

Determinants of Chronic and Transient Poverty in Nepal

Saurav Dev Bhatta

University of Illinois / Open Learning
Exchange Nepal

and

Suman Sharma, Tribhuvan University

Outline

- Objectives
- Background and motivation
- Data and methodological issues
- Results
- Conclusions

Objective

- Analyze the determinants of chronic and transient poverty in Nepal using household panel data

Background and motivation

- Nepal: very low ranking in all indicators of human development
- Poverty: central in development discussions
- Discussions: informed by static measures of poverty
- Poverty dynamics: understanding of chronic and transient poverty
- Importance of understanding: potentially different prescriptions for chronic and transient poverty

Background and motivation

Main determinants of interest

- Wealth
- Ethnicity
- Human capital
- Conflict

Data

Data on household and individual characteristics

- Nepal Living Standards Survey
 - Household panel data for 962 households
 - Two waves in panel: 1995/96 and 2003/04

Data on conflict intensity (district level)

- INSEC
 - killings by Maoists and government, 1996-2003

Methodological issues

- Attrition in panel
- Measuring transient and chronic poverty
- Correcting for measurement error
- Use of equivalence scales
- Modeling determinants of poverty

Methodological issues

- Measuring transient and chronic poverty: spells approach
 - *Poor*: if household per capita consumption $<$ poverty line
 - *Transient poor*: if poor in one of the two waves
 - *Chronic poor*: if poor in both waves

Methodological issues

Modeling determinants of poverty

- Unit of analysis: household
- Model:

Poverty status = F(wealth, ethnicity, human capital, conflict intensity, ...)

- Poverty status: non-poor, chronic poor, transient poor
- Econometric approach: Multinomial logit model

Results



Percentage of population in each poverty category

Poverty Category	Stratum				Nepal
	Mountains	Urban hills	Rural hills	Terai	
Chronic poor	23.35	1.94	22.52	19.37	20.35
Transient poor	43.36	3.19	26.85	25.82	26.81
Non-poor	33.3	94.87	50.63	54.82	52.84
Total	100	100	100	100	100

Determinants of chronic and transient poverty: mean values of selected variables

Variable name	Chronic poor	Transient poor	Non-poor
<i>Ethnicity:</i> Brahman, Chettri, Newar	● 25.5	● 31.68	● 44.28
Major Janjati	23.23	20.41	19.25
Hill Dalit	● 18.74	● 9.64	● 5.7
Other	32.53	38.28	30.78
<i>Human capital</i>			
% of HH adults who can read and write	● 15.03	● 23.19	● 42.46
% of HH adults with primary education	6.07	10.69	21.35
% of HH adults with secondary education	1.2	2.22	7.61
% of HH members with chronic illness	5.41	8.2	8.49
<i>Household wealth</i>			
Value of home (with plot) owned (thousand Rs)	● 26.51	● 33.04	● 131.36
Value of agricultural land owned (thousand Rs)	79.2	107.4	369.73
Value of livestock owned (thousand Rs)	18.6	21.78	29.4
No. of insurgency-related killings between 1996 and 2003 in district	● 115.7	● 92.09	● 54.25

Determinants of chronic and transient poverty (dep var: poverty status)

Explanatory variables	(1)		(2)	
	Chrnc	Trns.	Chrnc.	Trns.
HH size	+ *	NS	+ *	+ *
% of individuals under 15 or over 59 years of age	+ *	NS	NS	NS
Other demographic variables	NS	NS	NS	NS
Ethnicity: Major Janajati	NS	NS	NS	NS
Ethnicity: Hill Dalit	NS	NS	NS	NS
Ethnicity: Other	NS	NS	NS	NS
% of HH adults who can read and write	- **	NS	- *	- **
Other human capital variables	NS	NS	NS	NS
Employment related variables	NS	NS	NS	NS
Value of livestock owned (thousand Rs)	- **	- **	NS	- *
Other wealth variables	NS	NS	- *	- *
Insurgency-related killings in district, 1996-2003	+ *	+ *	+ *	+ *
% of literate persons in district (age >= 15)	- **	- **	NS	- *
District land gini	+ *	NS	+ *	NS
Stratum: urban hills	NS	NS	NS	NS
Stratum: rural hills	NS	NS	+ *	+ *
Stratum: terai	NS	NS	NS	NS
Number of observations	962		962	

Conclusions

- 47% of households either transient or chronic poor
- Of the total poor, 43% transient and 57% chronic poor
 - ➔ need policies to address both types of poverty
- High degree of overlap between significant determinants of chronic and transient poverty
 - ➔ Most poverty reduction policy interventions help reduce both
- *Wealth and human capital*: significant determinants of chronic *and* transient poverty
 - ➔ highlights importance of policies to promote asset accumulation (more government investment in education; expansion of microcredit, microinsurance)

Conclusions

- *Conflict*: significant determinant of both
 - ➔ highlights urgency of finding permanent solution to new conflicts in the southern parts of Nepal
- *Ethnicity*: not significant determinant of either
 - ➔ Needs to be highlighted in policy debates, especially given the increasing call for national restructuring based on ethnicity
- Average years of education significantly lower for the chronic poor and this is explained largely by differences by difference in HH wealth and ethnic mix
 - ➔ Highlights importance of targeted policies for enhancing education of Dalits and Janajatis



THANK YOU

- GDP growth rate:
 - 1990s: 5%
 - 2006-07: 2.5%
 - 2007-08: 3-45
 - GDPpc: \$320 (2006)
 - Population 28 mil. Growth rate 2%
 - Inflation 7%
 - Remittance (2006/07): 14% of GDP (USAID report)—more forex than exports