When it comes to reducing extreme poverty, is past prologue?

Programming to End Extreme Poverty: Evidence and experience to guide the way forward

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The Past: A Brief Tour of the Evidence on Poverty Reduction

The past 25 years have been an auspicious period in the global fight against extreme poverty. Based on the World Bank’s most recent forecasts, the share of people in the developing world living under US$1.25 a day will be 70 percent lower this year than in 1990. Over the same period, a body of evidence has been assembled that begins to explain how poverty reduction occurs. This evidence is made possible by three factors: first, the high variance of performance in reducing poverty, which can consequently be subject to analysis; second, a dramatic expansion in the quantity of and access to poverty data generated through household surveys; and third, new research methods for parsing poverty data and evaluating interventions to help people living in poverty.

There are five components to this research.

The first component examines the relative contribution of economic growth and redistribution to poverty reduction. This research has typically taken the form of cross-country regressions (Dollar and Kraay 2002) or macro-decompositions (Kakwani 2000). It finds that growth is by far the dominant cause in most cases of poverty reduction. This makes good intuitive sense. The level of inequality found, on average, in poor and rich countries does not differ, while average incomes in the latter are between 10 and 100 times greater. In most low income and many lower-middle income countries, average incomes are so modest that there is insufficient capacity to reduce extreme poverty through redistribution alone (Ravallion 2010). Important though this finding is, its consequences for policy are inevitably limited. Identifying the causes of fast, sustained growth remains arguably the greatest riddle at the heart of economics (Lucas 1998; Commission for Growth and Development 2008). Moreover, growth and changes in income distribution are jointly determined, so it makes little sense to target one force while ignoring the other.

The second component decomposes growth a step further to examine the role of different economic sectors in reducing poverty. This requires more than a simple accounting exercise to account for
the general equilibrium effects that link economic sectors together, manifested in changing prices and wages, and the movement of workers between sectors. While there is considerable variation across countries, growth in agriculture can, on average, account for more poverty reduction than any other sector (Gollin et al. 2002) and generates more poverty reduction for a given amount of growth (Christiaensen et al. 2011). Again, this result feels logical. Historically, most people living in poverty have been found in rural areas and work in agriculture. They are most likely to benefit from economic activity if they contribute to it or are located close to it. However, the scope for raising agricultural productivity varies greatly from location to location. Moreover, agriculture encompasses a broad range of economic activities whose effects on poverty inevitably differ: for instance, there is evidence that productivity growth in staple crops has been more effective at reducing poverty than productivity growth in export crops (Diao et al. 2010).

The third component applies decomposition methods to household surveys to identify the proximate drivers of poverty reduction at a micro level. These drivers can be distinguished principally into labor income (labor input and labor productivity) and non-labor income (subsidies, public transfers and remittances) as the sources of increased individual consumption. Such analyses cannot ascribe causality to these drivers but instead point to the channels through which the consumption of people living in poverty is ultimately lifted. This approach has been applied to 13 countries that recorded significant poverty reduction between 2000 and 2010 (Azvedo et al. 2013). In most cases, labor and non-labor income played an important role with the former—specifically, increased labor productivity—playing a larger role on average (Figure 1).

Figure 1 Contributions to the decline in $1.25 poverty since 2000, select countries
Non-labor income was found to have a larger role in accounting for poverty escapes for those starting in deeper poverty, for whom market opportunities are presumably more scarce. Further decomposition analysis has been applied to a subset of countries to account for the source of improved labor productivity (Inchauste et al. 2012). It found that people living in poverty received greater returns to their labor without improving their endowments or applying their labor to different sectors, pointing to higher labor demand and technological progress as key drivers.

The fourth component uses panel surveys to identify the common characteristics of those who successfully escaped poverty. These characteristics correlate with poverty reduction but may not be its cause. Among the characteristics identified are poor people’s endowments, such as education and asset ownership, and the environment in which they live, such as their access to infrastructure (Dercon and Shapiro 2007; Baulch 2011). Recent within-country migration is another significant factor, yet little is understood about the constraints to greater geographical mobility (Christiaensen and Todo 2014, Beegle et al. 2011).

Since opportunities for escaping poverty are likely to be context-specific, so is the relevance of these factors. The same body of research reveals the high degree of churn that occurs around the poverty line and highlights the role of risk and shocks, including conflict, in keeping people in poverty.

The fifth component assesses the short to medium term poverty reducing effects of specific projects, and to a lesser extent policies, through impact evaluations. The growing popularity of randomized control trials (RCTs) has generated evidence of the poverty reducing (or consumption increasing) impact of a vast array of interventions that include transport and energy access (Cook et al. 2005), formal banking (Pande et al. 2012), agricultural extension (Dercon et al. 2009), improved maize (Becerril and Abdulai 2010), land titling (Dasgupta and Pellegrini 2009), irrigation (Kuwornu and Owusu 2012), adult literacy (Blunch and Pörtner 2011), self-help groups (Deininger and Liu 2009), migration (Gibson et al. 2010), conservation (Sims 2010) and food aid (Reda and Calfat 2010). More broadly, this body of work has demonstrated the potential for reducing poverty by addressing information asymmetries, misjudged expectations, and the excessive burden of responsibilities borne by people living in poverty (Banerjee and Duflo 2011). Common criticisms of RCTs concerning the scalability and the cost-effectiveness of interventions and the external validity of their findings are applicable here. Accordingly, the BRAC-Ford ultra-poor graduation program, a multi-pronged intervention seeking to achieve sustained poverty escapes for the chronic poor, is worthy of a special mention: it has recently been piloted at a large scale and evaluated favorably in nine countries, but must still convince skeptics of its cost-effectiveness (de Montesquiou et al. 2014).

**The present: Three debates on what works**

Our knowledge and understanding of how poverty reduction occurs, and the most effective way of supporting it, is growing but remains far from complete. There are three live debates that are especially prominent.

**Capital, knowledge or public goods**

The meager incomes of poor people can be attributed to one or more constraints. How governments and donors weigh those constraints will in part determine the selection of
interventions they support to address poverty. Thus, cash transfers, asset transfers and microcredit address a perceived shortage of capital; training and mentoring programs respond to a deficit in knowledge; while investments in stability, infrastructure, and institutional and policy reforms speak to a need for improved public goods and a more conducive environment for economic activity.

The identification of constraints is instructive, but can overlook important interactions between constraints and the case for multi-pronged interventions. Proponents of cash transfers argue that cash empowers the poor to identify and address constraints themselves. Skeptics point out that many goods and services cannot be bought on markets, including public goods or affordable credit which would obviate the need for cash transfers in the first place. In practice, the time horizon of policymakers (capital can be provided more quickly than knowledge and public goods), costs of administrating programs and political economy considerations (which can, for instance, help explain the popularity of imposing conditions on cash transfers) are critical factors.

**Targeted or universal interventions**

A debate on the appropriate scope of targeting has been sparked by the dramatic growth in social safety nets in the developing world, although the relevance of this debate applies equally to one-off poverty interventions. At its core, the cost-benefit calculus of targeting pits the fiscal savings associated with restricting the number of beneficiaries of a given intervention against the reduced take-up of benefits by the target group, leakages that occur with inaccurate targeting plus any additional administrative costs incurred in targeting as opposed to universal coverage. The efficiency of targeting is therefore context-specific.

Various methods exist for identifying beneficiaries—geography, proxy-means, self-selection, community-based—each of which are associated with different levels of accuracy and cost. Digital identification and communication technologies have reduced the administrative cost of targeting and improved its accuracy for some interventions. On the other hand, political economy arguments point to various risks of targeting, including political capture and opposition by non-beneficiaries.

**Promoting exits or stemming backslides**

Efforts to reduce poverty must decide how to balance the need to promote poverty exits and stem backslides. The risk of falling into poverty over the medium term decreases as individuals move further above the poverty line, but remains significant up to around twice its value (López-Calva and Ortiz-Juárez 2015; Corral et al 2015). Reducing backslides entails a broad agenda of mitigating and strengthening the response to various kinds of shocks, and averting the degradation of natural resources on which the livelihoods of many people living in poverty depend.

**The future: New landscape, new knowledge gaps, new opportunities**

The number of people living in extreme poverty around the world is expected to continue falling over the next 15 years—though to what extent is impossible to predict. As this reduction unfolds, the composition of the remaining global poor will evolve with important implications for poverty reduction efforts. There are three salient features of the new poverty landscape.

First, poverty will be increasingly concentrated in fragile and conflict-affected states. To make matters more complicated, conflicts themselves are
changing: becoming, on average, more complex and protracted; having a greater impact on civilians, whose protection and rights are difficult to uphold; and involving more opportunistic actors who have less interest in agreeing to a settlement and less desire to govern. Second, in more stable and better off countries, low levels of poverty will remain in lagging sub-national regions. Marginalized and remote communities can remain outside the orbit of their national economies without efforts to deepen connectivity and expand productive opportunities. Third, natural disasters will pull people into poverty and trap others. Around 800 natural disasters occur each year, affecting 200 million people, or approximately double the number reported 20 years ago; the Intergovernmental Panel on Climate Change predicts that the frequency of disasters will increase further as a consequence of climate change.

Responding in part to this new landscape, the forthcoming book, *The Last Mile in Ending Extreme Poverty*, identifies three issues on which ongoing progress in reducing poverty depends: securing peace, creating jobs and building resilience (Chandy et al. 2015). In each case, the existing stock of knowledge is limited: existing approaches to solving these challenges have had insufficient impact and reflect an incomplete understanding of the issues entailed. We see these as priority areas for further research.

On a more positive though speculative note, the digital revolution—specifically the integration of poor people into digital networks—may present new opportunities to accelerate and support poverty reduction. Financial inclusion combined with increasingly frictionless payments can improve the productivity of the informal sector, and facilitate remittances and social assistance where market opportunities for generating income are limited or where shocks are prevalent. Internet connectivity combined with digital literacy can strengthen social capital to make societies more resilient, reduce marginalization, and close information gaps. Big data and open source platforms can create new business opportunities that employ or serve the poor, and drive efficiency improvements in existing economic activities. Together, these factors have the potential to redefine what it means to be poor and provide better odds for people to exit poverty permanently.

**REFERENCES**


