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Pathways into and out of Poverty: A Study of Household Wealth Dynamics in Rural Kenya

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1. Introduction

Rural poverty in Africa remains pervasive. In 2005, more than 40% of Africa's population was estimated to be poor (World Bank 2006). Yet some smallholder farm households have successfully climbed out of poverty. Conversely, other households that were once non-poor have descended into poverty. If factors causing these dynamics were known, it might be possible to replicate these factors more broadly through poverty reduction strategies. The availability of panel data coupled with retrospective surveys have made such analysis possible.

2. Objective

The study identifies the factors associated with smallholder farm households having ascended out of poverty or descended into poverty. Value of households' assets is the welfare measure.



Figure 1: Conceptual framework

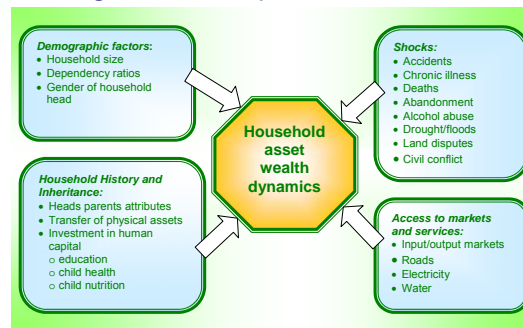
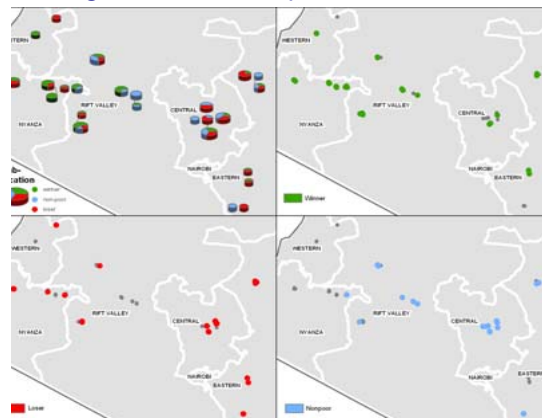


Figure 2: Sub-sample Households



3. Data

The study draws from two sources of data: longitudinal and retrospective survey data:

- Panel survey data on 1,254 household collected in 1997, 2000, 2004 and 2007
- Retrospective/life history surveys on a sub-sample of households that had:
 - experienced major improvement in wealth- "ascenders" [n=30]
 - experiencing a major decline in wealth- "descenders" [n=30]
 - consistently relatively well-off households - "non-poor" [n=30]

4. Methods

- Bivariate descriptive analysis
- Panel data econometric analysis:

$$y_{it} = \alpha_i + X_{it}\beta + \mu_{it}$$

where dependent variable is the households' asset values, X is a vector of time-varying and time-constant explanatory variables; α is the unobserved heterogeneity; and μ is the usual error term.

- Correlated random effects* estimator is used in model estimation (Mundlak 1978, Chamberlain 1984).

5. Results

Households successfully accumulating assets:

- o were healthy and not adversely affected by mortality
- o were consistently headed by a male
- o received relatively more land from their parents
- o had parents who were relatively well-off and educated
- o cultivated more land (70%)
- o increased use of fertilizer over the panel period

Households reporting a significant decline in asset wealth:

- o experienced unexpected shocks- death and illnesses
- o likely to have turned from male to female headed
- o likely to be polygamous
- o poorly educated household heads
- o parents of household heads were uneducated
- o little land and other assets inherited from parents

6. Policy Implications

Findings underscore the importance of staying healthy and households' ability to produce agricultural surpluses. The study also highlights the role of intergenerational wealth transfers.

Acknowledgements

