WALELIGN, **SOLOMON ZENA** [S20-P85]

Poverty traps and environmental income: Empirical evidence from rural Nepal

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With more than 80% of rural people, poverty has a rural dimension in Nepal as the incidence of rural poverty outweighs that of urban poverty and environmental resource extraction significantly contributes to the livelihood of the rural poor. Past estimates on poverty and its link with environmental reliance in the country have informed on the current state of the problem. However, they have largely lacked the ability to tell us how poverty is likely to persist in the medium and long term and how this affects the level of poor households' reliance on environmental resources, which in turn has policy implications for sustained poverty reduction and environmental conservation. Employing a panel data-set covering the three agro-ecological zones of the country, we use household income and assets data as welfare indicators to analyse the welfare dynamics, identify distinct long-term welfare groups and examine differential use of environmental resources of rural Nepal. The household asset data allow us to test for the presence of poverty traps and single equilibria among the rural households. We employ parametric, semiparametric and nonparametric models and results show that although we cannot confirm the presence of a poverty trap in the study population, households accumulate assets very slowly. The approximate location of stable equilibrium is estimated to be at 1.1 asset scores ranging from 0.8 to 1.3 asset scores. Environmental income is very important – both in absolute and relative terms - to households below the stable equilibrium, while it is the second least important source to households above the stable equilibrium. Households asset accumulation was influenced by factors other than environmental income in the fixed effects models. These results support the conclusion that environmental income is not a major contributor to asset accumulation. Instead it is more important as supporting current consumption and as a safety net, preventing vulnerable households from falling deeper into poverty.