The Dynamics of Poverty

Dr. Deepa Narayan, Project Director, is lead author of the recent World Bank study, *Moving Out of Poverty: Success from the Bottom Up*. She was Senior Adviser in the Vice President’s office, Poverty Reduction and Economic Management, World Bank

What makes this recent study, *Moving out of Poverty*, unique?

*Moving out of Poverty*, a large-scale, 15-country comparative study, is unique among other poverty studies as it puts conventional assumptions about poverty aside and relies on the ratings and perspectives of the poor themselves. This work reveals three key issues:

- **Poverty is multidimensional**: it includes not only economic well-being, but also social well-being, issues of dignity, freedoms, democracy, equality, empowerment and aspirations, to name a few. Understanding poverty in such a way differs from definitions from orthodox studies, which typically focus on people who live below an income poverty line.
- **Poverty is a dynamic phenomenon**: Many previous studies around the world, whether qualitative or quantitative, are snapshots; they focus at one point in time, which in turn implies that poverty reduction strategies are based on these snapshots. This study shows that poverty is a situation not a characteristic of the poor as there is much movement up and down. In addition the factors leading to upward movement are different from those related to downward movement. This necessitates different policies.
- **Variation is greater within country than across countries**: While national level studies are useful, the study reveals that poverty mobility varies more within a country rather than across countries. This was true for other important measures such as the responsiveness of local democracy. Hence it is important to understand local dynamics in different types of communities within a country.

What principles and methods were used to engage with the poor?

The *Moving Out of Poverty* study is a follow-up to the earlier *Voices of the Poor* study. Its purpose is to explore from the bottom up how people move out of poverty. The study focuses in depth on 500 communities and is not nationally representative. Principles that guided the work: (i) each individual is the expert on her or his own life. The analysis gives primacy to the voices of 60,000 people, living primarily in rural communities, who shared their life experiences and insights, and (ii) local context matters. Individuals and households were located in their community contexts, and goes beyond the exclusive focus on individual or household characteristics that is often typical of poverty surveys.

In order to really capture poor people’s own perspectives and definitions of poverty and prosperity, researchers developed a tool called the Ladder of Life. In group discussions, participants built a ‘Ladder of Life’, or a continuum describing degrees of poverty and well-being, and then decided where in this continuum specific households in their community stood in 2005 (the time of the study) and 10 years previously. Asking participants to establish where
When you give a person that much, " said members of a discussion group in Chubaka, Tanzania, referring to the income level at the official poverty line, "also prepare a prison for him because after a few hours he will start stealing."

What have you learned about poverty dynamics?
In spite of the many obstacles poor people confront, many do escape poverty. Poverty is a condition and not a characteristic. Across the studied communities in the world, close to half the population is moving up or down, often with the same people falling and rising at different times. There is great variation across countries, with the highest falling rates in Africa. But worldwide, 23% moved out of poverty while almost the same number -- 22% -- fell into poverty. Just by stopping the falling we can dramatically affect poverty rates.

This analysis of poverty mobility also reveals that similar net reductions in poverty in the different study regions can mask very different poverty dynamics. For instance, in West Bengal about 30 percent of those who began in poverty moved out, while only about 17 percent of the initially poor moved out of poverty in Andhra Pradesh. But the net reduction in poverty was only 4 percentage points larger in West Bengal, because 21.1 percent of the non-poor there moved into poverty, and in Andhra Pradesh, this movement was only half as large. Thus, the dynamics of the non-poor matter for poverty reduction as well. In Malawi, the authors found that falling rates among rural communities were high enough to cancel out the upward movement. The main reasons across countries for falling into poverty were health shocks and declines in local economic prosperity.

Why do people move out of poverty, and why do some fall into it?
The study shows that the reasons for moving out of poverty and for falling into it are different, and need to be analyzed. These reasons are shown on the figures below.

Strong aspirations and individual initiative drive efforts to improve their own situation and lay the foundation for a better future for themselves and their children. 77.5 % of people cite "individual initiative" as the main reason
for moving out of poverty. Empowerment is thus a major factor in poverty reduction. Regression analyses also highlighted the importance of empowerment in moving out of poverty even after controlling for many other factors.

Despite social, political and economic barriers that poor people are often faced with, they take many risks in an active search for opportunities to improve their welfare.

- **Poor people frequently confront exclusionary markets and lack resources.** Despite the micro-credit revolution, poor people remain starved for credit and excluded from other financial services. Micro credit alone, cannot pull people permanently out of poverty.

- **The extent of downward mobility reveals that vulnerability and insecurity are key issues.** Participants identified those households on the first and second step immediately above the community poverty line as the most vulnerable. Often, this group has no savings or assets to fall back on. The figure below shows the net poverty reduction rates in five countries with high falling rates versus the poverty reduction rates if no one had fallen into poverty.

![Figure showing net poverty reduction rates](image)

**Source: Calculations from the Ladder of Life community mobility matrices, Narayan et al. 2009.**

**What are some of the policy implications emerging from Moving Out of Poverty?**

New strategies are needed, with particular focus on vulnerability, to increase people’s resilience, first, by helping them reach an asset threshold that would allow them to survive shocks such as illness, crop failure, and food and fuel price increases. Second, poverty can be dramatically decreased through social protection measures, including social and health insurance programs as well as cash transfers that help people deal with shocks, particularly ill health, one of the most frequent triggers for descent into poverty. Narrowly based targeting when large numbers are poor is ineffective. All development agencies should concentrate resources in a geographic area before moving to the next rather than scatter resources over large areas.

Some of the policy recommendations that arise from **Moving Out of Poverty:**

- **Location matters, and so does connectedness:** The provision of quasi-public goods like permanent roads, physical market spaces, irrigation waterways, telephone networks, electricity and cheap, reliable transport is a powerful lever for increasing economic opportunity;

- **Fair access to markets is key:** Expanding opportunities for the poor requires an analysis of the business climate not only for large, formal producers, but for tiny and small entrepreneurs;

- **Liberalization from below:** Opening markets in a way that even poor, small entrepreneurs can buy and sell surpluses on their own terms;

- **More and better finance:** Poor people need larger loans, new and innovative financing arrangements for small enterprise, and support in making best use of credit;

- **Local government can either block or spur economic dynamism:** Strong local democracies that ensure property rights and a positive business environment are critical for ensuring that the benefits of opening up markets are more equally shared.
Some General Resources


Moving Out of Poverty Series


Voices of the Poor Series


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