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Pathways from Poverty: Evaluating Long-term Strategies to Reduce Poverty

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Factors of poverty

Reducing poverty is the central objective of international development. The Millennium Declaration of the United Nations committed the global community to halving, by 2015, the proportion of the world's population who live in poverty and suffer from hunger. Poverty reduction is now embodied in the missions of diverse development bodies, including multilateral institutions, bilateral development agencies, non-governmental organizations, and governments in developing countries.

Attaining the United Nations' goal requires good governance, a genuine political commitment by both developed and developing countries, and increased resources. Yet, reducing global poverty also requires a clear understanding of the factors that predict whether an individual or household will become less poor or more poor over time. Intervention programs often are evaluated on a short time frame, even though such interventions may have long-term effects. Often, project designers and implementers of human capital investment programs are not fully aware of the long-term returns to their projects. Therefore, BASIS will attempt to identify policies, programs, and interventions that are most effective in reducing poverty over the long term through some combination of helping households accumulate assets, providing access to institutions that increase the returns on those assets, and minimizing the impact that shocks can have on a family's asset holdings.

The role of assets

The amount of assets a family holds, the return on these assets, and the risk to losing assets all can be factors in whether the family will remain impoverished, escape poverty, or avoid poverty altogether while continuing to increase its wellbeing. Successful interventions can involve helping poor or vulnerable families add to their assets, achieve higher returns on those they hold, and maintain those holdings in the face of shocks. Some interventions focus on increasing or redistributing existing stocks of assets through, for example, land redistribution or investments in schooling. Other interventions seek to increase the returns to assets through market liberalization or the development and dissemination of new technologies. Interventions also can include disaster relief in areas where shocks, such as a drought or political unrest, have created widespread loss of assets and destitution.

The need is to bolster our knowledge about these poverty-reduction strategies with evidence from a long-term perspective that reveals the factors that make certain strategies effective over the long term, what mix of interventions is best, and how different country contexts should influence the mix. This knowledge will allow intervention strategies to be targeted to long-term success in creating pathways from poverty.

Pathways from poverty, then, can be defined as the combination of policies, interventions and exogenous events that affect asset endowments, the settings where assets are used, and the choice of livelihoods. BASIS is focusing on pathways induced by policies or interventions that result in (a) *changes in settings*, such as macro policy reform or improvements in natural resource management and the functioning of markets and institutions, (b) *improving access to assets*, through agricultural or business extension, skills training, literacy programs, land resettlement, land improvement, and credit, (c) *increasing returns to assets*, through infrastructure and new technologies that increase the return to capital and/or labor, and (d) *interventions that increase incomes or consumption*, such as food and cash for work, cash transfers, and humanitarian food assistance.

Assessing effective pathways

To understand how pathways from poverty can function, consider a family, vulnerable to poverty, living in a small village in southern Ethiopia. The characteristics of this locality can be disaggregated into five broad categories or settings. The physical setting refers to natural phenomena such as the level and variability of rainfall experienced by this household over time, the natural fertility of soils the family tills, and the quality of the roads and bridges and other infrastructure it uses. The social setting captures such factors as the existence of certain norms of behavior, of social cohesion and strife, perhaps along ethnic or religious lines, that exist in the village. The legal setting can be thought of as the general "rules of the game" in which economic exchange takes place. The political setting captures the mechanisms by which these rules are set. Finally, the economic setting comprises economic policies set at the state or federal level that directly or indirectly affect the level, returns and variability of returns on assets held by this household.

Within these settings, the household has holdings (or endowments) of capital and labor. Capital includes physical capital (the tools they own, the livestock they raise), natural capital (the land they own, their access to grazing land and other common property resources), human capital (their cognitive abilities, their knowledge and skills regarding farming, their physical and mental health), financial capital (cash in their pockets, debts and loans), and social capital (their social networks, norms and social trust that facilitate coordination and cooperation with other households). Labor endowments reflect the household's ability to work either for itself or for others and reflects prior investments in health and nutrition, and the intergenerational transmission of knowledge and experience.

This household allocates these endowments across a number of activities as part of its livelihood strategy. It may decide to grow a mix of crops that embody differing levels of susceptibility to climatic shocks and returns. It may shift from producing staple foods to high-value crops, seeking markets that reward quality. It might diversify into off-farm activities or casual wage labor. The income the household receives from these allocations will be affected by idiosyncratic shocks (shocks specific to that household) or covariant shocks (shocks that affect many households within a locality or region), both of which lower the stock of assets, the returns to these assets in different activities, and the relationship between income generated and consumption or other measures of wellbeing.

The household's allocation of endowments to activities, together with returns to endowments in these activities, generates income that is used to fund consumption and investment, including investments made in the health and schooling for the children. However, there is not a one-to-one relationship between income realized from these sources and consumption. The household may attempt to gain access to resources from the state, such as cash transfers or employment on public works programs. It may draw on private sources, such as remittances or gifts, or attempt to access credit markets. While the family also may choose to draw down savings, its ability to do so is circumscribed by the possibility that this may lead to irreversible losses of income such that a temporary shock would have permanent consequences. Alternatively, it may enter the credit market and borrow. It may also alter investment in human capital, for instance by withdrawing the children from school. These aspects of household behavior generate feedback from decisions regarding consumption to changes in asset holdings.

Now consider the next agricultural season. The household's stock of physical, financial and social capital will have been altered by its responses to the income shocks described above. With the experience gained from the previous year, the household's expectations of the returns and variability to different activities will have been altered. It may have accumulated human capital in the form of "learning by doing" or acquired new information on how effectively it can cope with shocks. Alternatively, it may have lost assets or gone into debt. The process is repeated continuously over the life cycle of the household: endowments are allocated to different activities, the household experiences shocks and may engage in various income and consumption smoothing behaviors, and stocks of assets are accumulated or depleted.

Defining poverty in terms of consumption, this conceptual framework suggests that the Ethiopian household's pathway from poverty can operate through many channels, including raising the level of endowments or lowering the price of acquiring endowments, eliminating barriers to entry into higher-value activities, reducing the incidence or severity of shocks, improving mechanisms for coping with shocks, and increasing direct transfers. Evidence regarding the family's ability to avoid poverty and increase its wellbeing over time can help inform successful poverty-reduction programs in the region.

Long-term evidence of success or failure

To explore the effectiveness of these pathways in specific contexts, we will draw on longitudinal data from rural localities in four countries: Ethiopia, Mexico, the Philippines and South Africa. Longitudinal data have a number of distinct advantages. They provide information on poverty changes over time and the causal factors related to these changes. Where a sufficient number of observations are available, it is possible to use relatively sophisticated statistical techniques that account for characteristics we do not directly observe and the influence of past events. They provide more accurate data on past events than retrospective surveys.

In addition, a number of common features of the data available to us make them particularly attractive. The time spans covered are six years for Mexico, 11 years for South Africa, 15 years for Ethiopia and 20 years for the Philippines. In all countries, the most recent survey round was fielded in either 2003 or 2004, making it possible to link current poverty outcomes to past policies and interventions. Members of our research team were involved in the design of all survey instruments. Data collected in earlier and later rounds are comparable and survey modules were included that capture the data needed to examine the pathways described above. Qualitative fieldwork has been carried out in all the countries, and these methods can be used effectively with quantitative methods to study economic mobility and changes in households and communities. Finally, in all the countries, we have collected community level data that provide additional perspectives of causal factors underlying changes at the household and individual level. Below are some notable features of the country-specific pathways to be analyzed.

In Ethiopia, improvements in incentives for agricultural production (elimination of forced taxation of peasant agricultural production and liberalization of output markets) in the early-mid 1990s appear to have set the stage for agricultural growth, though growth appears to have been unequally distributed. Farmers in rural areas live in a shock-prone environment and access to drought relief is important for these rural households; it is also a major component of bilateral assistance.

In Mexico, rural poverty remains extensive, and the share of population dependent on agriculture is unusually large for a country at Mexico's level of per capita income. Consequently, an important pathway could be created by improving the human capital level of the children of the rural poor to allow them to be more productive, not only in agriculture but also in rural non-agricultural activities. These skills also can help them migrate to the urban sector.

In the Philippines, analysis of the data will be particularly valuable in assessing the relative importance of physical versus human capital accumulation as a pathway from poverty. After export cropping was introduced in the region in the late 1970s, there followed a significant deterioration in access to land and an increase in incomes for households that switched to growing the cash crop of sugarcane. While the shift to sugarcane may have increased landholding concentration, a number of factors may have mitigated the effect of asset concentration for the rural poor. First, public investments in infrastructure and social services provision have increased substantially over the past 20 years. Second, in 1988, the land reform program was expanded to include crops other than rice and corn, a policy change that could potentially alter the distribution of assets and income. Third, urbanization and the growth of rural nonfarm enterprises have created a demand for nonagricultural labor.

In South Africa, the data will be particularly useful in assessing how a massive reorientation of the governmental welfare system (expansion of the old-age pension system to all races in the mid-1990s and introduction of the national Child Support Grant

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Briefs

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program in 1998) conditions mobility in the post-apartheid world. At the same time, it will allow a first look at the longer-term implications of the HIV/AIDS epidemic that is ravaging KwaZulu-Natal, starting from a baseline relatively unaffected by the disease.

Strategies for wellbeing

The study will examine pathways from poverty in these countries in three phases. The first phase involves a descriptive assessment of how poverty and other dimensions of wellbeing change over time, addressing questions such as the following. How much does consumption increase over time? How many, and what percentage of, households move into or out of poverty? What were the characteristics of these households? How are consumption gains and losses distributed? How much mobility is there and does it increase, decrease or remain the same over time?

The second phase involves applying the conceptual framework outlined above to country-specific analyses on causal factors underlying these changes. In Ethiopia, how has improved market access and improved returns to assets facilitated asset accumulation? In Ethiopia, Mexico, and South Africa, how do shocks (idiosyncratic and covariant) and the ability to mitigate their impacts, both through ex-ante and ex-post behaviors, influence pathways from poverty? How does this affect the evolution of consumption and poverty? In the Philippines, what have been the relative contributions of improved farm incomes and access to non-farm employment? In the Philippines and Mexico, how have investments in education facilitated new livelihood opportunities?

The third phase will synthesize work focusing on the extent to which pathways from poverty are similar across diverse environments and the implications this has within the countries being studied for poverty reduction as well as for global efforts toward poverty reduction.

Through our study, we hope to provide useful descriptions of how poverty and other dimensions of wellbeing change over time, along with an analysis of the causes underlying these changes, including the role played by policy and program interventions. This will help policymakers keep sight of the most effective and long-lasting pathways from poverty.

Further reading

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