

Development and Poverty Alleviation

Determinants and Consequences of Chronic versus Transient Poverty in Nepal

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As in most other poor countries, the poverty reduction strategies and policies in Nepal are primarily informed by periodic cross-section household income data that provide estimates of static poverty rates. Interestingly, however, the focus of these policies appears to be chronic or long-term poverty—poverty that is not necessarily reflected in cross-sectional survey data. While estimates of poverty at specific points in time might correlate with chronic poverty to some extent, such estimates are more representative of poverty that is transient in nature. Hence, an issue of interest is the extent to which there is an overlap between the factors that explain transient and chronic poverty.

In the case of Nepal, however, a rigorous analysis of the factors behind chronic and transient poverty has never been performed. Hence, the main objective of this study is to explore the differential impacts of various poverty determinants on chronic versus transient poverty at the household level, with a special focus on three explanatory factors: wealth, human capital, and ethnicity.

Since human capital is a potential determinant of poverty, policymakers view investment in human capital as a major long run strategy for tackling both transient and chronic poverty. But an individual's level of human capital itself is influenced by her income and assets. It is, however, not clear how the level of human capital differs between individuals from chronically poor and transient poor households, when the influence of wealth and ethnicity is also taken into account. A second objective of this study is, therefore, to determine the extent to which differences in wealth and ethnicity can explain the difference in human capital between individuals from chronically poor and transient poor households.

The data used in this study are drawn primarily from the Nepal Living Standards Survey (NLSS) conducted by the Nepal Central Bureau

of Statistics in 1995/1996 and 2003/2004. This national level survey includes a panel component of 962 households as well as a large cross-sectional sample of over 3000 households in each of the two years.

This study utilizes a multinomial logit model to analyze the determinants of chronic versus transient poverty. The dependent variable of the model can take one of three discrete values indicating the poverty status of a household (chronic poor, transient poor, and non-poor). The difference in the level of human capital for individuals from chronically poor versus transient poor households and the extent to which this difference can be explained by wealth and ethnicity is investigated using a technique known as the Blinder-Oaxaca decomposition method.

Although there are a number of studies in the literature on the determinants of chronic and transient poverty, we are not aware of other published studies on Nepal that analyze these issues using quantitative data. This research also makes a contribution to the scholarship on poverty dynamics by exploring how human capital accumulation—an important strategy for long term poverty reduction—is affected differently by the poverty status of individuals.