin to answer this question, in Chapter 1 of this thesis the key actors are identified, the “issue” within street population-sector NGOs is introduced and analyzed, and a way of thinking about the optimal provision of services is suggested. In Chapter 2, a follow-up exploration of the street population's origins is presented, an expanded definition of “street population” is offered, and an expanded optimal provision of services is outlined. Chapter 3 of this thesis evaluates the performance of NGOs with respect to this optimal provision of services. Chapter 4 analyzes the systemic failures of the street-population sector;

this is accomplished via an evaluation of NGOs' relationships with their respective donors, rivalries among one another, and engagement with the street population. Chapter 5 examines to what extent the Government of Nepal currently regulates the provision of services by NGOs, and how the extent and nature of regulation might be changed in the future. Considering that the NGOs in question take a sector-level approach—one in which the organization specializes in a specific service within the sector—this thesis parses different hypotheses concerning the efficacy of NGOs and eventually concludes by offering policy steps that the Government of Nepal might take in order to revise social service provision for the street population-sector NGOs in Nepal.

This research investigates the evolution of the street-population sector, the level of assistance that is provided to the street population, and the texture of the narrative employed by relevant stakeholders. Incentive problems exist between members of the street population, the street population-sector NGOs, and the Government of Nepal. These incentive problems are the key to carefully unpacking the dynamic between NGOs and the Government of Nepal, making it possible both to examine street population aid dependency as a self-reinforcing cycle and to suggest a superior, alternative approach.

### **Approaching the Street-Population Sector**

Because foreign aid organizations attempt to treat negative social phenomena, an objective evaluation of various optimal policy alternatives first requires a theoretical framework by which to evaluate NGOs; in fact, a truly

*objective* evaluation must consider the possibility that there is no social “issue” at all, and that the street population is simply a reality of life in developing nations like Nepal given feasible economic alternatives. While specific economic theories with respect to this issue will be introduced shortly, it is first essential to approach the “incentive problems” that will recur throughout this thesis.

Three *incentive problems* are identified and discussed throughout this thesis. An incentive problem is here defined as when an individual or group of individuals is provided the incentives to act other than what is consistent with social optimality (or economic efficiency). The first incentive problem is between members of the street population and street population-sector NGOs: NGOs provide the street population with unsustainable alternatives to acquiring their basic needs on the street. The second incentive problem is between street population-sector NGOs and their donors (and, to an extent, the Government of Nepal): under the current regulatory structure, the incentives for donor-dependent NGOs to cater to the interests of donors outweigh the incentives for NGOs to cater to the interests of the Government of Nepal (or, more directly, the interests of aid recipients). A third and final incentive problem exists distinctly between the street population-sector NGOs and the Government of Nepal: the Government of Nepal receives a net positive return regardless of whether or not it regulates street population-sector NGOs, and therefore does not closely monitor or evaluate NGO performance. Under optimal conditions, I will posit (explained further in Chapters 1 and 2) that without providing too much assistance and too

few incentives to transition off the streets, NGOs ought to ensure that the members of the street population are not excessively vulnerable (to factors such as starvation, crime, or undue hardship), have a chance to obtain formal employment, and are lifted above any social stigma that threaten to hamper their transition off the streets.

As a result of the three incentive problems, the intention of street population-sector NGOs is distinct from the suboptimal reality of service provision in Nepal. How do members of the street population respond to the widespread availability of social welfare? Do street population-sector NGOs manipulate their results for greater “returns” on donor resources? Do these results actually expand the capabilities of the street population? To what extent is the Government of Nepal involved in the street-population sector, if at all?

Rather than engage with the larger question of what wealthy countries might “owe” to poor countries, this thesis will illustrate what happens when foreign NGOs in the street-population sector provide a higher, less onerous quality of life to members of the street population with respect to the “standard” Nepali quality of life. The central issue is whether or not the goal of NGOs in the street-population sector is to restore a capability that may be lost to the street, and if so how this may be achieved without moral hazard. Who or what actually supports the street population of Nepal? Do they need support in the first place?

# Exploring the Street-Population Sector

## 1. Addressing the Three Incentive Problems

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### The Lay of the Land

To address the three collective incentive problems, first one must understand the three main actors that navigate their own incentives: (1) the Government of Nepal, (2) the street population-sector NGOs,<sup>3</sup> and (3) the street population. Each player in this story comes with varied capabilities, resources, and interdependent behaviors. The *nature* of their interdependence is perhaps the key topic of controversy (or primary inquiry) of this thesis. At the surface, their interdependence is a function of their overlapping incentive structures, and the behaviors that each actor engages with are directly related to the incentives and payoffs of the other players.<sup>4</sup> By examining each actor's incentives, I will show how each actor employs strategic behavior to maximize the benefits (or mitigate the costs) received from either one or both of the others.

The first actor under examination is the Government of Nepal. In theory, the Government of Nepal has the task of designing an incentive structure to get

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<sup>3</sup> The phrase “street population-sector NGOs” is intentionally distinct from a commonly used acronym of CSO (Civil Society Organization). The implication of CSO is that the aid organizations are *agents* of civil society, whereas street population-sector NGO stands to provide a more direct representation of the organizations in question without implying the delivery of “civil society.”

<sup>4</sup> By this I mean that the absence of one player, for example, might dramatically change the nature of the relationship between the other two. It is highly unlikely that, for example, NGOs would formally exist if Government of Nepal did not.

the street population-sector NGOs to behave according to the Government of Nepal's interests (Easterly, 2006: 170). Nepal, however, is among the poorest countries in South Asia and in the world, and its government is limited by the constraints of a developing country (Shrestha, 2008: 288). Between 1990 and 2015, executive power in the Government of Nepal changed hands over twenty times, and the majority of those transitions were less than peaceful (Sharma & Bhattarai, 2013: 902). The most notable exchange of executive power occurred in 2001 when an (allegedly staged) suicide allowed a young, ambitious royal family member to ascend the throne; this event is commonly referred to as the "Royal Coup." A second massive exchange of power took place in 2006, when a decade of mounting pressure from Maoist insurgents and international pressure (mostly by the USA and India) forced the relatively new king to abolish the centuries-old monarchy, reinstate formal multiparty democracy, and transfer "head of state" powers to a federal parliament (Sharma & Bhattarai, 2013: 900).<sup>5</sup> While these are important markers of change in characterizing the Government of Nepal, this thesis will examine a momentous shift in power that took place in the early

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<sup>5</sup> Poverty and widespread discontent with the Government of Nepal enabled the Maoists, "a left-wing underground political party, to mobilize the disadvantaged youth into the fight against the political and economic system" (Sharma & Bhattarai, 2013: 902). A civil war broke out in the mid-1990s, and King Gynandra disposed of the democratically elected government in early 2005. "The Royal coup increased political agitation in the country, forcing seven major political parties to enter into negotiations with the Maoists in early 2006 to fight jointly against the dictatorship of King Gynandra" (Sharma & Bhattarai, 2013: 902). It was not until 2008 that Gynandra ended the 240-year old Shah dynasty, though conditions in Nepal continued to deteriorate due to coordination failure and disagreement among the seven major political parties.

1990s. In 1992, the Government of Nepal established the Social Welfare Council<sup>6</sup> and officially began mass registration for NGOs, trading sovereignty for services.

In concert with endemic poverty, the volatility of executive power within the Government of Nepal precipitated a state apparatus with limited resources, high levels of corruption, and a less-than-favorable public opinion. Nationwide, the period of 1990 to 2015 is characterized by internal instability; thousands of rural individuals migrated to urban areas that offered employment opportunities, social services, and protection from the Maoist insurgents. While the government scrambled unsuccessfully to implement programs designed to stem the depopulation of remote areas, rural-to-urban migration caused an increase in the demand for employment and services that was unmet by the available supply (S. Devkota & Upadhyay, 2015: 297). The Government of Nepal counteracted its own limitations and addressed the service shortage by creating additional mechanisms to attract foreign aid; via the Social Welfare Act of 1992, foreign investment (previously discouraged internationally by Nepal's political volatility) began to flow inwards along humanitarian lines by way of officially registered NGOs (Khadka, 1998: 155). Further, in 1999 the Government of Nepal deregulated funding to registered NGOs via the Local Self-Governance Act (explored further in Chapter 4).

The second actor to consider is the street population-sector NGOs (an expanded definition of which will be offered in Chapter 3). Street population-

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<sup>6</sup> Established in 1992, the Social Welfare Council is the governing body responsible for the approval, management, and categorization of NGOs in Nepal.

sector NGOs are established in all seventy-five of Nepal's districts, mostly in less remote regions with significant and swelling urban populations; as a result of this spatial bias, the urban density of social welfare services has historically been proportionally greater than the rural density of social welfare services (Roka, 2012: 104). The street population-sector NGOs are the primary vehicles by which the members of the street population receive social welfare. As stated earlier, NGOs operate under the regulatory authority of the Social Welfare Council as well as a handful of other government offices (e.g. on the district-level) as is relevant to their work. The key characteristic of street population-sector NGOs is that they are typically operated by well-intentioned foreigners who maintain the flow of donor resources to provide recipients with social welfare services.

Before pressing onwards, note that not all NGOs are operated or funded by foreigners; however, the vast majority of funding is foreign. In 1994, for example, a report “placed the percentage of foreign funds in [Nepal's] overall NGO budget at 88%, and the contributions from local and governmental sources at 8[%] and 4% respectively” (Heaton-Shrestha, 2004: 6). Also note that NGOs vary in size, structure, philosophy, and strategy, and thus NGOs require varying levels of funding. For the intents and purposes of discussing the street population-sector, NGOs are generally advocacy organizations with varying operating costs.<sup>7</sup>

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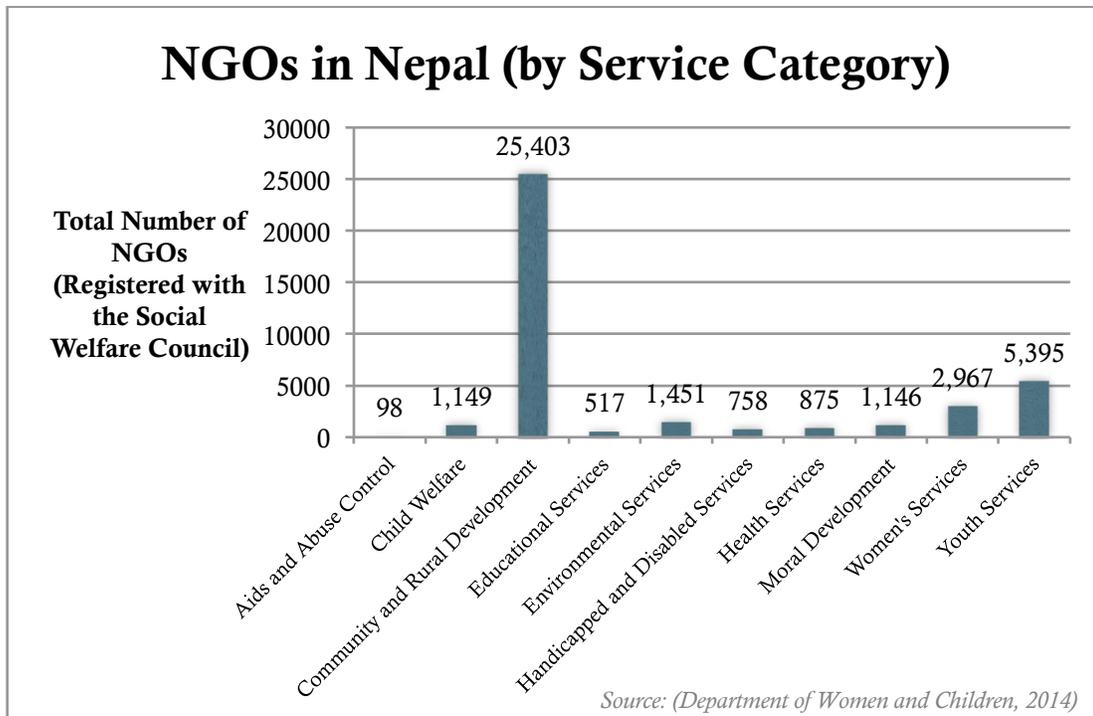
<sup>7</sup> Aid organizations may be sorted into three categories: relief and welfare institutions (e.g. food delivery), local self-reliance groups working in tandem with the Government, and advocacy organizations (regional or national) working with local people and the Government (Roka, 2012: 7). As agents of change over a previously absent child social welfare and protection sector, the many and varied

The street-population sector as a whole was formed in response to a highly observable, very public phenomenon in Nepal. The treatment of the street population is fully privatized through NGO services. Ram Bahadur Chand, the spokesperson of the Central Child Welfare Board in 2015, noted that large NGOs (e.g. Child Workers in Nepal est. 1987, Voice of Children est. 2000, APC-Nepal est. 2001, Child Protection Centers and Services est. 2002)<sup>8</sup> are the sole institutional links through which the Government of Nepal extends any influence over members of the street population (Chand, 2015; Government of Nepal, 1992a). Smaller NGOs within the street-population sector receive less institutional attention.

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organizations addressing the street population dubiously span all three of these categories. “Child Protection Centers and Services,” for example, is a Belgian NGO (rather than a government office) operated since 2002 that falls into all three of the above categories.

<sup>8</sup> These are just a few examples of large NGOs in the street-population sector. They are by no means representative of the whole, nor were they selected based upon merit or a measured degree of effectiveness.



*On the whole, the NGOs are also registered via the Social Welfare Council into a number of fields: Aid and Abuse Control, Child Welfare, Community and Rural Development Services, Educational Services, Environmental Services, Handicapped and Disabled Services, Health Services, Moral Development, Women Services, and Youth Services (Department of Women and Children, 2014: 53). A lack of hard data makes it difficult to quantify the exact amount of funding provided by NGOs to Nepal yearly, though estimates from 2010 place the annual infusion beyond \$500 million (measured in constant 2010 USD) (Roka, 2012: 92).*

NGOs are registered into a specific sector, yet in practice are easily able to diverge from their registered “purpose” to pursue different agendas.<sup>9</sup> There exist serious deficits in monitoring NGOs, a direct result of a dysfunctional relationship between NGOs and the Government of Nepal. To court donor resources NGOs may engage in disruptive, competitive behaviors outside of the scope of their announced goals. Bijaya Prasain, director of the Department of Women and Children, reports that because the Government of Nepal prioritizes

<sup>9</sup> Just as the organizations addressing the street population fall into the three categories of NGOs (see footnote 7), they also span a variety of the sectors as defined by the Social Welfare Council, such as Child Welfare, Youth Services, and Community and Rural Development Services.

its own agenda when approving NGOs, as long as the Government priority areas are somewhat addressed (in name), oversight is minimal (Prasain, 2015).

The third and final actor to assess is the street population (an expanded definition of which will be offered in Chapter 2). The following five subgroups represent a detailed typology of members of the street population, derived from works in the early 1990s that were employed by UNICEF on projects both in and out of Nepal. They are as follows:

1. “*Children at high risk of becoming involved in street life because of extreme family poverty and/or inadequate care at home.*”
2. *Children on the street* [who] have a primarily economic involvement with the street life, working on the streets during the day and sleeping in the family home at night.
3. *Children of the street* [who] have a total involvement with street life, working and sleeping on the streets, independently of their families.
4. *Abandoned children* [who] also have a total involvement in street life, but because of death of, or rejection by, adult family members [which] means they have no family home.
5. *Children living and sleeping on the streets with their families,*” (notably the most recently added category).

*Sources: (Martins & Ebrahim, 1993; Todd, 1995; Veale, Adefrisew, & Lalor, 1993)*

Subdividing members of the street population on the basis of these definitions appropriately accounts for the plurality of situations one encounters

on the street, understanding their existence through the individual street dweller's level of economic and living-space involvement with the street rather than simply his or her appearance upon it. One critical distinction to the present discussion of street population-sector services is that which distinguishes children *on* the street from children *of* the street. The former are a population (tending to come from a similar background to the latter) who maintain close ties and living space with relatives and immediate family members. The latter are a population of children who live directly on the street, often having less (still some) contact with their families (Baker, 2005; Baker, Panter-Brick, & Todd, 1997; Child Welfare Society, 1996; Ryckmans, 2012). Children in the latter category are also observably less uniform in age and locale than those in the former, and its members have become more recently associated with begging in urban tourist areas, rag-picking, varied drug usage, and a grouped, "gang"-like social context. By dividing the street population into these subgroups, the logic motivating the diversity of street population-sector services will become clear.

Contrary to the observed phenomena of homelessness in the West, homeless and "street dwelling" individuals in Nepal are by no means at the "bottom of the [economic] heap," and the adoption of a life on the street "may actually represent a rational and successful response to prior [economic] circumstances" (Panter-Brick, Baker, & Todd, 1996: 449). They are, in other words, rather unexceptional in the Nepali context. Homeless populations in Nepal are targeted by NGOs in ways that "explicitly or implicitly aim to socialize

them according to Western or middle-class Nepali ideals of childhood”; the Nepali street population is therefore constantly responding to NGO programs that are predicated upon Western ideals of a carefree, work-free, and protected youth experience followed by a “proper” transition into adulthood (Baker & Panter-Brick, 2000: 169).

As the targets of NGO programs, consider what the street population stands to gain from being surrounded by a narrative of need and, further, how this affects those outside of the street population. Street population-sector NGOs deliver “educational or welfare provision of a higher quality than that available to other poor local [people]”; non-street urban residents often express the view that street population-sector NGOs unintentionally attract individuals to the streets (Baker & Panter-Brick, 2000: 169). In fact, a small percentage (3%) of street children surveyed in 2012 actually cited NGOs as their primary reason for migrating to the street (Ryckmans, 2012: 54).

Services provided for members of the street population are guided by the rationale that their “needs” are unmet like missing ingredients: the provision of an adequate supply of food, shelter, protection, and responsible adult care are the primary objectives of street population-sector programs (Baker, 2005: 11). “By constructing them as victims,” writes Alison Todd, an expert in Nepal’s street youth, “society transfers responsibility to itself for their existence...alternatively if street children are accredited the power to be villains, society has a responsibility to protect its law-abiding members at whatever cost to the street children” (Todd,

1995: 35). This victim-villain bipolarity appears most evidently in the evolutionary formation of NGO services, where both basic legal services (responding to perceived criminality on the street) are offered as a rehabilitative package for street children alongside food and shelter (responding to perceived deficits on the street).

As the number of street population-sector NGOs has grown, the street population's involvement with foreign standards has likewise amplified. Anecdotal evidence suggests that direct or long-term involvement with NGOs was far less common in the 1990s, whereas a recent study showed that 87.1% of street children surveyed report regular interaction with an NGO; in fact, three out of four youth participants in the same street population study reported that they regularly *slept* in an NGO facility (Ryckmans, 2012). An original 2014 field observation suggested a circular, weekly rotation among some street boys in Kathmandu (the city of Kathmandu is bounded by a circularly shaped "Ring Road"), traveling from NGO to NGO—"NGO shopping," for short—to take advantage of weekly "specials" provided by various organizations. Examples of these "specials" include a picnic, a movie night, a meal with meat, a clothing distribution opportunity, and a soccer match ("NGO shopping" will be explored further in Chapter 4). Such extravagant amenities on a day-by-day basis are arguably outside of the scope of a typical Nepali childhood, adapted more closely to Western ideals of childhood (Brazier, 1997: 9).

Members of the street population are, in many ways, the free-riding recipients of NGO assistance. In assessing the incentive structure of the street population, the efficacy of the street population management services must be distinguished from the supplementary goals of prevention and rehabilitation. Street population-sector NGOs do not operate under the sole *modus operandi* of managing the street population; rather, they also spearhead advocacy, prevention, and rehabilitative programs. Members of the street population are attracted to and then “filtered” by the street population-sector NGOs. Thus, centers often welcome all street youth and adults (i.e. using an open-door policy) in order to gain access to the few who will participate in their extended educational or vocational programs. Regardless of one’s eagerness to participate in (or even ability to qualify for) extended programming, even the most discerning members of the street population have few incentives to pass on free, high-quality provisions by NGOs. They may do so sporadically until they reach the age when one must begin to seriously consider extended programming (or alternatively, until they simply are too old to receive NGO support and graduate to being street adults).

### Incentives

Consider the three actors’ incentives from the top down. (1) The Government of Nepal *desires foreign assistance to provide social welfare services*, and the inception of mass foreign humanitarian investments was at a historical moment of great need and national instability. The presence of NGO services

arguably alleviates the Government of Nepal of the responsibility to develop those services on its own. (2) The street population-sector NGOs *provide foreign assistance in abundance*, and they are backed by a supply of donor resources and serve the members of the street population. Finally, the (3) members of the street population *extract value from street population-sector NGOs and social welfare programs*, provisioned with basic needs at a quality that has been established as higher-than-average (in Nepal), for free. A more nuanced view of this final incentive structure is that migrating to the street bears the reward of complimentary social welfare services unavailable in more remote areas.

Logically, there are incentives that operate in the opposite direction. As Nepal is a popular tourist destination, consider that members of the street population are a public relations and tourism dilemma for the Government of Nepal. To the foreign humanitarian eye, the street population of Nepal is a paragon of government neglect; how this view holds up to the domestic perception of homelessness is less than congruous (Baker, 2005: 14). Consider that street population-sector NGOs, however, actually require recipients like members of the street population in order to effectively court their clients' resources. Furthermore, consider that street population-sector NGOs have incentives to depict the street population with a narrative of victimization that Western ideals abhor rather than present members of the street population as domestically acceptable rural-to-urban labor migrants. Finally, consider that members of the street population have incentives to reintegrate with Nepali

society—to “exit” from their economic position—as an adulthood on the streets is an insecure and stigmatized economic role in Nepal (Ryckmans, 2012: 154).

In sum, the long-run strategic relationship to be explored between street population-sector NGOs and the Government of Nepal is an institutional funnel for donor resources that alleviates pressure on the Government of Nepal to develop social welfare services, ensuring its own underperformance at the cost of credibility and control. The street population-sector NGOs’ full focus on service provision rather than exclusive engagement with policy reform is the lens through which one may posit a net loss in government credibility, implementation power, and control for the Government of Nepal (S. R. Devkota, 2007; Rappleye, 2011). The long-run strategic relationship to be explored between street population-sector NGOs and members of the street population is such that NGOs provision services of a higher-than-average quality as compared to Nepali standards to members of the street population who have little reason to refuse those services. The long-run strategic relationship between the Government of Nepal and the street population as a whole is more ambiguous, and raises the question as to the extent to which the Government of Nepal benefits from the street population contravening Western ideals (and attracting NGO and donors) when weighed against the “acceptability” of street life in Nepal’s domestic cultural context.

### **A Preface to the Optimal Policy and Provision of Services**

Before delving into the theory necessary to evaluate the systemic failures of street population-sector NGOs in balancing assistance with incentives,

consider that an “optimal” policy outcome exists in which both street population-sector NGOs and members of the street population function in a way that balances assistance from NGOs with incentives to transition off the street. After gaining a baseline understanding of the optimal outcome, prior economic theory may be applied to enrich the stipulated optimal outcome. Without providing too much assistance and too few incentives to transition off the streets, the street population-sector NGOs ought to ensure that the members of the street population are not deprived of their basic needs, exist under appropriate conditions to work, and have acceptable preparation to access the labor market via facilitated sociability.

To be clear, the rationale guiding the stipulated optimal provision of services is to ensure that the street population is not excessively vulnerable (to factors such as starvation, crime, or undue hardship), has a chance to obtain formal employment, and is lifted above any social stigma that threaten to hamper their transition off the streets. I will return to the optimal outcome in Chapter 2; for the moment, take the above optimal outcome as guidelines towards giving members of the street population alternatives to the streets that they have a reason to value.

### **Moral Hazard and Adverse Selection in the Street-Population Sector**

To address the three incentive problems, looking through some theoretical lenses will help contextualize the relationship between the Government of Nepal,

the street population-sector NGOs, and the street population. Two key concepts here are foundational to the argument: *moral hazard* and *adverse selection*.

*Moral hazard* is an economic concept applied to transactions characterized by asymmetric information; moral hazard occurs in a transaction between A and B when a socially optimal arrangement requires that A engages in a particular behavior, yet B has no way of observing or inferring whether or not A engages with that behavior. Moral hazard potentially exists when A and B have different preferences with regard to the behavior in question. For example, moral hazard can occur when street population-sector NGOs operate without government oversight if the NGOs pursue a course of action inconsistent with the government's interests. Moral hazard is, I aim to show, the primary basis for inefficient aid outcomes in the street-population sector.

*Adverse selection* is an economic concept applied to transactions characterized by asymmetric risk; often applied to insurance, adverse selection is said to arise when the success of a transaction between two parties depends on a characteristic of one party that the other cannot directly observe. Adverse selection occurs when the likelihood that engaging with a particularly "risk-prone"-type is a function of the terms of the transaction; for example, an insurance policy suited towards individuals with a "low-risk" propensity may inadvertently attract individuals with a "high-risk" propensity (and so the exchange itself is less desirable). In this context, adverse selection arises from the possibility that street population-sector NGOs emphasizing unconditional

services (e.g. basic needs) over education or training requirements attract members of the street population with a lower likelihood of a successful transition into the formal economy and, further, into mainstream Nepali society. As risk propensity may be a function of information levels, adverse selection can be connected to moral hazard. Adverse selection is, I aim to show, an additional basis for inefficient aid outcomes in the street-population sector.

### Applying Prior Economic Theory

The previous work of economic development theorists is essential to evaluating this hypothesis. First, I apply the *principal-agent* relationship model—a strategic model in which a “principal” designs incentives for an “agent” to behave in the principal’s interests—that introduces the hierarchical structure of foreign aid in Nepal. Second, I apply Amartya Sen’s capabilities approach—an evaluation of aid’s ability to provide alternatives for a target development population—to the street-population sector (Sen, 1999). Sen’s theory will be used to evaluate the way in which the street-population sector should optimally perform. Finally, I explore William Easterly’s assessment of aid in developing countries; by viewing the provision of aid services as an economic activity occurring in markets, Easterly evaluates the consequences of a “demand” for aid being met by a *foreign* “supply” of aid (Easterly, 2006). While the principal-agent discussion provides the foundation for moral hazard in the street-population sector, Sen’s theory speaks to how the optimal provision of services may be defined (both by members of the street population and by donors), and Easterly’s

research addresses the reasons why the optimal provision of services is not obtained as a result of adverse selection.

Together, these three theories—one of incentive hierarchy, one of human development (normatively), and one of foreign aid performance—help to organize an analysis of the relationship between Government of Nepal, street population-sector NGOs, and members of the street population. They provide the foundation upon which I make an assessment of whether or not street population-sector NGOs provide optimal aid by suitably balancing assistance and incentives.

In the context of the street-population sector, an exploration of these theories shows that social welfare service provision by NGOs adversely impacts members of Nepal's street population. The Government of Nepal doesn't provide direct oversight of the street population, so *de facto* responsibility for their assistance falls to NGOs; with respect to a lack of alternatives, the street population-sector NGOs function well enough that the Government of Nepal has few incentives to organize a comprehensive regulatory framework placing boundaries upon NGO autonomy. The relationship between the Government of Nepal and street population-sector NGOs is therefore less hierarchical (as suggested by the principal-agent model) than symmetrical. The overarching three incentive problems arise, thus, from the street population of Nepal being subject to the will of privately operated street population-sector NGOs without oversight.

How street population-sector NGOs pursue the goal of “helping” Nepal is the key area of moral hazard under examination. In the *principal-agent* relationship model, the *principal* designs incentives for an *agent* to behave according to the principal’s interests. Foreign aid organizations, in general, can be characterized as *agents*; in this context NGOs are agents vis-à-vis the Government of Nepal, but also principals vis-à-vis donors and members of the street population. In this specific context, the Government of Nepal can be characterized as the ultimate *principal*. Street population-sector NGOs (the collective *agents*) are private organizations permitted to interact regularly with Nepal’s street population given that they provide social welfare services. The provision of social welfare services, ideally, aims towards the expansion of the “capabilities” of the street population; in other words, NGOs must provide reasonable alternatives to life on the street, specifically by preparing members of the street population to transition *off* the street. However, street population-sector NGOs provide alternatives to the street life that fall outside of the scope of normal economic life in Nepal, and inadvertently cause the first incentive problem in which the members of the street population benefit more from staying on the streets than leaving them.

The principal-agent relationship between the Government of Nepal and the street-population sector is *conditional* such that a street population-sector NGO may not (formally) operate in Nepal without the Government of Nepal’s approval. The majority of NGOs, however, must also raise funds from donors in

order to meet capital costs and sustain operating costs. Consider that aid is, therefore, *conditional* in two ways: both the Government of Nepal and the donors must give their approval. Recall the second incentive problem (between NGOs and donors), and note that the actual *recipients* of aid—here, the individual members of the street population—are absent from this transaction.

An important qualitative difference between the Government of Nepal and the donors is that the government may set the terms under which NGOs can operate in Nepal, while donors can only choose whether or not to donate. In Nepal, however, donor-dependent NGOs—organizations that survive at the will of donors and funding agencies—exist in great numbers (Roka, 2012: 11). Although the Government of Nepal sets the terms for all NGOs, donor-dependent NGOs are not always able to set the terms for their donors.

Like input suppliers, donors are like the *clients* of the NGO, and the people who receive the aid are the *recipients* of the NGO. The number of recipients (members of the street population) is actually on the decline (Chand, 2015); NGOs as a whole, however, continue to maintain or even embellish a narrative of great need in order to encourage continuous donor support (Himalayan Times News Service, 2008). Consider, however, that the client and the recipient are totally separate. Clients desire to see “results” as defined by the clients. NGOs produce “results” in recipient areas with the highest perceived return on client resources to strike the equilibrium between donor results and acceptable recipient return. This is like supply and demand. In the street-population sector, is the

client truly in a socially optimal position to judge which alternatives are best for the recipient?

Amartya Sen's capabilities approach is a useful lens to apply here. Street population-sector NGOs generally preach a community-centered approach predicated upon supporting the recipients' *capabilities*, distinct from *functionings*. *Functionings* are doings and beings, things that one does or states of being that one attains; *capabilities* imply the freedom to choose among alternative combinations of functionings (Sen, 1999: 75). For example, a functioning is the satiation of hunger; a capability is the freedom to choose whether or not to eat.<sup>10</sup> The goal of expanding recipient capabilities is to likewise expand reflective choice in human freedoms, giving individuals the ability to pursue and realize goals that they have "reason to value" (Sen, 1999: 18). Expanding (or restoring) the capabilities of recipients in the street population, therefore, involves preparing members of the street population with the capability to transition themselves off the street.

There is, however, a level of normative ambiguity present in Sen's formulation of alternatives that one has a "reason to value." Sen formulates that being free to pursue alternatives "one has reason to value is (1) significant in itself for the person's overall freedom, and (2) important in fostering the person's opportunity to have valuable outcomes" (Sen, 1999: 18). However, what constitutes a "valuable" outcome is a normative judgment, and in this context

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<sup>10</sup> Functionings and capabilities come in degrees. One may simultaneously have a low functioning and high capability, for example, by choosing to fast while being capable of eating.

what the client considers to be a valuable service may be distinct from an equally (if not more) important service to the recipient. Street population-sector NGOs may pursue the goal of expanding capabilities from the client perspective rather than the recipient perspective. I call this the *client-recipient separation problem*—the disparity in between the foreign and domestic understanding of the street population’s appropriate alternatives and outcomes. The client-recipient separation problem inevitably creates friction between the intention and reality of expanding the capabilities of the street population in an optimal manner.

William Easterly’s critique of foreign aid to developing countries is a useful lens for evaluating the client-recipient separation problem. In Easterly’s framework, the principal with respect to street population-sector NGOs is the Government of Nepal; ideally, the NGOs *within the sector* act as the principals to the clients. Thinking back to the qualitative difference between the Government of Nepal and donors, I mean that NGOs must create incentives for donors to give their support. As a result of the client-recipient separation problem and low levels of monitoring NGOs (by the Government of Nepal), I posit that the *clients* overextend their influence upon the *recipients* receiving social welfare services because many street population-sector NGOs in Nepal are donor-dependent. Adapting to survive, these NGOs are likely to have a plan foisted upon them by foreign *clients* (Easterly, 2006: 18). Return to the *principal-agent* relationship between the Government of Nepal and the street population-sector NGOs, now with the client-recipient separation problem in mind. With the added influence of

the *clients*, the NGOs' incentives to behave according to the *principal's* interests decreases, and so the services provided to the street population *recipients* may increasingly emphasize the *clients'* preferences.

Street population-sector NGOs are faced with a “multi-task” *principal-agent* problem. Ideally, a multi-task principal-agent relationship involves an optimal mixture of several behaviors by the agent (or agents) according to the principal's interests. The problem facing street population-sector NGOs is such that they have incentives to emphasize services that can be measured, reported, and communicated to donors, yet at the detriment of services that are just as (if not more) important. For example, a service that is easier to measure is how many meals a street population-sector NGO distributes over a given time frame, while an example of an equally (if not more) important service that is more difficult to measure is to what extent the NGO's respective recipients are prepared to transition into the formal economy. The nature of a multi-task principal-agent relationship is such that there exists an optimal balance of providing the former and the latter types of services. As a function of both the client-recipient separation problem and the lack of government oversight of NGOs, however, street population-sector NGOs have incentives to provide services that can be measured, reported, and communicated more easily to donor clients.

The moral hazard inherent in the multi-task principal-agent relationship between the Government of Nepal and the street population-sector NGOs allows

for the evolution of services towards client preferences. Because NGOs engage in “selecting the most promising projects in order to show results,” members of the street population may adversely select against NGOs providing alternatives that they have a reason to value (Easterly, 2006: 371). Members of the street population may take the assistance of the NGO without gaining any incentive to transition off the street. This is the theoretical basis for the first incentive problem. Next, the multi-task principal-agent relationship is characterized by a lack of oversight by the Government of Nepal. The client-recipient separation (along with the conditionality of donor assistance) prompts the street population-sector NGOs to emphasize client preferences. This is the theoretical basis for the second incentive problem. Finally, the Government of Nepal is absolved of the responsibility to develop social welfare services for members of the street population. This will occur whether or not the performance of street population-sector NGOs is monitored or evaluated. This is the theoretical basis for the third incentive problem. Applying prior economic theory, I will show how these three incentive problems affect the capability of members of the street population to transition off the streets.

### Hypotheses Regarding the Street-Population Sector

Can addressing the street population of Nepal be optimized solely through the provision of social welfare by NGOs? Under the current structure and extent of assistance provided, the optimal incentives are not present. There are a number of issues to tackle, and they include (but are in no way limited to) aid market

saturation, the conditionality of NGO survival (defined later), and the extended implications of the client-recipient separation—the disparity separating the cultural understanding of the street population by those who bankroll NGOs’ social welfare programs from the Nepali people.

The first issue is *aid market saturation*—too many NGOs are chasing too few aid recipients. Resources and services are only as useful as the recipients’ ability to utilize them to obtain a functioning they have a reason to value in the long run. While preferable to starvation or malnutrition, being fed throughout childhood by an NGO doesn’t necessarily teach a young member of the street population the social or vocational skills necessary to feed him or herself and earn a livelihood into adulthood. As the old adage goes, members of the street population living off social welfare never “learn how to fish” (Lama, 2014; Next Generation Nepal, 2014). Further, Nepal’s market for providing aid to members of the street population is saturated and (with respect to the multi-task principal-agent problem) the threshold for receiving basic needs is quite low. First, the sheer volume of NGOs emphasizing (basic needs) services that can be easily measured and communicated to donors affects how members of the street population select which NGOs to associate with. Second, a member of the street population who is turned away by one NGO for appearing too old, too intoxicated, or too otherwise unqualified to be the recipient of services need only walk a short distance to seek out another NGO with different eligibility criteria:

they vote with their feet. This is an adverse selection problem, and it is exacerbated by the lack of coordination among NGOs.

The next issue is the *conditionality of NGO survival*—the means by which street population-sector NGOs keep themselves afloat. At the tenuous moment in history when the Government of Nepal began to allow NGOs to operate en masse (the early 1990s), it lacked the necessary resources and stability to address the challenges facing its growing street population. At the time, the Government of Nepal was arguably both unable address the needs of these citizens without aid and at risk of losing immediate sovereignty; thus, external foreign assistance was instrumental to acquiring the resources to address this specific deficit (and others, too). Without effective regulation, however, NGOs are free to prioritize self-preservation (the survival of donor affiliations and the satisfaction of recipient preferences), not looking far beyond happiness to explore how to expand human freedoms. This affects the assistance provided by street population-sector NGO programs. One can most easily measure and communicate welfare subjectively, and so wellbeing in terms of providing basic needs (rather than developing skills) are the things most communicable to donor clients.

The argument arrives at a third and final issue: the extended implications of the client-recipient separation. Who actually perceives the street population as an “issue”: the *principal*, the *agents*, or the *clients*? Should anyone? If there even is an issue, it is not yet clear whether the Government of Nepal or the street-population sector (or an alternative entity) is best suited to address the “issue.”

Consider that rural-to-urban labor migration in general (as will be explored in greater depth) is an exceedingly common practice in Nepal (Baker, 2005; Baker & Hinton, 2001; Manali, 2014; Nepal & Henning, 2013; Sapkota, 2013). Further, unlike in Western countries, rural-to-urban labor migration at a very young age is socially acceptable (Baker, 2005: 15).<sup>11</sup> What happens when youth rural-to-urban labor migration is interrupted by NGOs attempting to place a migrant youth worker back into school because that's more or less the NGOs' perceived model route to adulthood? Such a situation may suggest that the client-recipient separation has members of the street population dancing to the tune of the donor in exchange for basic needs.

One hypothesis suggested by these structural issues is that NGOs impose a standard of a "proper lifestyle" (or childhood, in the case of street youth) upon members of the street population, disrupt the accepted practice of (youth and adult) labor migration, and posit a socially suboptimal alternative to work once potential members of the street population arrive in urban areas. Another hypothesis is that the street population-sector NGOs actually *do* have a claim to what a "proper lifestyle" (or childhood) is and, as a result, are appropriately positioned foist this claim onto developing nations like Nepal through its vulnerable citizens. A final hypothesis to be explored is that there really is no "problem" at all: NGOs have set up shop to treat the status quo, simply becoming a part of the status quo in Nepal themselves. Following this hypothesis,

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<sup>11</sup> "Young" here refers to pre-adolescence, typically twelve years old and under.

any institutional changes to the system could be more damaging to both the street population and the social service sector in the long-term than keeping things the way they are.

This thesis challenges the notion that members of the street population are at the bottom of Nepal's economic hierarchy (as compared to, for example, typical rural citizens). To the extent that it is possible, this thesis examines the relationships between the three major actors and the three major incentive problems they share. The interdependence between the three actors is taken as strategic. The Government of Nepal is heavily dependent upon street population-sector NGOs to provide the street population with prevention, management, and rehabilitative services, a dependence that I argue has implications extending far beyond the cracked sidewalks of Nepal's cities.

## 2. Cracking the Pavement of Nepal's Streets: The Street Population

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### The Origins of Nepal's Street Population

It was the end of a hot summer in 1994, and young seven-year-old Santosh<sup>12</sup> was at home. Life in a rural village tucked away in the *Terai* (Nepal's southernmost agrarian belt) was simple for Santosh, mostly tending to goats with his mother. Santosh's father died when he was three years old. Santosh often observed men coming in and out of his village from the Kathmandu Valley. They were dressed in nice clothing, talked on shiny cell phones, and rode fast and fancy motorbikes. One day, a 25-year-old *naikke*—an employment broker—visited his village. The *naikke* offered Santosh independence from his family: a job in a carpet factory and a trip to the capital of Nepal. Too poor to attend school and too young to understand the potential implications of his actions, Santosh accepted the offer and migrated to the city.

Santosh struck a deal with his recruiter: after one year of weaving carpets, he would return to his village for Dasain—the largest of the Nepali festivals—with a full year's salary in his pocket to gift to his mother. In the city, Santosh ate well and lived in comfort. Santosh was not the only child in the factory, and had others to socialize with. In weeks he became the factory's most-skilled child, with

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<sup>12</sup> Name altered for confidentiality purposes.

nimble fingers and the playful yet strong work ethic comparable to that of many of the working youth in Nepal.

After a full year of weaving carpets, the boy was eight years old and demanded his salary. In lieu of payment, Santosh was beaten and thrown into the street. Without passage home, Santosh first sought refuge at a nearby grocery store, yet eventually joined other children he saw on the street who collected plastic and glass—which they called *maal*—to be exchanged for money at open junkyards (Fishman, 1997). With two others, Santosh formed a small group for mutual protection. Their “gang” quickly grew to seven members, and their collective life on the street began. Santosh was a “*khate*”—a street boy of Nepal—who found his childhood uprooted from the rural pasture to the sidewalks of Kathmandu. *Who is responsible for Santosh?*

The inquiry as to who claims “responsibility” for Santosh and others like him in Nepal is the subject of this chapter. Santosh is a member of the “street population” in Nepal—a combined category of un-housed street children, housed street children, and entire families living or squatting on the street.<sup>13</sup> The street population is the primary concern of a specialized foreign aid sector that was made official in the early 1990s. Over 25 years, the Government of Nepal’s legislative structure evolved in the wake of a civil insurgency, wavering between democratic and autocratic rule, only drafting its first official democratic

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<sup>13</sup> “Un-housed” is distinct from being “homeless” in the street population. The former is used to describe someone with a home but living on the street, whereas the latter is used to describe someone without a home.

constitution effective September 20<sup>th</sup>, 2015 (Jha, 2015; Mackinlay, 2007; Sharma, 2006). During the same 25-year period, Nepal's urban centers became the home to a street population that, at its peak, easily numbered in the tens of thousands (Ryckmans, 2012).<sup>14</sup> Furthermore, in this time frame the number of NGOs (in general) operating in Nepal grew from a few hundred to over 40,000 NGOs nationwide (Department of Women and Children, 2014: 53).

Santosh's story is representative of many members of the street population: his tale doesn't end on the curbside of the workplace. After surviving on the street for about a year, he was eventually approached by a tourist from Belgium. She felt such compassion for Santosh and his friends that (in lieu of handing out bite-sized donations on the street like other visitors) she raised funds from friends in Belgium and returned to Nepal. She used those funds to found a youth services NGO in Boudha, Kathmandu. Santosh was among the first group of about a dozen boys to ever set foot in one of Kathmandu's private children's homes. Santosh spent the rest of his youth receiving a Western-styled "childhood," free of labor and focused on academics and recreation. Today, he owns multiple small businesses, supports a family of four, and rides an American motorcycle. Santosh's story is, in a sense, uniquely illustrative of how NGOs may provide feasible economic opportunities for members of the street population.

Members of the street population, to the Western gaze, contravene the accepted use of streets: a street is meant to act as a "conduit from one point to

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<sup>14</sup> This estimation includes all five UNICEF subgroups of the street population.

another,” not a residence and certainly not a place for a lone child to attempt to make a livelihood. Members of the street population are therefore viewed by the Western observer as a *public issue, an improper usage of a common pool resource—the public domain—that is effectively a disruption of civil society and thereby a disruption of functional public life* (Todd, 1995: 33). For street youth, the deprivation associated with the street lifestyle contravenes the accepted Western understanding of a “childhood,” a “carefree, protected, and dependent” existence predicated upon mediated and observed processes of socialization that are centered around the natal family rather than independent or estranged from it (Baker & Panter-Brick, 2000: 169) The issue here is that by disrupting civil society, the street population is perceived as a problem of deprivation and “homelessness.”

Members of the street population (children and adults), however, are very much a norm in the developing world; for almost every street population in developing countries, there is a countervailing foreign humanitarian response (Lalor, 1999). Members of the street population are often understood by the domestic population as migrant workers (distinct from homeless victims or disparate delinquents) (Todd, 1995: 28), and their capacity to engage in work is by no means intrinsically linked to age or adulthood like it is in the West (Baker & Hinton, 2001: 190). Developing nations in regions such as South Asia, Latin America, and Sub-Saharan Africa are all home to a street population, and are all equally the targets of humanitarian investment, poverty research projects, and structural aid efforts to provide social welfare services (Todd, 1995: 5). Nepal is

no exception: NGOs are a component of the status quo in Nepal to the extent that the Government of Nepal functions primarily as the coordinator and mobilizer of foreign resources rather than as a designer or implementer of social welfare programs (Roka, 2012: 103).

In 1992, a piece of legislation titled the Social Welfare Act provided the impetus for a self-reinforcing cycle of domestic social service appropriation by NGOs. This motivation guiding the act was as follows:

*“Whereas, it is expedient to the all around development of Nepalese people and Nepalese society, in order to relate social welfare activities and various social welfare oriented activities to tie up with reconstruction activities, in order to provide humanistic livelihood to the weak and helpless individual, class and community and [enable them]; in order to provide status and respect to the welfare oriented institutions and individuals and in order to develop a co-ordination between social welfare oriented institutions and organizations” (Government of Nepal, 1992b: Preamble).*

To accomplish this mission, the Social Welfare Council was established. Of the primary functions of the Social Welfare Council as stated by the Act, paramount was to “make or cause to make contract or agreement with the local, foreign or international organizations and foreign countries” and “to collect grant(s) from the national and international agencies and to manage the received grant(s)” (Government of Nepal, 1992b: 9.j-k) The Act itself is designed to treat precarious social phenomena (the street population as prime example) via non-

government functionaries. At the end of the Social Welfare Act, the Government of Nepal formally delegates the power of implementing social welfare programs to officials of the Social Welfare Council, who are then subsequently given the authority to delegate responsibilities to NGOs (for example, private street population-sector NGOs) (Government of Nepal, 1992b: 17.a-e, 19.1-2).

The level of foreign aid in Nepal raises the question of to what extent the Government of Nepal possesses the capability to deliver its own social welfare services to its street population. Further, it raises the question as to whether the development of domestic social welfare services is or was endogenously feasible (i.e. devoid of foreign assistance). Whether or not NGOs directly foster moral hazard (i.e. a situation where the Government of Nepal may underperform in its social welfare providing-duties with the understanding that foreign assistance will fill in the “gaps”) is yet to be established. One thing, however, is clear: Nepal’s instability and comparative poverty *attract* NGOs to service the needs of the street population (Heaton-Shrestha, 2004). Additionally, it is evident that the Government of Nepal has reserved only some regulatory authority for itself via the Social Welfare Council.

The remainder of this chapter employs an interdisciplinary perspective in exploring the street population, the support they receive, and what the direct costs and benefits of this support are for life in Nepal. Using the principal-agent model to represent strategic incentive structures between the three actors—the Government of Nepal, street population-sector NGOs, and the members of the

street population—I pose an inquiry as to whether or not NGOs in the street-population sector provide a less onerous quality of life to members of the street population (with respect to the “standard” Nepali quality of life) and, if so, as to whether or not this adversely impacts the street population. To do so, a comprehensive definition for “street population” is offered utilizing the UNICEF guidelines and then compared with domestic norms. With these norms in mind, I propose a way of thinking about an “optimal” provision of services in which NGOs and members of the street population both function in a way that maximizes the net benefits to the street population and minimizes the inefficient usage of donor resources.

### Situating the “Street Population” in Economic Activity

“Street population” is an inherently ambiguous term. Its definition is fluid when viewed through a historical lens, as the itinerant nature of its members—citizens who lack both a stable home and a formal economic position—must be taken into account. Among the Nepali population of children and adults economically engaging with the street, the lack of homogeneity among UNICEF subgroups makes any blanket definition dubious. Furthermore, definitions have evolved over time. Take, for example, the label “*khate*.” In 1990, *khate* was a standard term used to describe an individual (child or adult) who engaged in the economic practice of “rag-picking”—the collection of *maal*—as a primary source of income (Nielsen, Rosenberg, & Brinck, 1997); today, *khate* is considered by street youth and working children to be a pejorative term and an affront to their

collective identity. Just as *khate* evolved from an insider's collective descriptor to a pointed and derogatory term, the phrase "street population" has evolved throughout recent history to account for new and emerging subgroups. A discussion of Nepal's "street population" between 1990 and 2015 requires accounting for both the historical and terminological foundations upon which the blanket term "street population" is formed. The present discussion of Nepal's "street population" employs UNICEF subgroup definitions, contextualizes the dynamic nature of the term *khate*, and further explores the nature of work in Nepal to advance a capabilities assessment of street population-sector social welfare services.

By dividing the street population into UNICEF subgroups, the logic motivating the diversity of street population-sector services will become clear; blanket definitions, by contrast, often misrepresent the street population. The term *khate*, for example, raises a puzzling identity crisis for the street population of Nepal. *Khate* is a blanket term with multiple meanings that lack trans-generational continuity (often employed by street population-sector NGOs in incongruous ways) making it an excellent example of why the aforementioned taxonomy of the street population is important. In the 1990s, *khate* was an insider term that members of the street population might have used to refer to one another (Baker, 2000; Nielsen et al., 1997). Further, the 1990s definition of *khate* was not a term reserved exclusively for street *children*, but more closely a job description within the street population: anyone who scavenged *maal* as his or her

primary source of income was a *khate*. In fact, in the 1990s the Child Workers in Nepal (at the time an unregistered NGO) published a survey that listed working as a *khate* as the one of the primary indicators that a boy in any of the five UNICEF subcategories was severely “at risk” towards becoming a “street child” (Child Workers in Nepal, 1990). The 1990s definition of *khate* is therefore more closely economic than social, bearing a relatively low degree of stigma from its limited insider usage and only superficially addressed by NGOs.

*Khate* is, however, an essential component to understanding the economic motivations underpinning the street life. Today, *khate* may be understood best as an “undifferentiated category for all street children” used primarily since the turn of the millennium by NGOs and the general public either to situate the economic activity of rag-picking or to publicize the derogation attached to the term (Onta, 2000: 154). Generationally contested in meaning, usage by advocacy organizations and the general public have transformed *khate* into a collective pejorative<sup>15</sup>: many members of the street population today abhor the term, feeling that it is inappropriate and stigmatizes their way of life. In 1996, 50.5% of street children surveyed reported that their primary economic activity on the street was rag-picking (Child Welfare Society, 1996: 90); in 2012, 53% of street children

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<sup>15</sup> The pejorative labeling of street youth is common. In Honduras, for example, “the collective label for street children—*resistoleros*—is the name of a brand of glue sniffed by some children...which labels all children as glue sniffers and drug addicts”; children in “Mexico City, seropositive for the human immunodeficiency virus (HIV), are referred to as *sidosos* (literally those with AIDS)” (Todd, 1995: 28).

reported that their primary economic activity on the street was rag-picking (Ryckmans, 2012: 73). Relatively consistent levels of rag-picking are interesting when placed in context of the evolving definition of the *khate* label, suggesting that there has not been considerable change in the street populations' *level* of rag-picking, yet NGO usage suggests that there has been a shift in the public *perception* of rag-picking. *Khate* is an example of an ambiguous blanket term woven into NGO narratives that once was (perhaps innocently) used to describe rag-pickers of all ages, yet today functions as a derogatory term at the focal point of the contested collective identity of the street youth. In essence, *khate* stigmatizes economic involvement with the street.

Economic involvement with the street, via *khate*-work or otherwise, primarily defines the street population. Their "level" of involvement with the streets is far more difficult to deconstruct than simply their existence upon the streets. This is particularly true for street youth: being a "working child" is often conflated with being a "child laborer," two categories that I will suggest are distinct. Further, I posit that the mere fact of being on the street doesn't imply a "need" for social welfare services.

In Nepal, *casual* children's work is often described as "a socialization process that helps to convert children into capable cultural beings," typically dictated by the child's age or capacity and involving tasks such as gathering firewood, assisting with agriculture, and washing clothes (Onta, 2000: 206). A "working child" is a minor still possibly dependent on the natal family and yet

also working for a living; for street youth, this work takes the form of being a bus conductor, a dishwasher, or teashop helper. As compared to child labor (defined next), this type of work is *not* physically (or otherwise) injurious to the child, and though it may significantly detract from his or her life prospects in terms of accruing human capital (i.e. institutionalized socialization and/or education), more closely reflects the normal “social patterns of work responsibilities” in Nepal and actually renders the additional factor of “homelessness” as wholly unexceptional (Baker & Panter-Brick, 2000: 164).<sup>16</sup> For children in great poverty, a solitary relocation “to [an] urban environment is positive because it opens opportunities for informal apprenticeship and employment in sectors unavailable in rural areas” (Baker & Hinton, 2001: 183). Street children in a working environment are, therefore, an unexceptional phenomenon in Nepal.

Child *labor*, on the other hand, is a legal concept that “refers to the subset of children’s work that is injurious, [contextually] negative or undesirable to children and that should be targeted for elimination”; in Nepal, cases of child labor among street children are often the outcome of dishonesty, brokering, or force.<sup>17</sup> The South Asian region itself is host to the greatest child laborer

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<sup>16</sup> Baker here does not advance that homelessness becomes a non-issue if one is employed; rather, she offers that the prevalence of homelessness in Nepal (and perhaps other developing countries, as well) makes *being* homeless a component of the status quo for observers in Nepal.

<sup>17</sup> Like in the story of Santosh, job recruitment to urban spheres and particularly carpet factories in the early 1990s was done openly and through a broker (Baker 1998: 97). The broker system, known as *naaike*, involved a *naaike* or *Thekdaar* becoming employed by a business (e.g. a carpet factory) as a contracted recruiter; next, the recruiter would travel from village to village to broker deals with

population in the world (measured by absolute number), and thus working children and child laborers are often inappropriately classified together (Lyon, 2015: 3). In discussing the economic nature of Nepal's street youth, the most important distinction which eludes the work versus labor narrative is *volition*: if an individual street youth chooses his or her work and workplace and that work and workplace are not injurious, negative, or undesirable (physically or culturally) to any youth in the domestic context, then he or she is by no means a child laborer in any eyes other than those of foreign observers. Therefore, children's work is acceptable in the domestic Nepali context, while child labor is not.

As a result of shifting work patterns, between 1990 and 2015 the subgroupings of the "street population" became increasingly inclusive. This expansion was reflected by street population-sector NGOs specializing their services into needs-based, group-targeted, yet also diverse programming with the varied street population subcategories in mind. The fact is that while the UNICEF guidelines appear to be the most useful basis for distinguishing among different "types" of street children, consider they are on terms that code acceptable practices in the Nepali cultural context with avenues towards meeting

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families to send men, women, and children alike to the cities to earn money in the factory. It was not uncommon for a portion (or all) of the wages to be promised to the family who remained in the rural area, not the individual who migrated and/or worked. In 1992, CWIN conducted a survey of 365 carpet factories in the Kathmandu Valley and estimated in their conclusion that over 150,000 of the workers in the surveyed factories were under 16 years of age (Onta-Bhatta, 2000).

Western expectations.<sup>18</sup> For example, children *on* the street may be prescribed a treatment plan of supporting the natal family, while children *of* the street (particularly older children, 14-16 years old) may be offered vocational training.

In defining the street population, economic activity is the basis of the five UNICEF subgroups. “Work” and “labor” are distinct in Nepal on the basis of volition and the cultural context and/or nature of the work: not all street youth engage in work, not all working children are forced into their situations, and not all child laborers live without a home. The term “street population” is therefore a less ambiguous blanket term tossed over all five applicable UNICEF subgroups to identify citizens who actively engage with the street. With varying levels of economic involvement, therefore, whether or not they physically engage with the street full- or part-time I argue is an unexceptional component of their macro-categorization, yet will soon inform how they interact with street population-sector NGOs.

### Defining the Optimal Policy With Respect to the Street Population

Before delving into the specifics, strengths, and shortcomings of Nepal’s street population-sector NGOs, first it is necessary to couple the definition of the street population with a way of thinking about the optimal provision of services by the street-population sector. Barring incentive problems such as those relating

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<sup>18</sup> Though the term *khate* still appears in NGO donor narratives as an indicator of victimization, despite being severely outdated and misleading; from the perspective of the street population, however, the term is obsolete unless to indicate a lack of trans-generational continuity in the understanding of its meaning.

to the client-recipient separation, one can say that an “optimal” outcome exists in which both NGOs and members of the street population function in a way that balances assistance from NGOs with incentives to transition off the street. With consideration given to the limits of a developing country, this proposed optimal provision of services will later be tested against the actual performance of street population-sector NGOs in Nepal.

The optimal provision of services is as follows: without overextending or overproviding, the street-population sector ought to ensure that the members of the street population are not deprived of their basic needs, exist under appropriate conditions to work, and have acceptable preparation to access the labor market via facilitated sociability.<sup>19</sup> It may be infeasible to achieve all of these goals simultaneously, yet achieving any of one these goals represents a second-best solution to problem at hand. Youth or adult, members of the street population ought to be provided the wherewithal to pursue appropriate work post-rural-to-urban migration without bearing the risks associated with street-level unemployment (rather than the ingredients of dependency). They stand to gain “instrumental freedoms” that, in context, they actually have a “reason to value” (Sen, 1999: 10). Therefore, an optimal provision of services is guided by the rationale that the street population must not be excessively vulnerable (to starvation, crime, or undue hardship), has a stake in formal employment, and is

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<sup>19</sup> The second two characteristics of this formulation of the optimum (appropriate conditions to work and the facilitation of sociability) are motivated by the need to prepare members of the street population to transition off the streets both in terms of economic/vocational skills as well as social competence.

lifted above any social factors that threaten to hamper their transition off the streets.

Optimally, the street population is able take advantage of the assistance provided to them by street population-sector NGOs to the extent that their needs are unmet. These include (but are not limited to) classic social welfare services: access to a healthy diet, potable water, acceptable living conditions, and the availability of sufficient medical care. The benefit of achieving this optimal provision of services is that the street population ought to be able to fall back upon NGOs when whatever portion of their income to self-provide basic needs is less secure; for example, both Nepal's monsoon season and tourist offseason have a direct and negative impact upon the street population's ability to satisfy its basic needs, and so those who dwell upon the streets during this time are at a structural disadvantage (Baker et al., 1997: 140). The quality of these NGO services, however, ought not necessarily exceed that which is accessible to the average Nepali citizen, as such creates an incentive problem for the street population.

A "healthy diet and education," for instance, "are means to improving quality of life"; emphasis on easily measurable results by the provision of these services, however, obstructs members of the street population (or frankly any population) from realizing self- "competence within their own spheres of interaction" (Baker, 2005: 11). With respect to the adverse selection caused by the multi-task principal-agent problem, a proper density and diversity of street population-sector NGOs is ideal. Optimally, the onus is placed upon street

population-sector NGOs to distribute their resources efficiently (avoiding over-emphasizing basic needs). This is notably a challenge to measure, as NGOs risk being adversely selected against by risk-prone members of the street population regardless. The optimal outcome in terms of basic needs is that the members of the street population are provided with social welfare only to the extent that they require the provisioned services and cannot access them on their own on a sustainable basis. Once individuals are capable of organizing or acquiring their own basic needs, the street population-sector NGOs must cease to provide them with such assistance.

Optimally, members of the street population ought to be able to utilize street population-sector NGOs as facilitators of formal employment and social integration. These opportunities aim towards permanently transitioning them off of the sidewalks, away from the slums, and out of NGO facilities. Since the mid-1990s, reports of street employment show that the majority of street youth are informally “self-employed,” the majority as rag-pickers (Child Welfare Society, 1996: 91). The context of informal employment, however, introduces members of the street population to socially unacceptable behaviors, such as drug usage and gang formation. Optimally, the incentives to utilize the opportunities provided by NGOs must be greater than those associated with, for example, rag-picking for long hours while intoxicated on the fumes of dendrite glue. In the public eye, their treatment ought to be as rural-to-urban migrants fallen on difficult times rather than the helpless victims of a so-called poverty trap.

There are a few ways that street population-sector NGOs might accomplish this. First, facilitated wages and job placement must be competitive. If a street boy can make more money per hour by begging at a busy traffic intersection as compared to a steady job or apprenticeship, he has little reason to choose the latter option. Second (and closely related), NGOs may prioritize awareness campaigns discouraging tourists from giving bite-sized donations on the side of the road to members of the street population; assuming the Government of Nepal remains inactive in the street-population sector (the policy details of which will be outlined in Chapter 5), tourists and locals ought to direct members of the street population to the nearest NGO where their basic needs will be met by social workers trained to interact with members of the street population. Finally, NGOs' "rehabilitative" models for street youth must be premised upon the idea that work is not inherently "harmful to children's physical, emotional, and mental health. Rehabilitation [models that assume] the children will be better off in the safe and structured environment of a hostel and their natal homes rather than in the work setting" ignore the consideration that street youth in developing nations are more likely to be economically successful outside of their natal homes (Baker & Hinton, 2001: 184). Field research, interviews, and longitudinal study have revealed a majority of the street population expresses serious interest in having a formal career (Bray, 2015; Ryckmans, 2012). The optimal employment outcome, thus, is one in which

NGOs are able to facilitate both educational and vocational training opportunities to transition members of the street population off of the streets.

Last but certainly not least is the facilitation of *social* competence for the street population. The issue here is twofold. On one hand, members of the street population quickly become accustomed to the stigma associated with street life and learn to dissociate themselves from norms of everyday life in Nepal. On the other hand, members of the street population who spend the bulk of their lives roaming from one NGO drop-in center to the next never become socialized into adulthood through work (as others do) (Baker, 1998: 98). The street population is, in a word, rejected by Nepali society because they are unsociable, and unsociable because Nepali society rejects them (Ryckmans, 2012: 28). Ostracized from Nepali society, “they wear dirty clothes, use bad language and deny most social norms ... they are considered social parasites, young criminals, and drug addicts.” (Child Protection Centers and Services, 2014: 11) By facilitating social competence, NGOs effectively accept that “competence” for a street child involves coping with hardships like hunger, sickness, cold weather, and being beaten by local people or the police (Baker, 2005: 10). Optimally, the street population will take advantage of the services and protection afforded by NGOs to understand social competence not as coping *hardship*, but as participation in *hard work* and the re-assimilation to norms within Nepali society (e.g. wearing clean clothing, using proper language, not using drugs in public or otherwise).

Under the optimal provision of services, members of the street population are afforded the wherewithal to get themselves out of the informal sector of the economy and into the formal sector via the provision of basic needs, the facilitation of employment, and the reinforcement of mainstream Nepali social competence. If NGOs services are used appropriately, the street population will be provided the necessary tools to avoid deprivation in both the short and long run. Optimally, they will work as the sub-agents to organizations themselves, breaking the self-reinforcing cycles of unsociability and stigma. The optimal provision of services is like optimal insurance without moral hazard: members of the street population bear none of the risk of the insurance itself if they use it appropriately.

This optimal provision of services is unfortunately far from how the street-population sector functions in real life. There exist many areas where inefficiency (with respect to resource distribution), lack of oversight, and unequal information hinder the ability for NGO resources to be allocated efficiently to members of the street population. Nevertheless, this optimal provision of services is not presented in vain. It is detailed in an effort to comparatively preface the way that street population-sector NGOs and the recipients of their services might maximize the effective usage of resources provided by the donor clients. The next chapter outlines the structure of NGO services and, as a function of incentives, the factors that hamper progress towards the optimal provision of services.

### 3. Street-Population Sector Performance Evaluation

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How does the actual performance of street population-sector NGOs compare to the stipulated optimal provision of services for the street population? The absence of “the [Government of Nepal] in various sectors of the economy [resulted] in the birth of NGOs. These NGOs undertake the primary responsibilities of the society which could not be performed by the government,” and fill “gaps” in service provision (Mezzabotta, 2016: 11). While their goals are similar, street population-sector NGOs are neither uniform nor streamlined; in fact, they range in size from small groups of local-level people to bureaucracies employing thousands internationally (Roka, 2012: 7). Further, as there exist multiple subgroups within the street population, there exist multiple subtypes of NGO services provided to the street population. The street-population sector is a combination of overlapping residential and non-residential facilities that broadly service street population prevention, management, and rehabilitation.

Despite their established place in Nepal, NGOs (in general) achieve an inefficient return on their inputs (Roka, 2012). A major criticism of NGOs (both within the street-population sector and in general) in evaluating the effectiveness of their services is that organizations navigate the client-recipient separation by giving first priority to the “standards” of the client. With this in mind, questioning the validity and relevance of street population-sector activities is the first step towards critically analyzing their impact upon the street population and,

further, the degree to which their services attempt to alter the dynamic of economic life in Nepal.

NGO programs are designed to fill perceived gaps in members of the street populations' lives relative to the given capability "standard." They do this by providing a combination of basic needs and skills-based opportunities. With respect to the client-recipient separation problem, however, street population-sector NGOs emphasize services that progressively impose a Western standard of youth and livelihood. Thinking back to the normativity inherent in Sen's capabilities approach, organizations implicitly *dictate* that the street population engages in specific alternatives that its members have a "reason to value." Without intervention, it is presumed that the street population will be forced to endure "unacceptable" working conditions, poor nutritional status, and a socioeconomically stigmatized existence upon the sidewalks of Nepal. Consider, however, the domestic perspective of a developing country: to label the street life a deprivation of "rights" and formal livelihood categorically ignores basic facts about economic standards in Nepal.

In this chapter, I challenge the validity of NGO intervention and, therefore, acknowledge the existence of the street population (even the youth street population) as a legitimate economic situation under the standard conditions of a developing country rather than an exceptional issue of "homelessness." The following sections trace how NGOs historically arrived in Nepal and currently operate for Nepal's street population. First, a brief account of

the birth street population-sector NGOs provides a foundation for evaluation. Second, an examination of the services that are provided by the street-population sector contextualizes the extent of such assistance (and the Government of Nepal's coinciding, limited implementation role). Third, I return to the client-recipient separation problem, delving deeper into street livelihoods and youth internal migration in Nepal; this information is used to premise my evaluation of the street population-sector NGOs. Finally, the performance street population-sector NGOs is evaluated with respect to the defined optimal provision of services.

Via an overview of the social welfare services that street population-sector NGOs provide, this chapter surveys the practices of street population-sector NGOs and the challenges that these organizations face. Making comparison to the optimal provision of services, the present inquiry confronts the view that members of the street population necessarily require additional support. The decision to leave the natal home (even at a young age) is a component of the economic reproduction of the natal home, and thus I argue the intervention of street population-sector NGOs to be potentially extraneous.

### The Origins of the Street-Population Sector

In 1948, the first NGO was established in Nepal under the direct supervision of the Shah monarchy; NGOs did not become a widespread “phenomenon” until the 1990s (Roka, 2012: 82). In 1990, the People's Movement—a democratic social protest of inadequate public participation in

governance—erupted, appeasing urban Nepali activists and heralding the return of democratic governance to Nepal. The success of the People’s Movement preceded the establishment of the Social Welfare Council (1992), creating an avenue for a swift explosion in the number of NGOs in Nepal.

NGOs (in general) provided services, a prelude to the institutionalization of external influence; much like firms in a market, organizations specialized to provide services to various areas of need (in market terms, these might be viewed as areas of high “aid demand”) (Rappleye, 2011: 36). Specialization inadvertently dug a permanent place for these NGOs in Nepal’s economic status quo, obviating the Government of Nepal’s responsibility to act in kind. In brief, the aid flows that began in the early 1990s mushroomed into a voluminous and powerful institutional funnel for donor resources.

Between 1990 and 2015, the sheer volume of NGOs increased dramatically. In 1990, 249 registered NGOs existed in Nepal (Roka, 2012: 82). By 2000, the number had exploded to 11,036, and then more than doubled by 2009 to reach 27,797. This number, however, only represents the registered organizations (Heaton-Shrestha, 2004: 5). In 2011, former Deputy Director of the Social Welfare Council Uma Paudyal estimated the number of registered NGOs to have grown to 34,000, noting that the actual number was probably closer to 50,000; in other words, thousands of organizations operate without the approval or oversight of the Government of Nepal, and the government is aware of this oversight (My Republica News Service, 2011). Reports from 2014, the most

recent for which comprehensive information is available, project the total number of registered NGOs to be 39,759 (Department of Women and Children, 2014: 53). On the sector level, as early as 1998 the Nepal South Asia center reported that the combined categories of NGOs providing child and youth services was only outnumbered by the blanket category of “Community Development,” of which numerous NGOs conducted child and youth services as a component of their development projects (Nepal South Asia Center, 1998: 140).<sup>20</sup> Follow up research suggests that the distinctive focus on children and youth within Community Development projects was the result of a service vacuum prior to NGO intervention (Rana, 2012: 88).

The street-population sector was born out of this service vacuum. The subsequent expansion of NGOs in Nepal between 1990 and 2015 was the result of a mounting shift in international focus onto Nepal’s lack of basic social welfare services.<sup>21</sup> The street-population sector was not born without some oversight. NGOs operating in Nepal (in general) have come under criticism by citizens for not only taking charge of social welfare services, but also for “taking advantage of [powerless communities] to implement their programs” (Roka, 2012: 10). From the Government perspective, allowing NGOs to take charge of feeding street

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<sup>20</sup> Refer to “NGOs in Nepal (by Service Category)” table in Chapter 1.

<sup>21</sup>The rapid densification of the general NGO sphere is also heavily urban-biased, and has profound political implications for the Government of Nepal’s relationship to non-urban populations (Rappleeye, 2011: 30). The growth of street-population sector in cities, therefore, had a notable effect on the Government’s response (or lack thereof) to the street population relative to other social phenomena.

dwelling children and adults stands to improve the members of the street populations' quality of life without incurring domestic costs. Filling out all aspects of a youth service gap in Nepal, street population-sector NGOs responded to increased autonomy by specializing; within the sector, NGOs "divided and conquered" much like competitive firms with varied target markets.

Note again that NGOs (in general) are concentrated in urban areas and deliver (sometimes competitively) services of a higher-than-average quality to Nepal's street population (Baker & Panter-Brick, 2000: 169). The urban density of NGOs (in general) is important, though is hardly a useful characteristic of street population-sector NGOs that are inherently urban due to the economic locale of their service recipients.<sup>22</sup> Nevertheless, street population-sector NGOs often can and do extend their influence beyond the urban sphere in providing prevention services to rural communities (Mezzabotta, 2016: 16).

The vast majority of reputable, effective, and long-standing street population-sector NGOs (about two dozen) formed in response to a swelling street population during the Maoist Insurgency<sup>23</sup> period—the mid-1990s and

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<sup>22</sup> High NGO urban density is also perhaps a remnant of the urban entrenchment strategy of the final monarchs, though such a claim is more difficult to entertain empirically.

<sup>23</sup> An unintended consequence of the People's Movement was a fervor for political participation, allowing for a party of Maoists to form a strong rural political base of support and enact a civil insurgency (Wagle, 2007: 318). They gained political recognition after the People's Movement by registering as a formal political party (Communist Party of Nepal-Maoist), contending that only a "revolutionary armed struggle could create the basis to overthrow and replace corrupt and inadequate ruling classes [in Nepal] with a democratic republic representing the poor." (Shakya, 2006: 5.1) The Maoists initially established

early 2000s. To call the upsurge in the street population during this time a direct result of the Maoist Insurgency, however, is overly simplistic; a look at when and why street population-sector NGOs were founded suggests an explanation for the present the level of street population-sector intervention. Child Workers in Nepal, for example, became an officially registered NGO in 1992 as well as the NGO CONCERN in 1993 (pre-conflict), yet the bulk of major organizations such as Child Welfare Scheme Nepal (est. 1997), Voice of Children (est. 2000), Association for the Protection of Children-Nepal (est. 2001), and Child Protection Centers and Services (est. 2002) all became the prominent players in the street population management sector (as measured by the organizations' diversity of centers/services, number of aid recipients, and influence within the sector) during the Maoist Insurgency.<sup>24</sup> Only recently have NGOs begun to shift their focus from street population management, an important function as the street population swelled in the early 2000s, to prevention and rehabilitation services (Ryckmans, 2012). Major players continue to operate through 2015, and their foci have evolved and adapted to strike an equilibrium with respect to the client-recipient separation.

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themselves in Mid-Western Nepal, particularly in the rural districts of Rolpa, Rukum, Salyan, and Jakarkot. From these districts the Maoists spread their radical left-wing movement into the mid-1990s, mobilizing disadvantaged rural youths and provoking a nationwide civil war in 1996 (Sharma & Bhattarai, 2013: 902). The incited civil war ended a decade later in 2006.

<sup>24</sup> An important exception to note is that Save the Children has been working in Nepal since 1976, only beginning to work with actual children in 1982 as a sponsorship program.

Despite development specializations like the street-population sector, “NGOs [in general] are increasingly regarded by the funding agencies as vehicles for service delivery rather than development advocacy” (Nepal South Asia Center, 1998: 142). The street population-sector NGOs have not only successfully established themselves, but have also specialized their services. One way to view this is as a feedback loop: the more resource-constrained the state government, the greater the desire for a professional NGO ethos to “pick up the pieces.” The more professional the ethos, the more high-quality services NGOs can (and will) provide. Fostering community participation then rides secondary to *delivering* community services (and showing results), and thus the more resource-constrained the government the greater the space available for NGO influence to permeate.

The street-population sector is a microcosm of a larger foreign aid issue in Nepal. NGOs potentially provide the impetus for development beyond that provided by markets and domestic governments alone (Roka, 2012: 17). One hypothesis suggested by this discussion is that street population-sector NGOs’ development goals are more closely related to donor expectations rather than local realities (the second incentive problem). Another hypothesis suggested by this discussion is that NGOs absolve the Government of Nepal from its responsibility to develop social service sectors (the third incentive problem). By exploring the different subtypes of street population-sector services, I will show that the disconnection between service provision and domestic expectations

creates an imbalance between assistance and incentives by the street population-sector (reinforcing the first incentive problem) as a function of both of the above hypotheses.

### Street Population-Sector Services (and Government Services)

Street population-sector NGOs are highly specialized and, as will become evident, have evolved to meet the changing needs of a changing target group. Providing alternatives to the streets, the provision of social welfare services is the foundation upon which NGOs seek to improve the condition of and prevent the expansion of the current street population. Social welfare for the street population within the sector involves both residential and non-residential facilities. Street population-sector services fall into three specialized categories: prevention, management, and rehabilitation. Comparative attention must also be given to the Government of Nepal's street population response, though it is remarkably more limited than that of NGOs and is primarily correctional. How these services function together, therefore, is a critical component to evaluating the street population-sector's performance.

Street population-sector NGO residential facilities may broadly be binned into three categories: drop-in centers, children's homes, and transit homes.

*Drop-in centers* came into existence in the earliest phases of street population management; they typically feature an "open-door" policy, a drug-free environment, and various recreational activities (e.g. sports, crafts, and movies). From the NGO perspective, the aim of a drop-in center is to give

members of the street population a low-pressure area off the streets in which they may socialize, eat, and (usually) have a secure place to sleep.<sup>25</sup> One of the challenges inherent to the drop-in center is the lack of commitment necessary to “drop in.” On the one hand, drop-in centers function as a vehicle for street population management and an important, low-pressure stepping-stone towards self-initiated rehabilitation; on the other hand, the open-door policies of drop-in centers do not provide incentives for recipients of “drop-in” social welfare to ever follow up on a long-term path towards rehabilitation.

*Children’s homes* are a second type of residential facility that also gained popularity at the inception of NGOs in Nepal, focusing on long-term rehabilitation. From the NGO perspective, children’s homes are organizations that select children in difficult socioeconomic situations (i.e. from any of the five UNICEF subgroups or actual orphans) to live in a residential facility offering food, educational services, and a “family”-like environment. Children’s homes often allow donors to sponsor individual children (on a monthly or annual basis) and track their progress as they attend school or vocational training. One of the greatest challenges to those operating children’s homes is, again, commitment: children’s homes necessitate all the commitment from recipients that drop-in centers do not. Because entering a children’s home is a binding commitment in exchange for services, success in fostering such commitment is challenging; in

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<sup>25</sup> It is for this reason that some drop-in centers are now referred to as “socialization centers.” They are here categorized as residential, though for some may only really be semi-residential.

addition, it comes with criticism of the NGO institutionalizing vulnerable members of the street population—imposing Western standards via residential care.

Finally, *transit homes* are a more recent addition to the street-population sector, and represent a hybrid between drop-in centers and children’s homes. The transit home has components of prevention, street population management, and rehabilitation services. From the NGO perspective, transit homes, as their name suggests, are short-term transitional living spaces for street youth with low levels of street exposure (i.e. they have been on the streets for a very short time) and reasonably stable families. Transit homes often provide all the amenities of a children’s home, but maintain a defined goal of reintegration with the family (or, depending on the recipient’s age, direct transition to employment). One of the great strengths of transit homes is that they often support their recipients after reintegration; in fact, organizations like Just-One (Kathmandu) support the entire family of the aid recipient to prevent street recidivism.<sup>26</sup> One of the weaknesses of the transit home model is that recipients must have somewhere to be in “transit to” after their time at the center, and so these facilities are selective about their recipients. Transit homes are arguably the most versatile and “in touch” of the residential services, yet often also the most selective about recipients.

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<sup>26</sup> Services with the goal of reintegration often also support the family during and after reintegration. For example, Just One, a transit home NGO located in Thamel (Kathmandu), ensures that not only the reintegrated street child has his or her school fees covered by the organization, but also those of his or her siblings.

Some street population-sector NGO facilities do not have a residential component (though note that non-residential services are often provided at residential service centers as well), taking place at an NGO center yet not requiring any commitment. Health services, for example, are a very common non-residential service (Mezzabotta, 2016: 15). Public health care is characterized in urban Nepal by regional disparity and private health care is characterized by prohibitively high pricing. NGOs providing mobile health programs and free clinical check-ups are the only way that members of the street population may access health services, as vulnerable rural families and their children fall outside of the scope of affordable care. Next is “non-formal” education, where street youth and adults are able to gain some form of education within the centers at a level that is ability-appropriate (rather than age-appropriate).<sup>27</sup> Non-formal education can also cross over with vocational training; considering that most rural-to-urban street migration is economically motivated, learning how to earn a living is a highly attractive incentive to transition away from the street life. Finally, and perhaps most important to note, is that street population-sector NGOs provide food. Almost every street population-sector NGO offers meals to the street population multiple times a day at the center, while almost none offer food directly on the street (Mezzabotta, 2016: 14). Offering food at the center is a primary method of attracting aid recipients, while simultaneously discouraging

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<sup>27</sup> Some centers, such as CPCS, even have an internal currency (i.e. the CPCS E-ticket) built into their non-formal education program in which street children gain currency by going to class and may spend their currency on goods such as backpacks, t-shirts, and sandals.

the alternative of acquiring food on the streets. Non-residential social welfare services come with their own challenge: they are *not* commitment-oriented, and thus present issues for NGOs in fostering consistent development and showing consistent results.

Both residential and non-residential social welfare services provided by the street population-sector NGOs lie in sharp contrast to the efforts (with respect to the street population) by the Government of Nepal, which are mostly correctional in nature (and thus categorically distinct from NGO services). In 2015, the spokesperson of the Central Child Welfare Board, Ram Bahadur Chand, reported that its main function was to “mobilize” and “coordinate” the resources from NGOs across all 75 of Nepal’s districts (Chand, 2015). In terms of Government facilities, since the mid-1990s the Central Child Welfare Board has operated four Child Welfare Homes (provisioned by the Children’s Act of 1992) with a total capacity of 108 children.<sup>28</sup> The Child Welfare Homes more closely resemble juvenile correction facilities rather than socially integrative environments. By comparison, Chand reports that the (private) street-population sector is saturated with, for example, nearly 600 NGO children’s homes and a reported total capacity of well over 1,700 children (Chand, 2015). Due to limited capacity and resources, the Government of Nepal itself views the *federal* institutionalization of children as a last resort. The Government analogs to the street population-sector NGOs are, by comparison, highly limited.

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<sup>28</sup> Chand noted that there are plans under way to build additional Child Welfare Homes.

On the whole, street population-sector NGO services are designed to provide alternatives to the street and preparation to join the formal economy, ideally balancing assistance with incentives. Though juvenile correction or detention remains a Government responsibility, the specialization of services by NGOs has complemented the Government of Nepal's role in addressing the street population's basic needs.<sup>29</sup> The street population-sector NGOs provide a multitude of services for the street population with both strengths and weaknesses, the greatest of which is the challenge of commitment to long-term involvement with an NGO. Because commitment is a universal challenge, this suggests that street population-sector NGOs prompt the first incentive problem in emphasizing client preferences in the provision of social welfare services.

### The Client-Recipient Separation: Reconciling Childhood

The second incentive problem that street population-sector NGOs navigate in optimizing their impact is the issue I have termed the *client-recipient separation* problem. So far I have touched upon the client perspective; now, I explore the recipient perspective. Expectations of employment and migration for members of the street population in Nepal lie in sharp contrast to the “Western” model of employment and migration. The demand for affordable labor in Nepal's expanding economy is often met by the economic involvement of street youth (and adults) in both formal and informal employment. “Self-employed” street

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<sup>29</sup> Note that multiple NGOs offer legal services that work directly against the Government of Nepal's juvenile correction and detention services.

livelihoods are, in fact, well within the scope of established cultural norms of labor migration in Nepal; in the sense of feasible economic alternatives, street population-sector NGOs perhaps interfere with local realities of Nepali economic expectations and agency. In an effort to provide members of Nepal's street population with alternatives, street population-sector NGOs (promoting notions such as "child's rights") additionally supply members of the street population with an alternative to seeking employment in the first place. The client-recipient separation may, intentionally or otherwise, inculcate a model of life that is distinctly foreign, inorganic, and unsustainable (and thus a model that members of the street population do not have a "reason to value"). The central incentive issue here is that the street-population sector is providing services beyond the Nepali "standard." The street population-sector NGOs cater to the ideals of the clients, not local recipients. By doing so, the client-recipient separation becomes the heart of adverse selection in the street-population sector.

The street-population sector applies a universalizing Western notion of childhood to NGO youth services. Children in more developed countries (i.e. the "West") have some degree of economic usefulness (provided that they are above a certain age) and spend their childhood years acquiring human capital; children in Nepal (and other developing countries), on the other hand, are seen as economically useful individuals at a young age (Brazier, 1997: 8). In Nepal, it is neither unusual nor disapproved of for boys around the age of 10 years old to participate in rural-to-urban labor migration or economic activity independent of

the natal family (Baker, 2005: 14). Though Nepali children are treated as somewhat vulnerable, they are largely less differentiated from adults in Nepal and take on many different responsibilities both around and outside of the home (Onta, 2000).<sup>30</sup> Comparatively, Nepali *boys* enjoy far greater levels of “autonomy and mobility than is found in the protected and structured Western model of childhood”; further, the presence of boys on the street must be placed in the context of “long-standing practices of migration for work, recent improvements in transport and communication, and an increase in earning opportunities (and corresponding expectations) in urban areas” (Baker & Panter-Brick, 2000: 166).

Consider the fact that the majority of rural citizens in Nepal live in conditions of extreme poverty and that youth enjoy exceptional autonomy: the economic *advantages* of rural-to-urban street migration lie in sharp contrast to the donor-oriented narrative of vulnerable, “abandoned,” and “uncared for” members of the street population.<sup>31</sup> Research on the street population-sector

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<sup>30</sup> There even exists a linguistic difference between work and labor and how the two relate to childhood in Nepal. There exists an underlying distinction between work and labor (*kaam* and *shram* respectively), and volition is essential to parsing the two (Onta, 2000: 62). Work (*kaam*) is analogous to expected participation in the reproduction of the household under reasonable circumstances and conditions; labor (*shraam*), on the other hand, is clearly activity done for compensation and is considered by the Children’s Act to be inappropriate before the age of 16. The association between children and vulnerability/innocence is hardly a tangible component of the classic Nepali understanding of childhood, while recognition of children’s *work* certainly is.

<sup>31</sup> This fact must be taken with the understanding that life on the street is by no means secure or even safe. Crime, prostitution, and substance abuse are common among the urban street population. However, this must be weighed against alcoholism, food insecurity, and domestic violence prevalent in rural “at-risk” populations.

NGOs has suggested that the Western donors' convention of childhood permeates Nepal's cultural sphere via NGO youth services (Baker & Panter-Brick, 2000: 169). With reference to the street-population sector, Onta writes that "childhood today [is] not only a cultural construct but also a collection of institutional rules defined by nation-states and international bodies to constitute a special status for children," signifying the fluidity of childhood as a malleable construct susceptible to the influence of extra-national institutions (Onta, 2000: 50). This is reflected by street population-sector history in Nepal, but also by institutionalized international rules *dictated* by organizations such as, for example, the United Nations (e.g. Convention on the Rights of the Child) or the International Labor Organization (e.g. The Worst Forms of Child Labor) (Child Welfare Society, 1996: 18-19). Is the client-recipient separation a result of this construction?

In this context, the soundest conclusion about the construction of childhood is that Nepali citizens perceive their children as economic assets and, I argue, the street-population sector somewhat disregards this convention. Participation in the "reproduction of the household" as a component of the family economy is the historical norm for youth in Nepal (Bray, 2015). "Poverty," therefore, may be the term assigned as the primary influence for children and youth to leave school and engage in work that eventually leads them to the streets; despite economic motivations, theirs is *not* a socially unacceptable migration (Educational Society for the Rights of the Child, 2001: 3). In fact,

youth labor migration in Nepal is arguably socially conscientious (and desirable) when the natal family household can no longer support its members within the capacity of the local economy. Contrasted with the Western “standard” embedded within NGO services, the notion of childhood in Nepal is predicated upon neither a distinct model route to adulthood nor a process that throughout time can be universally traced directly to socialization within the family (or, further, via formal education).

As a function of the client-recipient separation problem, street population-sector NGOs often do not ascribe to the conventional Nepali standards of employment and migration. Evidenced by the construction of their services, organizations consider members of the street population (primarily youth) as lacking the “essential ingredients” of childhood or livelihood (as defined within the context of a developed country) typically found within the natal home. Recall the reports exist that at the inception of street population-sector NGOs, Kathmandu street boys were specifically “targeted by NGO programs in ways that explicitly or implicitly [aimed] to socialize them according to a Western or middle-class Nepali ideal of childhood...definitions of children’s ‘basic requirements’ or ‘rights’ [were] based on Western ideas of a carefree, protected and dependent childhood” (Baker & Panter-Brick, 2000: 169). Methods of intervention reflect perceived vulnerability, prompting services to be funded by the donor clients which inevitably impose foreign standards upon recipients (Baker, 2005: 4). From the NGO perspective, acceptable standards can be

replicated upon a foundation of ingredients (e.g. food, education, medical care, and adult protection). The desire to provide these ingredients unconditionally actually poses a great challenge for the street population-sector NGO's performance.

Because of the client-recipient separation problem, the street population-sector NGOs provide a level of assistance and services that exceeds the standards of a developing country, suggesting that these NGOs operate independent of the cultural norms in Nepal (and thus reinforcing the first incentive problem). Policies concerning the street population (particularly children) are “virtually non-existent...[street-population sector] organizations working with children prefer to accept the dominant Western ideal of childhood...thus, policies for children concentrate on either education and training (with the emphasis increasingly on the latter in market-oriented economies) or on physical health” (Ennew, 1994: 412). Underlying Western standards, however, support a provision of services that come at a higher quality than those of a “standard” Nepali lifestyle, and by consequence produce an incentive problem for members of the street population.

### Performance Evaluation

How does the performance of street population-sector NGOs compare to the optimal provision of services? If the very existence of the street population is an economic means to the end of reproducing the natal home, then the corresponding rural-to-urban street migration in Nepal is disrupted by street

population-sector NGOs. If these organizations impose values that are established upon a foreign standard, then by promoting street population's "rights-based programming, [NGOs do] not sufficiently incorporate the perspectives of poor children and their family members" (Baker & Hinton, 2001: 176). When the street population-sector NGOs embrace donor expectations and mischaracterize the notion of homelessness in Nepal, they produce an incentive problem in which members of the street population have incentives to remain "homeless" by consequence. The street-population sector, therefore, qualitatively falls short of the optimal provision of services because homelessness itself is relatively unexceptional in Nepal: attempts to lift homeless members of the street population (children, especially) out of their economic position via unconditional assistance promotes a moral hazard for NGOs. The assistance and incentives provided by street population-sector NGOs are, in other words, improperly balanced.

Street population-sector NGOs often experience difficulty achieving the optimal provision of services because they attempt to universalize Western standards. "The contemporary world is dominated by the West," Sen writes, "and even though the imperial authority of the erstwhile rulers of the world has declined, the dominance of the West remains as strong as ever" (Sen, 1999: 240). The above passage was written with reference to corporate actors within the market threatening indigenous cultures; the same idea may be applied to NGOs (here considered to be part of the market). Universalizing policies that represent a

“patchwork of cultural values and ideas associated with childhood” and employment—the “standards” for international agencies—often do not bear in mind local “standards” of developing nations (Baker & Hinton, 2001: 181). The central issue is whether or not street population-sector NGOs offer members of the street population alternatives to the street that they have “reason to value.” For instance, will a young member of the street population who migrated for economic reasons truly benefit from an attempt to reintegrate him or her with his or her rural family (e.g. the services of a transit home)? Or, alternatively, would that same individual receive high-quality food, education, and other basic needs if he or she remained on the street (e.g. the services of a drop-in center)?

Street population-sector NGO services do not achieve an optimal balance of assistance and incentives because, by virtue of their structure and design, they fail to connect to the positive economic motivations underpinning rural-to-urban street migration. Street population-sector NGOs tend to view the departure from home to the streets as a single, premeditated movement. The services they provide suggest that NGOs view street migration as an indication of desperation, desperation as poverty, and poverty as a deprivation of basic capabilities (Sen, 1999: 87). This is an overstatement of the hardships associated with rural-to-urban street migration: earning money has historically been the main purpose of street migration, and street migration itself may actually be the result of not one movement but a series of strategic economic “hops” (Bray, 2015).

A 1996 study by the Child Welfare Society reported the top three reasons why members of the street population took to the streets of Kathmandu were to work and earn in the city, the influence of friends, and a lack of food at home (Child Welfare Society, 1996: 92). Over half of the respondents to the study were rural-to-urban street migrants motivated by economic gain. A 2012 CPCS quantitative study reported the top three reasons why street *children* took to the streets of Kathmandu were to earn money, the influence of a friend, and violence at home (lack of food was notably tied for the fourth place rank in this study) (Ryckmans, 2012: 54). Though much has changed over time, these results suggest a consistency in rural-to-urban street migration motivations. Despite street population-sector NGO intervention, the economic motivations behind street migration have remained constant. However, the response of street population-sector NGOs is often not to foster employment, but the provision of “ingredients” for an “acceptable” lifestyle such as food, recreation, and education (NGO saturation amplifies this issue, which will be explored further in the next chapter) or familial reintegration (often a movement distinctly *away* from economic opportunities).

Therefore, street population-sector NGOs do not perform well in comparison to the optimal provision of services to the extent that the alternatives they provide replace members of the street populations’ desire to work and earn with the capability to obtain the fruits of labor free of charge. On the macro level, services to members of the street population may assist Nepal’s overall

development, particularly on the fronts of providing economic facilities, social opportunities, and a degree of social insurance (Sen, 1999: 38-40). On the other hand, street population-sector NGOs may actually reward rural-to-urban street migration in a way that is counterproductive and disrupts legitimate economic involvement with the street (and subsequently the reproduction of the natal home indirectly).

By providing an alternative to employment (rather than an appropriate alternative to the street), street population-sector NGOs perform poorly in comparison to the optimal provision of services. In the domestic context, the street population is an unremarkable component of the informal economy. The extension of services by street population-sector NGOs is therefore on terms that, perhaps, clients have “reason to value,” but not necessarily the recipients themselves; from a purely service-oriented perspective, this is the reason why NGOs fall short of the optimal provision of services. As will be outlined in the next chapter, members of the street population end up taking advantage of these incentive problems for their own gain while NGOs compete with one another and the Government of Nepal lies dormant.

#### 4. Analyzing the Systemic Failures of the Street-Population Sector

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In addition to moral hazard, the systemic failures of street population-sector NGOs are perhaps a manifestation of *adverse selection*. Adverse selection, a notion often applied to insurance provision, is said to arise in transactions in which at least one of the parties involved does not have information about some economically relevant characteristics of the other, allowing for a situation in which the likelihood of a relatively undesirable “type” entering the transaction is influenced by the terms of the transition itself. For example, a relatively generous insurance policy may attract relatively risky buyers; such insurance companies attempt to reduce this “adverse” selection by screening for pre-existing conditions to evaluate risks. Car insurance companies may attract high-risk drivers in the same way that street population-sector NGOs risk being adversely selected by members of the street population with low long-term rehabilitative potential (who offer the lowest return on donor resources). However, while the car insurance company has reliable methods of screening potential buyers, street population-sector NGOs do not always have reliable methods of screening potential recipients.

NGOs additionally risk being adversely selected against by donors who, typically having less information to distinguish between effective and ineffective NGOs, are more likely to select programs that cater to their interests and values (typically Western values). This is how the client-recipient separation becomes

self-reinforcing. The client-recipient separation may be viewed in the additional context of moral hazard, when the preferences of one party's behavior are different than what another party would prefer the first to do. I will return to this in Chapter 5. For the moment, the manifestation of adverse selection in the street-population sector influences the three incentive problems at hand, such as locally attuned organizations being driven out of the "market," organizations gaining incentives to *not* cooperate with one another, and street-level recipients choosing economically unsustainable (short-term) alternatives to the street.

This chapter examines the relationships between street population-sector NGOs—the entities actually delivering the services in question—and other stakeholders in the street-population sector. Adverse selection, in essence, is a component of the incentive problems produced by these relationships and perpetuated among and by street population-sector NGOs. The NGO-donor relationship is on the one hand centered upon extracting the maximum amount of donations from clients as possible, and on the other hand about ensuring the donors that their contributions are being utilized effectively. The crux of the incentive problem in this relationship is that the donors' preconception of "effective" funding usage is distinct from the local reality of "effective" funding usage; with respect to the multi-task principal-agent relationship, this disconnect prompts NGOs to emphasize services that cater to the donors' preconceptions. The subsequent relationship between street population-sector NGOs and each other is often like a rivalry. NGOs serving the street-population sector are highly

wary of sharing information about “their” recipients and programs, producing distinct areas of coordination failure (and again, competition and inefficiency). Finally, the relationship between NGOs and members of the street population is one in which both parties use the other as a means to an end. On one hand, the NGOs (in brief) require a street population to stay in “business”; on the other hand, the street population requires an NGO structure to provide high-quality alternatives to the streets.

Because street population-sector NGOs maintain relationships with multiple stakeholders, it is often difficult to determine precisely to whom they are accountable (Roka, 2012: 11). There are three relationships to be examined: NGO-donor, NGO-NGO, and NGO-street population. The following sections analyze those relationships and their inherent systemic failures that, I argue, produce areas of asymmetric risk and subsequently manifest themselves via adverse selection.

### NGOs and Donors

The relationship between NGOs and their donor clients is one characterized by asymmetric information with respect to the street population. This asymmetry is the first building block of a larger internal competition structure (within the “market”) that idiosyncratically does not always foster efficiency. For contextual accuracy, while *foreign* donors do not fund *all* NGOs, they do fund the majority of NGOs in Nepal (Heaton-Shrestha, 2004: 6). Recall that after 1992, the Government of Nepal approved the direct funding of NGOs

by donors—foreign or domestic—rather than requiring donors to allocate funds through a government intermediary (via the Social Welfare Act of 1992 and then deregulated by the Local Self-Governance Act of 1999) (Roka, 2012: 83).<sup>32</sup> After adopting this “hands-off” approach, the Government of Nepal has often received criticism from the donor community for failing to promote community development on its own, due to both corruption and bureaucratic inefficiency (Roka, 2012: 34).

NGOs, as outlined in Chapter 3, are distinct from firms in a typical market: their clients are separate from the recipients of their services. NGO competition for funding, for example, does not always lead to optimal service provision with respect to the long-term interests of aid recipients. With respect to the multi-task principal-agent relationship, NGOs may compete to increasingly cater to the desires of donors and maximize recipient satisfaction by offering less onerous services at the detriment of equally (if not more) onerous services; quality or effectiveness of street population-sector NGO services, therefore, may be sacrificed in exchange for measurable (and reportable) results. According to Madhu Dawadi of Child Workers in Nepal, the aim of NGOs is often to engage in low-cost programs (e.g. food distribution twice a day) to produce high-visibility statistics (e.g. an annual total of the number of meals distributed to the street

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<sup>32</sup> Additionally, the Local Self-Governance Act of 1999 offers a number of written provisions to NGOs encouraging communication with the local government, allowing local governments to require NGO registration (to prevent duplication), and requiring all partnership programs to be vetted through the local government pre-implementation (Roka, 2012: 83).

population) (Dawadi, 2015). This is definitely a form of moral hazard. The results produced are, in fact, detached from reasonable (long-term) alternatives for the street population.<sup>33</sup>

Donor preferences may take priority over the long-term interests of the service recipients, fostering counterintuitive behavior in the street-population sector. As a “survival strategy,” donor-dependent NGOs may undertake projects that are inherently contrary to their own objectives to satisfy donors (Roka, 2012: 20). For example, the foreign donor’s preference for providing the street population with education and socialization rather than economic opportunities is reflected in the “prioritization” of the former over the latter (Mezzabotta, 2016: 21). Perhaps the goal of these programs is to restore a capability of the street population that may be lost to the street; thus, providing services of a higher-than-average standard quality is a means of helping members of the street population re-acclimate to life off the street. In the upcoming section concerning the relationship between NGOs and members of the street population, I will show why this promotes adverse selection.

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<sup>33</sup> Street population-sector NGOs have established physical facilities, publications, and programs that reflect client influence. On the surface level, the NGO-donor relationship is physically evident by the variance of central structure as well as the in aspects of NGO publications. Headquarters locations of NGOs, particularly those who assist the street population, are often kept to a very different quality standard than field offices operated by locals; further, headquarters are oftentimes entirely separate from any type of service (e.g. Voice of Children), and more closely resemble an office building which is responsible for the purely bureaucratic functioning of the NGO (Heaton-Shrestha, 2004: 5). Furthermore, the bulk of NGO publications are written in English, which while being a more universalized language, speaks volumes to the target audience of the NGOs’ work.

An additional instance of counterintuitive behavior to satisfy donors is the way in which street population-sector NGOs are staffed. Organizations often balance local expertise with foreign volunteers to who provide funding (i.e. “voluntourism”). If particularly donor-dependent, NGOs may endeavor to attract a mixture of unskilled foreign volunteer staff and local Nepali social workers.<sup>34</sup> Original field observation uncovered that the former is achieved by crafting international “internship” campaigns for unskilled foreign volunteers and the latter is often achieved by motivating local youth from Nepali universities; in both situations, volunteers are asked to fundraise for the NGO, as a de facto “entry fee” for volunteering.

The NGO-donor relationship model is the subject of great criticism with respect to “the total dependency of the NGOs on donor funds and the short-term commitments (usually only a year [by volunteers and donors]) given by donors” (Child Welfare Society, 1996: 85). With respect to the NGOs’ incentives to report donor-friendly results rather than concrete progress, NGOs in the street-population sector are adversely selected against by uninformed donors. This is, again, an additional manifestation of moral hazard.

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<sup>34</sup> Unskilled foreign volunteers are the cause of much concern for some NGOs. They contend that such volunteers are harmful psychologically to street children (with respect to forming long-term relationships with adults), especially if the volunteer turnover rate is high and the volunteers have ample interaction with the children.

## Rivalry Among NGOs

The relationship—rather, rivalry—among street population-sector NGOs and other street population-sector NGOs is historically characterized by failure to coordinate their services (UNESCO & Child Welfare Scheme, 2005: 60). Ideally, services ranging anywhere from recreational activities to long-term rehabilitative care ought to be coordinated among NGOs to reach the target population that benefits from them the most. Due to aid saturation in urban target areas, however, there are simply too many actors to coordinate independently of a mediator. In practice, past efforts (both those imposed by the Government of Nepal and via NGO coalitions) to mediate coordination have proven ineffective. Uncoordinated, the services of street population-sector NGOs often overlap, compete, and conflict with one another. Further, disagreement about the appropriate level of conditionality (or conditions of eligibility) of street population-sector services leads to yet another adverse selection problem in which organizations contend to maximize their volume of recipients regardless of the individual recipient's probability of long-term "success."

Street population-sector NGOs are perhaps particularly susceptible to market saturation in urban areas due to the natural locale of their projects. In the early 1990s and 2000s, the greatest challenge for street population-sector NGOs was how to actually apply street population management programs in response to the swelling street population (UNESCO & Child Welfare Scheme, 2005: 10). At the time, the growing street population somewhat abated the negative effects of

the street population-sector NGOs' entangled philosophies and approaches, likely because street population-sector NGOs were able to operate independently of one another *without* competition. By 2010, however, the number of street-dwelling citizens in Nepal was actually shrinking (the exact extent of this reduction is admittedly difficult to quantify, though qualitatively reported by NGOs and government organizations alike). As a result of supply-side "market" saturation with dwindling demand for service provision, Mezzabotta writes that by 2015 the street population-sector NGOs (even those working towards the same goals) refrain from sharing information about their programs and recipients to avoid losing recipients to other NGOs (Mezzabotta, 2016: 16). Uncoordinated efforts and even outright conflict among NGOs with the same goals has become increasingly common since the early 1990s as a result of market saturation.

Internal street population-sector NGO conflict, however, is not always between organizations pursuing the same goal. One of the first historical examples from the early 1990s of outright street population-sector NGO conflict occurred during a movement to remove street youth from carpet factories. The dispute was between three child "advocacy" organizations with collectively inconsistent philosophies, goals, and motives. The first NGO, the National Society for the Protection of the Environment and Children (NASPEC) "emerged in response to damage suffered by the carpet industry following international coverage of child labor issues in 1994"; NASPEC held that the "normal way of life for the rural child [was] being in a family and community

where there are no negative feelings shown towards the [child's] education and health.” The second NGO was Nepal RUGMARK, a foreign social advocacy organization that worked to counsel, educate, and rescue children from carpet factories and place them into a “community-based rehabilitation program”; similar to NASPEC, RUGMARK’s philosophy was that street youth needed to be “rescued from factories,” and endeavored to return them to a “normal way of life” via institutional rehabilitation.<sup>35</sup> The third NGO involved (also an advocacy organization), however, told a very different story. The Central Carpet Industries Association (CCIA), a *Nepali* NGO, argued “that minors should have the opportunity to work, ... [and that] the ‘normal way of life’ [means] if they want to work, they can decide [for] themselves” (Educational Society for the Rights of the Child, 2001). All three of these organizations held nuanced understandings of how the “normal way of life” is defined, defining alternatives that members of the street population have “reason to value” differently. While they all claim to represent a portion of Nepal’s street population, they each approached the task with inconsistent methods. Rather than cooperate, these organizations operated independently of one another for years, serving the same target population in oppositional ways.

A more recent example of coordination failure is the National Alliance of Organizations Working with Street Children (NAOSC), a coalition initiated by

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<sup>35</sup> RUGMARK is best known for facilitating factory inspection and quality control for the Nepali carpet industry, promoting “child labor-free” products with RUGMARK administered certifications.

Child Workers in Nepal in 2006 to synchronize the services and assistance provided by major NGOs in the sector (Pradhan, 2015). The founder of NAOSC, however, claims that the project was “unsuccessful in its mission to connect with the [street population-sector] organizations because NGOs failed to reach a common understanding on what should be done” for members of the street population (Mezzabotta, 2016: 16). Considering that even the NAOSC member organizations—a collection of well-established street population-sector NGOs with identical goals—are unable reach an accord independently, it follows that achieving coordination among additional NGOs requires exceptional incentives (of the sort discussed in the Conclusion) and oversight by a third party.

The plurality of NGO styles, philosophies, and goals brings a second issue of the street-population sector into focus: service overlap. NGO services—be they street population prevention, management, or rehabilitation—interfere with one another. In 2015, “CPCS program director Aita Raj Limbu pointed out that there [was] need for communication among NGOs about their daily activities for street children. The activities that are scheduled [by] the different NGOs can be a problem when their time collides,” and members of the street population prefer to choose entertainment activities at one street population-sector facility over vocational training or educational activities at another facility (Mezzabotta, 2016: 16). The lack of coordination among street population-sector NGOs, therefore, leads to overlap and the suboptimal distribution of social welfare services.

A real world example of NGO overlap is a disconnect between the services of two facilities in Kathmandu: CPCS-Siphal and Heartbeat Nepal. In Kathmandu, Child Protection Centers and Services operates a socialization center in an area known as Siphal, located just next to a glade known as the Bhandarkal Jungle. No more than 20 feet and a small fence separate the center and the Bhandarkal Jungle (a stone's throw away); further, street children often float in between the center and the glade to eat in the former and use drugs or play soccer in the latter. Also located in Kathmandu is Heartbeat Nepal, which operates a drop-in facility in a separate area of the city. Each week Heartbeat Nepal sends a field team to the Bhandarkal Jungle to distribute tea and pastries for free to the "street children" (the program is marketed to donors as "Tea for Free"); field observation showed, however, that the children actually *receiving* the tea and pastries were CPCS-Siphal regulars who simply walked out of the center, hopped the fence, and ate a second breakfast. Rather than participate in socialization activities within the CPCS center, the street youth chose to leave one NGO to receive the services of another.

This example brings out a final incentive problem to the inter-NGO relationship, which is that NGOs disagree about the appropriate conditions for providing social welfare (or the criteria for eligibility to participate in a program). Some NGOs will offer their services to any member of the street population anywhere, while others are more selective about their recipients and how services are actually provided. Thinking back to the specific types of NGO facilities, drop-

in centers tend to allow anyone fitting in one of the street population definitions to participate in any aspect of their programming (provided they follow the drop-in center rules), while transit homes often require screening or referral. Low-conditionality scenarios allow individual recipients within the street population to float in and out of the centers (this will be explored later as a vehicle for enabling unsustainable behavior) and take advantage of only the services they desire. High-conditionality scenarios require members of the street population to commit to a program in exchange for an outcome that is arguably greater (in the sense of a long-term alternative to the street) than that of a low-conditionality scenario. For those who choose low-conditionality programs, a life on the street becomes something of a short-term *luxury* rather than a position of poverty, because rather than spend any income they may generate outside of the center on their basic needs, the street population tends to spend it on entertainment and drugs (Mezzabotta, 2016: 19). Aggregated, this non-socially optimal provision strategy persists because the street population-sector NGOs are both highly diverse and under-coordinated. Recipients who choose (or are selected to be a part of) high-conditionality programs must weigh the “luxurious” life on the street against the long-term benefits of participating in a high-conditionality program.

The NGO-NGO relationship is profoundly uncoordinated, and so the most common suggestion offered by NGOs to improve the sector as a whole is to coordinate efforts rather than implement individual programs (Mezzabotta, 2016; Roka, 2012). Nevertheless, the same voices offer that forces of aid saturation,

service overlap, and disagreement about eligibility criteria hamper the prospects of this recommendation seeing fruition. NGOs are in competition with one another to report results on a shrinking target group to their clients; in some sense of irony, the goal of these NGOs *is* to reduce the size of the street population, yet doing so may also decrease the quality of their services. Incentive problems plague the street population-sector NGOs, and so uncoordinated organizations produce their own aggregate inefficiencies.

### NGOs and the Street Population

The relationship between street population-sector NGOs and the street population itself may be characterized as one of under-regulated generosity. On a general level, members of the street population do not appear ungracious in receiving NGO services; nevertheless, members of the street population observably work within the boundaries of the sector to extract the greatest value for themselves at the lowest possible cost (usually time, walking distance, or security). Informed by their service category, some NGOs similarly select only certain recipients (by their own internal criteria) to improve their results. In a sense, street population-sector NGOs and members of the street population selectively associate with one another as a means to an end.

One view of the relationship is as follows: NGOs *use* members of the street population just like members of the street population *use* NGOs, and thus the systemic failures embedded within the sector as a whole can be attributed to the behavior of both parties. Alternatively, one may consider that NGOs provide

much-needed resources to members of the street population to the best of their ability given the constraints of inter-NGO competition, incomplete information, limited resources, and the legal requirements to operate in Nepal. On the NGO side, programs designed to sustain the NGO rather than service the long-term interests of the street population contribute to sector failures by ignoring the long-term risks for the street population; on the street population side, extractive practices (e.g. “NGO shopping”) contribute to sector failures by increasing the individual risk-level of recipients frequenting NGOs (i.e. the act of “NGO shopping” prolongs life on the street and, arguably, reduces the probability of successful rehabilitation).

NGOs are, in fact, aware of the street population-side selection bias yet, as stated earlier, continue to take measures to attract members of the street population to their facilities (thinking back to the multi-task principal-agent problem, this translates to emphasizing, for example, recreation programs over vocational training). “In theory,” however, “homeless children who are given learning opportunities and support from NGO programs have a better chance of gaining access to salaried employment, but only a minority of homeless children complete such programs” (Baker & Panter-Brick, 2000: 169). Deepening the first incentive problem, street population-sector NGO services promote free-riding behavior as a function of the second incentive problem.

With basic needs such as food, water, and shelter provided, street population-sector NGOs not only function loosely as a safety net for members of

the street population, but also enable recipients to have a dual lifestyle of extracting value from both NGOs and the streets. In this way, NGOs fail to expand the capabilities of the street population as they intend. Recreational drugs, for example, are a social component of the street lifestyle (Child Protection Centers and Services, 2014; Child Welfare Society, 1996; Mezzabotta, 2016; Onta, 2000; Rai & Child Workers in Nepal Concerned Centre, 2002; Ryckmans, 2012); understandably, drugs are not allowed within NGO centers (regarding tobacco, multiple participating NGOs allow youth to smoke within a designated section of their shelter or take quick breaks just outside of the gate).<sup>36</sup> Street boys in a 1996 study reportedly “spent the majority of their earnings on food; they considered an adequate intake a drink of sugared, milky tea and a snack in the morning, plus two meals of rice and vegetable per day” (Panter-Brick et al., 1996: 448). As years have gone by, spending on solvents, marijuana, and other drugs has become a dominant component of the street lifestyle (observed via surveys about spending) (Rai & Child Workers in Nepal Concerned Centre, 2002: 20-22). Working around the NGO facility restrictions, members of the street population regularly and observably dig holes directly outside of the center (or use another stashing area), go inside, extract whatever assistance they can from the NGO, and then pick up their drugs again and return to rag-picking or begging (Balav,

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<sup>36</sup> One NGO (choosing to remain anonymous) even reportedly facilitates the use of solvents, tabs, and other drugs under supervision if it is deemed absolutely necessary to continue the child’s rehabilitation. By removing the social context of drug abuse, tapering the child off the drugs while continuing the rehabilitation program is made possible. While present, this is a highly irregular practice.

2015). This extractive scenario on the part of the street population is highly representative of their relationship with NGOs, and particularly damning to the low-commitment services provided by drop-in centers.

“NGO shopping” is another extractive behavior by members of the street population which builds upon the above scenario. Reflective of the adverse selection promoted by NGOs that emphasize client-friendly results, members of the street population have adapted to the street population-sector NGOs by learning how to extract the maximum value from low-conditionality NGOs at minimal cost; they accomplish this by systematically diversifying which NGOs they receive services from. Inge Bracke, an official of CPCS, mentioned that there is a percentage of boys living in Kathmandu that are the “champions” of an extractive practice which she refers to as “NGO shopping.” The boys rotate between NGOs, traveling from one center to another to benefit from the days each week when different NGOs offer “special” services. Examples of this are a picnic where meat is served, a soccer match, clothing/shoe distribution, or a movie screening (Bracke, 2014). Simply taking advantage of the services that are offered by the NGO day-by-day rather than aiming eventually towards rehabilitation or reintegration, this practice undermines the intention of street population-sector NGOs. The NGOs themselves are fully aware of “NGO shoppers,” but do not turn recipients away (unless the NGO rules are being broken). From the perspective of members of the street population (particularly street children), they are simply taking advantage of drop-in centers to satisfy

their basic needs; from the NGO perspective, the street population recipients have taken one step in the direction of self-initiated rehabilitation by traveling to an NGO in the first place. Thus, even with respect to the selection bias of the street population, NGOs operate under the belief that they are poised to “catch” the recipient and offer rehabilitative services regardless of why he or she enters the center (or how long he or she intends to remain there).

By attracting potential aid recipients indiscriminately, street population-sector NGOs are often criticized for intentionally institutionalizing members of the street population (i.e. arranging the lives of recipients according to NGO standards), using them primarily as the means of sustaining the organization. While there is little evidence to this criticism, the institutionalization of children certainly ought to be considered an unintended consequence. A more feasible corollary to this criticism is that NGOs place the long-term interests of the street population as secondary to their own long-term interests. Adverse selection in the eligibility for aid services is a key area of contention for NGOs. First of all, the vast majority of NGOs serving the street population concern themselves only with children (stipulated in Nepal as “minors,” defined by the Children’s Act of 1992 as individuals “under the age of 16”) (Government of Nepal, 1992a: 1.2.a), ignoring the fact that whole families (included within UNICEF subcategories (2) and (5)) live on the streets. Further, drop-in centers cannot (and do not) easily differentiate between children *on* the street and children *of* the street by sight, and therefore often end up providing services to youth who live with their families

(though their families are likely in difficult situations). Lastly, because different NGOs have different levels of tolerance for misconduct (e.g. entering a center while intoxicated), members of the street population vote with their feet and choose the most lenient facility: the most indiscriminate center receives the greatest number of recipients.

However, the most concerning area of eligibility that involves high levels of discretion on the part of the NGO is not what happens in situations of short-term care (i.e. a drop-in center visit), but rather in the longer-term care scenarios. Donor resources are limited, and therefore NGO operations involving long-term residential care must be very particular about who they predict will be “successful” in their centers (and who will be unsuccessful). The highest rates of NGO “success”—re-integrative or vocational—are found among children who have only spent a short amount of time on the street. Eligibility is therefore contingent upon meeting the internal criteria for success (varying from NGO to NGO), suggesting that the degree of success is more closely related to creating internally evaluated results (Easterly, 2006: 369-370). Because of this, it is possible to view the NGO selection bias as a filtration system, separating “wheat from chaff,” leaving out individuals who do not take the initiative to reach an NGO within the first few months of their internment on the streets to a lifetime of street-dwelling.

Finally, NGOs tend to surround their recipients with an overstated narrative of need. NGOs often communicate to donors that homeless members of

the street population suffer, for example, from hardships such as poor nutritional status. However, these claims are often overstated. For example, a study of growth and nutritional status among street youth in 1996 found that among four sample groups—children *on* the street, children *of* the street, rural village children, and privileged school children—children *of* the street outperformed children *on* the street and rural village children in numerous health indicators, showing fewer signs of impaired growth than those living with their families (Panter-Brick et al., 1996: 446). They attributed the results to the high quality medical care, food, and sanitation facilities provided by NGOs, services guarded only by the condition of *appearing to be homeless*. The centers' programming places a higher value on education and skilled labor than is culturally expected in Nepal, and thus even the physical demands of street migration did not have a significant effect on stunting or wasting. Before the influx of NGOs, members of the street population had to develop coping mechanisms such as sharing food within their “gang” or establishing credit with a restaurant (Balav, 2015). After the birth of the street-population sector, findings “suggest that the homeless in Nepal are neither drawn from the most deprived sectors of society, nor join its most deprived sectors upon arrival on the streets” (Panter-Brick et al., 1996: 447-9).

Street population-sector NGOs and members of the street population each sustain one another. Members of the street population are in many ways the *raison d'être* enabling the street population-sector NGOs' survival. Especially for young members of the street population, “accessibility of, and acquaintance with,

urban centres may broaden the options of an unhappy village child, or perhaps simply widen the horizons of a curious one,” enabling the option of a dual street-life and NGO-life (Baker et al., 1997: 138). Adverse selection is present for both parties, and both “use” the other as a means to an end. Ironically, the shrinking street population is an issue for the street-population sector as a whole because as the target group wanes, so does the demand for intervention.

The relationships between NGOs and donors, other NGOs, and members of the street population each uniquely feed into one or more of the incentive problems. The relationship between NGOs and their donor clients is characterized by asymmetric information with respect to the street population. The rivalry among street population-sector NGOs is characterized by failure to coordinate their services. The relationship between street population-sector NGOs and members of the street population itself is characterized by generosity and adverse selection. In the next chapter, I explore how the systemic failures of street population-sector NGOs not only influence the Government of Nepal’s relationship with street population-sector NGOs, but also inform to what extent the Government of Nepal has incentives to engage with those NGOs at all.

## 5. Government Response to the Street-Population Sector

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In what ways and to what extent does the Government of Nepal address the systemic failures of street population-sector NGOs?

The Government of Nepal's foreign aid policy with respect to aid providers has long been the subject of criticism, primarily for its over-relaxed and under-coordinated supervision of NGO activities. In a distinct departure from the hierarchical principal-agent relationship, the relationship between the Government of Nepal and NGOs has, perhaps over time, increasingly become symmetrical, sometimes even reversed to resemble postmodern imperialism. The exchange of sovereignty (via the delegation of responsibilities) for resources fosters a self-reinforcing cycle of dependency that, over time, positions NGOs as the primary vehicles for social welfare service provision.

Whether or not the provision of social welfare by NGOs is "positive" or "negative" is entirely dependent upon perspective, yet in the street-population sector shared sovereignty definitively fosters a *moral hazard*: the representative aid recipients take the wherewithal given by NGOs, but may not always commit to the optimal extent of service provision. This inefficiency is caused by the lack of a coordinated incentive structure that encourages members of the street population to act otherwise. A tradeoff between the assistance and incentives provided by the street population-sector NGOs is, perhaps, necessary to get closer to optimal service provision. The tradeoff, in theory, conditions receiving social welfare

upon risk borne by members of the street population; ideally, the Government of Nepal could provide a functional regulatory structure that improves the ability of street population-sector NGOs to provide an optimal tradeoff between assistance and incentives.

The following chapter is dedicated to examining the issues present in the relationship between the Government of Nepal and NGOs, eventually homing in on a potential Government-regulated solution to the problems of moral hazard and adverse selection specifically within the street-population sector. Between 1990 and 2015, the increasingly apparent “construction and instrumentalization of civil society and the resulting institutionalization of external influence” on a national scale suggests that NGOs have collectively become a foundational, irreplaceable component of the status quo in Nepal (Rappleye, 2011: 28). By “construction” and “instrumentalization,” I interpret that Nepal’s governmental plans are built *around* a strong, pre-existing aid structure rather than aid programs being built *on the basis of* a strong, pre-existing government structure. Navigating the influence of NGOs is, therefore, a serious consideration for the Government of Nepal.

Due to the Government-NGO power dynamic, the Government of Nepal cannot simply solve the issues of aid with a memorandum or law. En masse, NGOs large and small in Nepal have transformed since the 1990s from broadly based advocacy organizations to highly specialized service programs; likewise, the Government of Nepal has gone through multiple iterations of its own

leadership, structuring (monarchy to democracy), and NGO policy. These structural changes within the Government of Nepal, I will argue, promoted an increasingly symmetrical Government-NGO relationship and thereby reduced the ability of the Government to influence these organizations to a good effect. NGOs have grown beyond the scope of the Government of Nepal's control; in fact, the vast number of NGOs likely influences the regulatory abilities of the Government of Nepal itself.

The principal-agent relationship has, over time, become more horizontal than hierarchical. In this sense, it ceases to be a principal-agent relationship at all. Outlined in Chapter 1, the initial principal within the Government of Nepal for NGOs was the Social Welfare Council, and the initial agents numbered fewer than 250 NGOs established and staffed under the supervision of ex-government functionaries; their projects and programs were predominantly characterized by the administration of (closely managed) social welfare programs (Heaton-Shrestha, 2004; Rappleye, 2011). As NGOs grew in prevalence, the third incentive problem arose. Recall that the third incentive problem can be described as a service replacement scenario: opening the door to NGOs, the Government of Nepal (intentionally or otherwise) created a means of ensuring its own underperformance. The Government of Nepal established the Social Welfare Council as a gate-keeper to monitor NGOs taking on the burden of services that the government otherwise might be accountable for providing on its own. "Underperformance" here is said with respect to the relative assumption that the

Government of Nepal's incentives are such that allowing NGOs to pursue their goals under-regulated produces better results than prohibiting NGOs from operating at all.

As a result of ensured governmental underperformance, the principal-agent relationship between the Government of Nepal and NGOs devolved. As the Government of Nepal underperformed, NGOs increased their inputs. An increasing volume of services followed. On the NGO side of the story, "selling" Nepali aid to donors became easier: the dynamic of donor assistance fosters a race to the bottom in which the more desperate the country (or target group) appears, the more dependent the country (or target group) actually becomes upon long-term foreign assistance. The "gaps" in service provision (the areas of underperformance) by the Government of Nepal were targeted and sold by NGOs to donors.

By affording NGOs the agency to operate with little regulation, the Government of Nepal ensures its ability to "keep up" with international standards of human rights and address impoverished citizens, accomplishing this without incurring the actual costs of establishing homegrown programs. Important community development initiatives like water piping projects, sanitation campaigns, and educational attainment operations are then facilitated and funded by outside governments and private donors. Entire NGO sectors such as the street-population sector are brought into existence, serving a resilient target

group which long pre-dates the NGOs themselves. This does not necessitate dependency, though it certainly establishes the foundation for dependency.

The multi-task principal-agent incentive problem raises positive and normative issues with respect to the extent of NGO regulation and monitoring. Due to the constraints associated with being a developing nation, the Government of Nepal is unable to closely monitor the actions and initiatives of the many NGOs, and so regulatory policies are hollow. New laws or legislation are insufficient to solve the multi-task principal-agent issue. The clear *costs* associated with relaxed monitoring of NGO initiatives are evident, particularly within the street-population sector: moral hazard problems are perpetuated by NGOs pursuing projects in an uncoordinated manner (and with little accountability to the Government of Nepal). The cost is notably borne by members of the street population rather than the NGOs or Government of Nepal. From the government's perspective, however, the outcome is a *net positive*—a more robust provisioning of social welfare than if the Government of Nepal tackled issues on its own.

Looking forward, measures to make NGO regulation more feasible, to foster coordination among sector-level stakeholders, and to scale the volume of NGOs to the size of target groups are realistic and achievable methods that stand to not only to improve the performance of the street population-sector NGOs, but further to improve foreign aid in Nepal as a whole. Uncoordinated competition among NGOs to provide services is reflected by the present conditions of a

suboptimal outcome, the hallmark of street population-sector inefficiency. If the Government of Nepal can facilitate effective institutional regulation, it may be argued that the coordination failures among NGOs in the street population sector (and other sectors, as well) might be remedied. While this shift may not lead to a pure optimal provision of services, it stands to promote an achievable second-best solution.

### Government Policy and NGOs in Nepal

What is the Government of Nepal's policy on foreign aid and how significant is the collective impact of NGOs in Nepal? In the 1990s, a study conducted by Burnside and Dollar, two macroeconomic policy researchers with the World Bank, concluded that foreign aid (in general) has a positive impact on economic growth in developing countries with well organized fiscal, monetary, and trade policies; however, in the "presence of poor policies, aid has no positive effect on growth ...[and] any tendency for aid to reward good policies [is] overwhelmed by donors' pursuit of their own strategic interests" (Burnside & Dollar, 1997).<sup>37</sup> The structure of aid in Nepal suggests that left to their own devices, poorly governed bodies and developing regions cannot treat their own

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<sup>37</sup> In their analysis of Burnside and Dollar's piece, Sharma and Bhattarai concisely state that the key features of "good policies [for Burnside and Dollar] include low inflation and real exchange rates, sustainable fiscal policy, and open trade and payment regimes, while good institutions refer to the existence of the rule of law, effectiveness of government, and a good regulatory framework." (Sharma & Bhattarai, 2013: 897) Though they are discussing a different type of aid than the street population-sector NGOs, they notable takeaway from their discussion is the conclusion that Nepal does *not* have "good policies."

social ailments, and so to reduce internal threats and improve life prospects for everyone a degree of sovereignty is shared with NGOs in exchange for resources and services (Easterly, 2006: 270). Without proper regulatory bodies, however, NGOs are left to pursue their own agendas, have little accountability to the host government (though often well-supervised by their donor clients), and evolve in time to act as unregulated agents in the national aid sphere. Over time the temporary solution of delegating responsibility to NGOs becomes a permanent feature of the society.

On a macro level, the initial presence of NGOs was certainly not a cause of national instability, budgetary constraints, and widespread poverty in Nepal; rather, the introduction of NGOs was a consequence of those combined factors. By 2015, the instrumental presence of NGOs is the result of subsequent governance *around* aid. It is overly simplistic to posit that Nepal would be worse off without NGOs, as once one controls for the selection effect, typically things appear to be much worse without aid (Easterly, 2006: 52-3). Regardless, aid recipients like members of the street population vote with their feet, choosing the NGOs over employment. The magnitude of this effect may be qualitatively measured by their increased involvement with NGOs since the 1990s (Balav, 2015; Ryckmans, 2012). In the 1990s, instability in Nepal and policy adjustments (i.e. the Social Welfare Act of 1992 and the Local Self-Governance Act of 1999) allowed organizations to stage an economic intervention for Nepal's social service sector, alleviating pressure on the Government of Nepal and creating a

space for dependency via insourced social welfare programs. Recall again that post-1999, the majority of foreign intervention was funded devoid of government oversight (Rana, 2012: 67).

Based on its track record, the Government of Nepal does not appear to possess adequate resources to address its street-dwelling citizens and provide adequate social welfare services. Though Government-backed efforts in 2015 began to address the street population, they are a low-priority (and therefore under-resourced) subgroup for the Government of Nepal (Prasain, 2015). Their “rehabilitation” requires long-term intervention that often does not produce measurable results (Dawadi, 2015). Further, it took nearly 25 years for the Central Child Welfare Board to develop any research on the street population.<sup>38</sup> The Government of Nepal does, for example, prioritize resources for correctional services and facilities (focused upon juvenile delinquency). The Government of Nepal’s general disengagement with the street population, the high variability among the street population subgroups (along the dimensions laid out in the UNICEF subgroups), and the conditional resource availability from donors to serve the street population has created robust NGOs that are highly diverse. As judged by the evaluative capabilities of the Social Welfare Council, they are almost too diverse and specialized to be regulated unilaterally. On one hand, this is a productive scenario as to cater to many subsets of need among the subgroups of the street population; on the other hand, this may not be such a productive

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<sup>38</sup> The Central Child Welfare Board published its first evaluation of the street population in Nepal and the street population-sector NGOs in 2015.

scenario, because these programs distinctively cater to the preferences and philosophies of potential and current donors. The nature of street population-sector regulation from the Government of Nepal is distinct from policy that might be considered “implementation-oriented,” more closely resembling a gatekeeper than an overseer.

The over-relaxed and under-regulated NGO policy of the Government of Nepal, therefore, bears the fruit of NGO inefficiency. High variability in the street-population sector and low government involvement in the implementation of NGO programs raises the question of whether or not the present moral hazard exacerbates the effect of programs emphasizing client-friendly results rather than offering members of the street population an economically feasible alternative to street life (Easterly, 2006: 371). Further, one must question whether or not the programs geared towards providing social welfare to members of the street population are either appropriate within the Nepali cultural context, steeped within the Western “standard” understanding of childhood and youth livelihoods, or blended as a hybrid of both.

The Government of Nepal’s response to the street-population sector thus far has been to call for increased internal oversight of the Social Welfare Council. That is, though thousands of organizations already work to promote child welfare, the government has been unable to regulate them internally; General Secretary Regmi of the Social Welfare Council, for example, most recently proclaimed that “the Social Welfare Council is responsible for the monitoring of

the street children and [yet has] not shown any capability of monitoring the issue... the Ministry [of Women, Children, and Social Welfare] should monitor the Social Welfare Council to see if they have worked according to their objectives" (Pandit, 2016). In other words, the present proposed internal solution is that one department within the Government of Nepal will further regulate another department within the government in order to properly monitor the NGOs *independent of the government*. If nothing else, it is clear that the Government of Nepal currently views the monitoring capability of Social Welfare Council as suboptimal.

### The Principal-Agent Issue

The appropriation of street population-sector services by NGOs has created a unique principal-agent issue between the Government of Nepal and the street population-sector NGOs. Recall that for the intent of this argument, I regard the principal as the entity that designs a structure of incentives to influence the behavior of the agent (or agents) (Easterly, 2006: 170). The agent, in return, behaves according to the principal's strategic interests. The principal-agent relationship is optimal to the extent that the agent is incentivized to act in accordance with the principal's interests without incurring undue costs (in the form of excess risk, for example). The principal-agent relationship is suboptimal when the opposite occurs. The functionality of the principal-agent relationship is notably a relative consequence of the principal's ability to incentivize the agents to act in accordance with the principal's interest; therefore, sub-optimality arises

from characteristics (for example, informational) inherent to the transaction in question.

Here's a hypothetical example of a functional principal-agent relationship in context: the Social Welfare Council approves an street population-sector NGO to build and operate a drop-in center near an urban area *on the condition* that the organization offers both basic needs and vocational training to the impoverished youth and families living on the city streets. Conversely, this principal-agent relationship could be said to be dysfunctional if the hypothetical NGO circumvents the principal's authority and only distributes basic needs.

The principal-agent issue in the street-population sector is such that the Government of Nepal (the principal in this scenario) possesses a very limited ability to monitor street population-sector NGOs (the agents), and the agents exist in such great numbers that even monitoring some is a daunting task.

“Principal-agent contracts do not work if the principal cannot observe performance by the agent. With no ability by the principal to monitor the agent,” Easterly contends, “the agent has no incentive to work hard for the principal's interests” (Easterly, 2006: 170). This is slightly overstated in the case of the street-population sector: the Government of Nepal can, to an extent, observe the results of NGOs (as defined by the organizations themselves). However, the suggested moral hazard exists: a hypothetical NGO may pursue an entirely alternative agenda with any number of ulterior outcomes (e.g. allowing the NGO to court a greater level of donor resources or to inculcate recipients of aid with foreign

cultural values) and the Government of Nepal does not currently have a means of evaluating this divergence. The systemic failures of the street population-sector NGOs are reinforced by the systemic failures of the Government of Nepal, namely the inability to create a means of directly evaluating aid organizations' performance, to facilitate the coordination of NGO efforts, and to stem the leakage of development funds.

As the Government of Nepal weathers its own instability, budgetary constraints, and widespread poverty, it is perhaps not surprising that facilitating coordination among already-functional NGOs has a low-priority level (evidenced by nearly 25 years of inaction). Consider that in Nepal the “principal” in this scenario is neither a single person nor an unchanging body of individuals. Rather, over the past 25 years the principal has been a number of successive governments with hundreds of elected and unelected officials nested within various departments and offices. Over time, old officials cycle out and new officials enter into a structure accustomed to the NGOs. For the sake of argument, I contend that the path of least resistance towards promoting a net positive development appears to be allowing street population-sector NGOs to operate without regulation after their establishment. The entire incentive structure constructed by the principal shifts from being boundaries upon agent behavior to methods aimed towards ensuring that NGOs continue to provide social welfare services.

Evaluating the principal-agent relationship is further complicated by street population-sector NGOs not only answering to the Government of Nepal, but

also to their clients. In many ways, this is like the organizations having two bosses; the first boss is the Government of Nepal's Social Welfare Council, while the second is the clients (sometimes the clients are more like a conditional funding supplier than a boss). One boss creates boundaries for the organization concerning how it may pursue its goals, while the other actually fuels the organization on the condition that it pursues those goals (Easterly, 2006: 172). Donors, of course, are not unanimous in what they expect from aid organizations. Regardless, motives from these two bosses can understandably vary and differ. Consider the weakness of the first boss's evaluative capacity combined with the conditionality of the second's support, multiply this effect by around 40,000 unique organizations needing monitoring, and then temper *that* with the non-uniform distribution of NGOs in urban areas; thousands of NGOs pursue thousands of overlapping goals with only donors and staff to coordinate (or evaluate) their results.

Despite the lack of oversight and clear inefficiencies of such a policy, the Government of Nepal *still benefits* from the uncoordinated street population-sector NGOs: the street population addressed by *someone*, benefitting the Government because there is little relative cost. Rather than evaluate performance, the principal has developed a clear incentive to *adapt* to the power of the foreign clients, in a sense building around the *agents of the agent* in order to continue to benefit from the street population-sector NGOs. This is important, and will be returned to shortly.

In general, aid money is put towards high-priority development sectors with low input costs, and reflects of a flow of economic and political power away from the Government of Nepal (assumed to be the principal) and towards NGOs (assumed to be the agents). By virtue of the agents' comparative monetary power (and incentives to serve the agents' clientele more effectively than the principal's interests), NGOs target "low-hanging fruit." In other words, NGOs really seek out areas of greatest potential *output* (as measured by internal criteria) rather than greatest *input* (as measured by domestic need), again a selection effect.<sup>39</sup> From the Government of Nepal's perspective, intervention by way of federal institutions or staff (e.g. federal social workers or police) with all street children is less profitable, more superfluous, and may produce fewer results than intervention in other areas; alternatively, allowing NGOs to pursue and fund street population intervention is economically feasible (Chand, 2015).

Consider, for example, that supporting a member of the street population requires supporting his or her physical wellbeing, education, and psychosocial rehabilitation (possibly for years on end). Madhu Dawadi of Child Workers in Nepal reports that because street population intervention is costly and has no guarantee of "results," the Government of Nepal prefers not "to spend more than 100,000 NRs per [street] child...if they invest 100,000 Nepali Rupees [(NRs)] in another area, they can produce a report that [they reached] more than 100

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<sup>39</sup> This is particularly complicated by the fact that both output and need are subjectively defined by organizations.

children” rather than just a few (Dawadi, 2015).<sup>40</sup> Further, Dawadi reports that only 6.2% of the Department of Women, Children, and Social Welfare’s 181 million NRs 2014 budget was “allocated to children,” and the spending of this percentage was reportedly associated with administrative costs, still insufficient to coordinate the sector (a value which is admittedly unknowable without greater information). Over time, however, the inculcation of Western standards upon vulnerable Nepalis, like members of the street population, is taken as a given cost of filling the service vacuums with NGO services, the cycle becomes self-reinforcing, and the principal steadily loses influence over its agents.

The agents have in many ways become symmetric with the principal. Dawadi explains that that the Government is not only swayed to take action when prompted by NGOs, but also reluctant to take action if NGOs do not prompt it:

*“If we talk about the Village Child Protection Committee, that is VCPC, that is regulated in 2006 by the government. There is a directive [called the Child Friendly Local Governance Act of 2011], it was forced by such INGOs to introduce such a directive...It was forced by UNICEF. I am not afraid to cite the name of UNICEF. They are forcing the Government to introduce such a procedure. It is a directive by the Ministry of Fertile Affairs and Local Development. But it is a good document. But what the government is doing, only if the big INGOs or NGOs comes to*

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<sup>40</sup> 100,000 Nepali Rupees (NRs) is equal to approximately \$900 using a conversion rate of 1 NRs/ \$.00908.

*them, to have an amendment here or there to introduce such a directive or regulation. Then they agree [to do so].*

*This is the crucial part, which is not good practice. After assessing their structure, assessing their resources (human and financial), they are not analyzing in the right way. The leader of the bureaucrats, I mean the Joint secretary or the Secretary, if the big INGOs or the big NGOs or UNICEF [do not intervene], the government is easily ready to do something else, which is not good practice.*

*[These are] the things happening in our context, in terms of the existence of NGOs. We are the dynamics.” (Dawadi, 2015)*

Dawadi highlights the equalization of power between the Government of Nepal and NGOs, a symmetry that incentivizes a nationwide attitude of divestment from self-guided development (for the Government of Nepal and likely for its constituency, as well). Insourcing social welfare services has turned the tables for the Government of Nepal: street population-sector NGOs are both dominant and highly influential (with respect to their level of street population intervention), more closely representing a countervailing authority than an agent. Regulations on NGOs are easily circumvented. To that effect, *neither* NGOs nor the Government of Nepal is the principal and their relationship is increasingly symmetric.

It follows that there are clear potential costs to the Government of Nepal providing regulation and oversight to NGO activities, perhaps prompting street

population-sector NGOs (and others) to function less efficiently. Unsurprisingly, there also exist strategic benefits to inaction, such as the Government of Nepal ensuring its own underperformance.

### The Strategic Balance of Inaction

Before delving into the potential and proposed courses of action that the Government of Nepal may take to improve the regulation of street population-sector NGOs, consider that there exist strategic costs and benefits to the government continuing on its current course. On the one hand, the costs endured by the Government of Nepal of strategic inaction are issues of accountability and the capacity to which it may extend authority over its constituency via social welfare. On the other hand, the benefit acquired by the Government of Nepal of strategic inaction is clear: services are delivered, precarious social phenomena are “addressed,” and little cost is incurred. Regardless of the moral hazard inherent in the present Government-NGO relationship, the overall outcome for the Government of Nepal is evidently a net positive. Underperformance is ensured. However, the question at hand is whether or not the net positive extends beyond the Government of Nepal and, further, to what extent regulation stands to affect this net outcome.

Continuing on the current course is not without costs. NGOs in Nepal dominate the provision of social welfare services, and likewise privately control the street-population sector. The Government of Nepal is, therefore, not engaged with the street-population sector. Unlike government-to-government aid (where

the private sector may be crowded out by the government), the Government of Nepal is in this case encouraged to take on *less* than the state can effectively deliver (Manning, 2012: 17).<sup>41</sup> As a consequence, the Government of Nepal is susceptible to the legislative influence of private NGOs in creating policy. In the case example of UNICEF and the Child Friendly Local Governance Act of 2011 above, the outcomes of shared sovereignty are by no means intrinsically “bad” or “good,” yet the standard of shared sovereignty may be drawn out in either direction as a logical conclusion. If the Government of Nepal allows NGOs to operate without regulation and NGOs answer to their donors, then donors engaging in cultural self-promotion to members of the street population are afforded a direct means of influencing the Government of Nepal’s constituency. In brief, the cost of strategic inaction as a function of the more horizontal relationship is that the current aid structure divides the Government of Nepal’s accountability between its constituency and, to an extent, its NGOs (and perhaps further, those organizations’ donors).

However, there are clear benefits to the Government of Nepal pursuing strategic inaction. For starters, social welfare services are delivered to members of the street population at little to no cost for the Government of Nepal. The street population of Nepal may be unremarkable to locals, yet visitors and tourists are notably appalled by their existence. Strategic inaction allows for those visitors and tourists to become donors and NGO volunteers while the social

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<sup>41</sup> This is stated with respect to the fact that the Government of Nepal is resource constrained.

phenomenon is progressively “solved.” Regarding the present and under-regulated saturation of NGO services to the street population, the Government of Nepal bypasses the need to facilitate specialization and guided effectiveness because NGOs that are already competing to supply social welfare services will diversify on their own (Easterly, 2006: 205). Further, aid to the street population represents a potentially costly service for the Government of Nepal; street population aid, however, is defined as costly and perhaps even unnecessary *only* on domestic terms, yet foreigners are willing to take on the responsibility of supporting the street population target group. The strategic benefit of government inaction is therefore the creation of NGO facilities and the services that come with them in the interest of promoting development at zero institutional cost.

The Government of Nepal has therefore struck a self-serving balance with NGOs that, at least in the short run, produces a net positive result in comparison to pre-street-population sector Nepal (as measured by the fact that the street population is on the decline). The greatest costs are those involving the fungibility of aid money (Easterly, 2006: 371); that is to say, when NGOs act in ways that are contrary to the intention of either donors or the Government of Nepal. This cuts two ways: organizations may either pursue locally attuned projects that are contrary to donor desires or ineffective programs that are emphasized by donors. Under the current regulatory structure, the former is less likely than the latter. That being said, even if either of these types of programs is designed to emphasize donor-friendly results, they still produce results. In fact, in the interest

of maintaining client-recipient relationships that benefit Nepal as a whole, the Government of Nepal has an incentive to appear as a “detached” government: “donors [respond to] disasters with perpetual promises of a change for the better, sometimes detecting a nascent trend towards improvement” (Easterly, 2006: 138). In other words, selling a “bad” government to a donor is easier than selling a “good” one. Despite losses to accountability, the result is a net positive else the Government of Nepal would have incentives to take immediate action.

Though NGOs may weaken local government accountability, the balance of strategic inaction delivers a net positive result (at least in the short run) as shown by the Government of Nepal’s lack of involvement with the street population. Though NGOs dominate the street-population sector, the street-population sector *exists* because of NGOs (Rana, 2012: iv). In this light, the Government of Nepal is not crowded out at all: it is a passive observer. Though NGOs may exert their influence over the sovereign government, the result is often somewhat positive. Can regulation improve the net positive for both the Government of Nepal and the street population?

# Conclusion

## Moral Hazard and Adverse Selection in the Street-Population Sector

Moral hazard is the primary characteristic of the dynamic between the Government of Nepal and street population-sector NGOs. As a consequence of privately operating Nepal's social welfare services, moral hazard has served as the foundation of inefficient and suboptimal behavior by the street population-sector NGOs. In fact, moral hazard is a relationship characteristic outspreading beyond just NGOs and their recipients. There exist three levels of moral hazard originating from the activities of NGOs, and they are embedded within the three incentive problems: one to members of the street population, one to donors, and one to the Government of Nepal. Each party in these three cases of moral hazard has the built-in characteristic of risk aversion, yet their level of risk is largely unobservable to the other party. In attempting to provide attractive alternatives to members of the street population, uncoordinated street population-sector NGOs fail to achieve an optimal provision of services.

The first incentive problem, between members of the street population and street population-sector NGOs, occurs when NGOs provide members of the street population with unsustainable alternatives to acquiring their basic needs on the street. In the relationship between NGOs and members of the street population, incentives are designed to loosely condition the simple benefits of NGO services (e.g. provisioning of basic needs) upon a cost (e.g. participation in

training or education). The mass of uncoordinated NGOs and services, however, produces too many alternatives providing these simple benefits; in other words, there are numerous avenues for members of the street population to avoid costs, and the result is a suboptimal provision of services. The party that actually bears the bulk of the risk in the NGO to street population scenario is the members of the street population, exchanging short-term assistance for long-term socioeconomic costs upon themselves.

The second incentive problem, between street population-sector NGOs and donors (and, to an extent, the Government of Nepal), occurs because under the current regulatory structure the incentives for donor-dependent NGOs to cater to the interests of donors outweigh the incentives for such NGOs to provide a socially optimal aid structure to recipients. With respect to the blend of services required by the multi-task principal agent relationship, I've termed the outcome of this incentive problem as the *client-recipient separation problem*. By virtue of the client-recipient separation, NGOs may corrupt their own implementation methods or compromise their program effectiveness to provide incentives for donors to fund their projects. The party that actually bears the bulk of the risk in the NGO to donor scenario is, again, members of the street population (or other potential recipients), who are subject to the biased agendas of NGOs and therefore lack incentives to pursue long-term alternatives that they have a "reason to value."

The third incentive problem, between the Government of Nepal and the street population-sector NGOs, occurs because the Government of Nepal does not have the proper incentives to develop a street-population sector (more specifically, an assistance policy) of its own or to closely monitor and evaluate street population-sector NGOs' performance. With respect to the street population-sector NGOs, the Government of Nepal receives a net positive return on its decision to allow organizations to operate in Nepal regardless of whether or not the Social Welfare Council closely regulates street population-sector NGOs (moral hazard on the government's part). Further, rivalry among Nepal's volume of NGOs cannot be regulated or monitored effectively in the context of developing country constraints. While the NGOs may produce a *net positive*, the street-population sector as a whole falls short of optimized provision of services (with the approval of the Government of Nepal).

The heart of the problem in the street-population sector is not simply the provisioning of social welfare by NGOs; rather, it is endemic adverse selection by all parties involved. Characterizing the relationships between the members of the street population, the NGOs, and the Government of Nepal, adverse selection exists between NGOs and members of the street population in that members of the street population have varying yet unobservable built-in "probabilities" of successful rehabilitation; NGOs (especially drop-in centers) must take in both low- and high- probability of rehabilitative success recipients to "filter" for those with potential. Members of the street population, however, take advantage of this

by rotating from NGO to NGO day-by-day, avoiding filtration while remaining risk-averse. With respect to the multi-task principal-agent relationship, moral hazard exists between NGOs and donors in that donors do not always have access to complete information about NGO programs. NGOs, therefore, will emphasize efforts that “sell” more effectively to donors to the detriment of equally (if not more) important efforts that are more difficult to document (and “sell”). Finally, adverse selection exists between NGOs and the Government of Nepal in the establishment of NGO programs via the Social Welfare Council. Claiming a monopoly on the registration of NGOs, the Social Welfare Council favors quantity over quality of NGOs: unmonitored competing organizations produce a greater level of somewhat constructive results (not *optimized*) than unmonitored non-competing organizations.

In the street-population sector, the failure of NGOs to coordinate their services prompts NGOs to be adversely selected against by recipients, and a lack of incentives by the Government of Nepal to coordinate these services perpetuates this problem. In essence, members of the street population inadvertently have the least information. Further, donors don’t know exactly how NGO programs function, yet have incentives to fund those that are familiar and suit their strategic agendas. Members of the street population don’t know exactly which NGOs are the best suited to their needs (and vice versa), so they diversify to become familiar with all NGOs (and vice versa). Finally, the Government of Nepal doesn’t have complete information or the regulatory power necessary to

determine which NGOs are ineffective, so they allow many NGOs to operate as such produces a net positive result.

There are three incentive problems reflecting a mix of moral hazard, adverse selection, and the lack of oversight in the Government-NGO relationship. The three incentive problems produce a distinctly suboptimal provision of services. Having examined the three incentive problems and determined that the optimal provision of services may be out of reach, it is still possible to suggest a second-best solution.

### Recommendations: A Second-Best Solution

A series of steps may be taken by the Government of Nepal to achieve a second-best solution to the incentive problems present within the street-population sector. The goal of the Government of Nepal's regulatory intervention is to simultaneously shrink the areas of inefficiency within the street-population sector while increasing the level of monitoring to NGOs. The outcome aims towards an optimal provision of services. The recommendations to the Government of Nepal are as follows:

1. Reduce the number of street population-sector NGOs upon criteria produced by the respective government office(s) overseeing the NGOs in question.
2. Internally contract specific government agendas to NGOs via the Social Welfare Council.

3. Facilitate coordination among contract winning-NGOs via the Central Child Welfare Board, providing incentives for NGOs that coordinate.

A reduction in the number of NGOs within the street-population sector is an essential first step towards achieving a more effective balance of assistance and incentives. Rather than allow hundreds of low-capacity, short-term NGOs to serve a few members of the street population here and there, the Government of Nepal must prioritize the registration of long-term NGOs in the street-population sector. Market saturation in the street-population sector has led to low conditionality services (with respect to the NGOs' ability to tie commitment to assistance), which perpetuate inefficiency by fostering competition. By reducing the number of NGOs, the Government of Nepal may more easily regulate and oversee the street-population sector.

Preserving the diversity of the street population-sector NGOs is desirable; after reducing the number of NGOs, internally contracting projects by way of the Social Welfare Council is the second step towards a more efficient provision of services to the street population in all NGO subtype areas. By virtue of a shrinking target group, projects involving prevention and rehabilitation must take priority over street population management. Preventative and rehabilitative measures are less capital-intensive and do not risk attracting members of the street population to urban centers in the same way that street population management services tend to do. Contracts may prioritize low maintenance development projects, ideal under conditions of dysfunctional governance

(Easterly, 2006: 190). NGOs that fail to win contracts will either be driven out of the street-population sector or forced to adjust their agenda to align with available contracts.

Contract winners within the street-population sector may then be coordinated and closely overseen by the Central Child Welfare Board, which maintains an office in all seventy-five of Nepal's districts (Chand, 2015). Building upon the past efforts to coordinate the major players within the street-population sector, the Central Child Welfare Board may apply its most recent research study (completed in 2016) to set guidelines for the operation of street population-sector NGOs.<sup>42</sup> A revision of the Local Self-Governance Act of 1999 is perhaps necessary, as the Central Child Welfare Board must regulate funding sources and allocation more closely to minimize the potential fungibility of NGO money. As NGOs become more efficient and successful, the Central Child Welfare Board may facilitate a transition to local ownership of the NGOs themselves.

### Looking Forward

NGOs serving the street population of Nepal provide social welfare services faster and more efficiently than the Government of Nepal does on its own. Thus far, NGOs have additionally produced three distinct incentive problems by which moral hazard and adverse selection place undue risk upon members of Nepal's street population. By reducing the number of NGOs within

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<sup>42</sup> The Central Child Welfare Board has successfully set guidelines for children's homes, and thus expanding to drop-in centers and transit homes is only a matter of applying their research to setting guidelines.

the street-population sector, the Government of Nepal may more efficiently regulate and oversee NGO activities via the Social Welfare Council and Central Child Welfare Board.

Rather than accept the street-population sector's current disembodied state, contracting and coordinating long-term, non-experimental projects may promote a second-best social optimum. As the Government of Nepal strengthens its own institutional influence over the street-population sector, a threshold for evaluating NGO performance is inevitably created alongside a coinciding threshold for commitment with respect to members of the street population engaging with NGO programs.

By shifting risk away from the members of the street population, the level of NGO dependency stands to be reduced and the street population may be addressed in a method that is relevant in the domestic context, regulated by the Government of Nepal, and devoid of moral hazard. As a second-best solution, assistance and incentives may fall more closely into balance, eventually guiding Nepal towards a social optimum at its own pace.

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