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MARTIN RAVALLION

Interventions against Poverty in Poor Places

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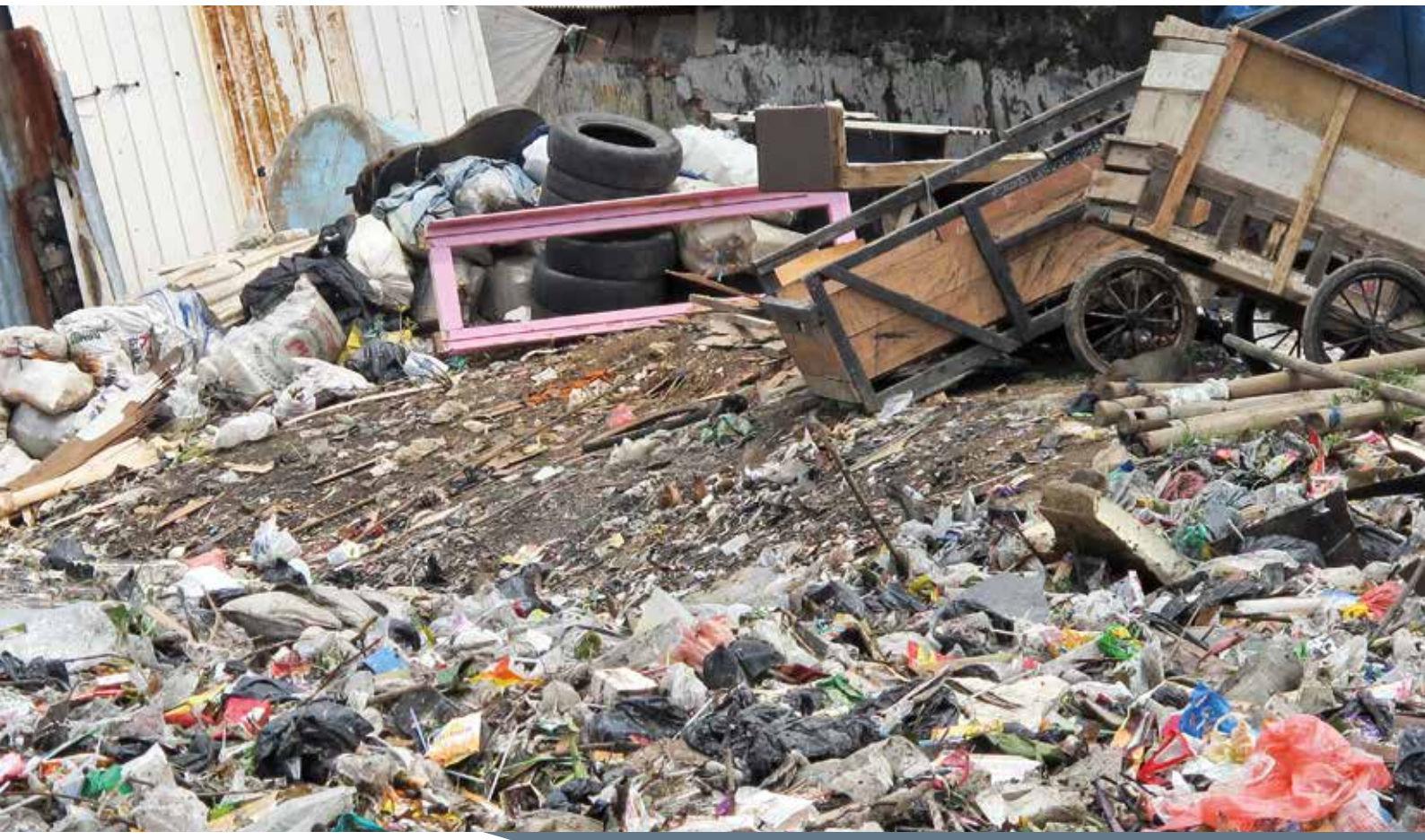

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Foreword

Poverty reduction remains a crucial global issue. It is also a core theme of the 2014–18 UNU-WIDER Work Programme: Transformation, Inclusion and Sustainability. Thus, we were delighted when Professor Martin Ravallion agreed to give the WIDER Annual Lecture 20 on 'Interventions against poverty in poor places', on 23 March 2016 at the Stockholm School of Economics.

Each year the WIDER Annual Lecture is delivered by an eminent world-class scholar or policy maker, who has made a significant and widely recognized contribution in the field of development. The Lecture is a high point in the Institute's calendar and Professor Ravallion, a top-notch economist in the research of poverty and policies to fight it, is a perfect addition to the esteemed list of lecturers UNU-WIDER has presented since the series started in 1997.

Professor Ravallion is best known for his proposal of the '$1 a day' poverty line, which became widely accepted as a universal measure for monitoring progress against global poverty. He has for many decades done extensive research on poverty, linking economic policies to the welfare of poor people, and the evaluation of anti-poverty programmes. Martin Ravallion is presently the Edmond D. Villani Chair of Economics at Georgetown University. Previously he was the Director of the World Bank's Development Research Group, and he has advised numerous governments and international agencies on poverty reduction policies. He is currently also the President of the Society for the Study of Economic Inequality, and a Senior Fellow of the Bureau for Research in Economic Analysis of Development.

As is evident in his lecture, Professor Ravallion's careful consideration of anti-poverty policies entails vital lessons for designing and implementing more effective interventions in the future. He pertinently notes that the most finely targeted policy (with lowest inclusion errors) need not have the most impact on poverty; and fine targeting can undermine broad political support for direct interventions. It is emphasized in the lecture that well-designed policies can be effective, but Ravallion goes on to stress that it is important that policy makers have realistic expectations about what can be accomplished in settings of highly imperfect information and weak administrative capabilities. He notes that while the idea of eliminating poverty – the first of the UN Sustainable Development Goals – is almost certainly unrealistic under these circumstances – such policies can nevertheless have a significant role to play. The specific lessons for policy that emerge from the lecture are not so much about 'what exactly to do' but rather about 'how to think about what to do'. I want to warmly thank Professor Ravallion for his impressive and rigorous analysis of policy interventions as well as his mindful recommendations for more effective policy. Together they provide a crucial overview of areas where meaningful impact can be made in the continued fight against poverty.

Finn Tarp, Director
UNU-WIDER, Helsinki

Author's acknowledgments

This paper is a much-extended version of the author's WIDER lecture, Stockholm School of Economics, 2016. The paper and lecture draw on Ravallion (2014a, 2016a) as well as other sources noted. For useful comments or discussions on this paper the author thanks Tony Addison, Torbjörn Becker, Caitlin Brown, Finn Tarp, UNU-WIDER's reviewers, and participants at the Lecture.

The paper is dedicated to the memory of Sir Anthony (Tony) Barnes Atkinson, who passed away on 1 January 2017. Tony was a role model for the author and other economists who strive for the rigorous analysis of policies for fighting poverty.

About the author

Martin Ravallion is a leading economist in the research of poverty and policies for fighting it. Ravallion is best known for his proposal of the '$1 a day' poverty line, which resulted as the universal measurement for monitoring progress against global poverty. He has done extensive research on poverty, linking economic policies to the welfare of poor people, and the evaluation of anti-poverty programs.

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1

Introduction

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It is clear that economic growth has played a very important role in the progress that we have seen against absolute poverty in the world.[1] By contrast, governmental interventions aimed directly at reducing poverty appear to have had at most a minor role in poor countries – although such policies appear to become more important as an economy develops and they have become very important in most rich countries.

The fact that pro-poor economic growth has done the bulk of the 'heavy-lifting' against poverty does not, however, mean that there is little scope for interventions in poor places. It may only mean that such interventions were not tried, or were poorly designed, or ineffective for some other reason, which might well be corrected. Indeed, some developing countries (and provinces within countries) have demonstrated an ability to deliver reasonably effective interventions. The policies may not always have been as effective as advocates claimed, but it is clear that the new millennium has seen developing countries embrace a range of interventions that can legitimately claim some success.

In this context, the term 'intervention' refers to any direct governmental effort to either alter the distribution of market incomes to favour poor people or to make markets work better for them.[2] There are essentially two types of such interventions against poverty. The

[1] For an overview of the evidence on progress against poverty see Ravallion (2016a, chapters 1 and 7). For a survey of the evidence on the role played by economic growth see Ravallion (2016a, chapter 8).

[2] I will say 'direct intervention' if there is any ambiguity. In the literature, the policies concerned also come under other labels, with some minor variations in meaning, including 'anti-poverty programmes', 'targeted interventions', 'social safety nets', 'social assistance', and 'social protection'.

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first uses redistributive transfers in cash or kind, generally targeted to households who are deemed poor based on observable criteria. This policy can be rationalized as either ethically defensible redistribution or as an effort to compensate for the market failures that helped create poverty – to make the economy both more efficient and more equitable despite the market failures. The second type of policy tends to work more directly at the market and institutional failures, essentially by making the key factor markets (labour, credit, and land) work better from the perspective of poor people, and giving them better legal protection.

The use of transfers (in cash or kind) targeted to poor families was not common in the developing world prior to the mid-1990s. Since 2000 or so, many more developing countries have been implementing such programmes, mainly in the form of (conditional and unconditional) transfers and workfare schemes. Today, somewhere around one billion people in developing countries currently receive some form of social assistance.[3] It appears to be the case that virtually all developing countries have at least one such programme, though often with limited coverage, in the sense that the proportion of poor people receiving help is modest.

But is any of this really reaching the poor, and helping them do better? What have we learnt so far from this new enthusiasm for direct interventions against poverty? The aim here is not to provide a complete survey of policies in practice; while many specific policies are discussed here, they serve the role of illustrating more general points rather representing an exhaustive listing of policies. The emphasis is on establishing some guiding principles relevant to developing countries.

Two goals for these policies can be distinguished, namely **protection** and **promotion** (applying a distinction made by Drèze and Sen, 1989). The former is about helping people deal with uninsured risks – avoiding transient poverty – while the promotion role is about permanently escaping poverty. Protection policies aim to provide short-

[3] Barrientos (2013) estimates that 750 million people in developing countries were receiving social assistance sometime around 2010. The figure has undoubtedly risen since then.

> Today, somewhere around one billion people in developing countries currently receive some form of social assistance.

term palliatives to help assure that current consumptions do not fall below some crucial level, even when some people are trapped in poverty. Promotion policies aim to either: (i) allow poor people to break out of the trap, by permitting a sufficiently large wealth gain to put them on a path to reach their (higher and stable) steady state level of wealth; or (ii) raise productivity for those not trapped – to raise their steady state level of wealth. Both goals can be served by both types of policies identified above. It is a mistake to only consider cash transfers as protection, and better performing markets can aid both protection and promotion.

The balance between protection and promotion has evolved. The protection motive goes back well over 2,000 years in both Western and Eastern thought. The need for social protection was well understood in principle among the elites. However, mass poverty was largely taken for granted until modern times. The idea of direct interventions as a promotional policy has intellectual origins in the eighteenth century, but only emerged with confidence in the late twentieth century (Ravallion 2016a: chapter 1). While the change has not been the same everywhere, or always in the same direction, it is clear that in modern times we have seen greater efforts at promotion, and this has both fuelled and been fuelled by declining numbers living in extreme poverty. Many of the relatively new policies discussed here strive to combine protection with promotion, sometimes called 'social investment'.

The following section provides a broad overview of the coverage of this class of interventions across the world. Section 3 then turns to the economic debates about these interventions, after which the discussion goes more deeply into the main instruments found within this class of policies, and what we know about their effectiveness. Sections 4 and 5 discuss the aforementioned two types of policies, cash transfers and market-oriented policies, respectively. Section 6 concludes with some lessons for policy-making going forward.

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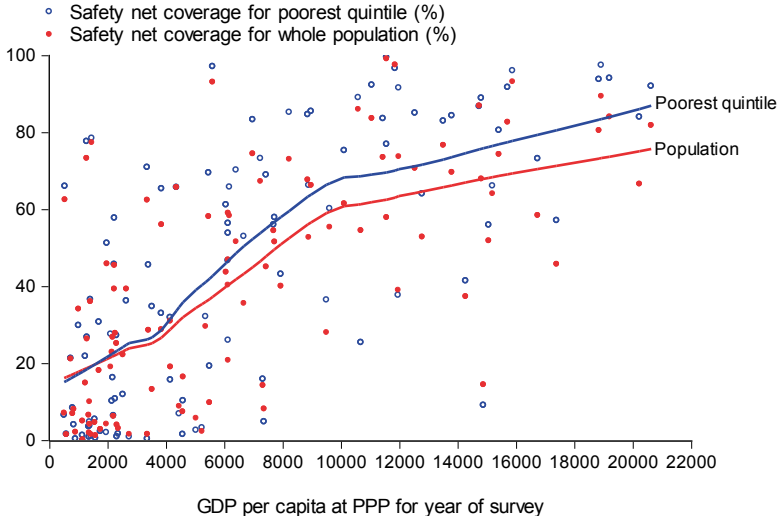
A snapshot of interventions across the world

The World Bank has compiled data on the coverage of safety net programmes across the developing world, using household surveys that identified direct beneficiaries for each of over 100 countries spanning 1998–2012. Households are ranked by income or consumption per person (depending on the survey). Taking a simple average across countries, I find that only about half (48 per cent) of the poorest quintile receive anything from the public social safety net; on weighting by population the share falls to 36 per cent. Comparing regional averages, coverage of the poorest quintile is least in the two poorest regions, sub-Saharan Africa (SSA) and South Asia. In SSA, only 20 per cent of the poorest 20 per cent of the population receive anything from the social safety net. By contrast, in Latin America the proportion is 53 per cent.[4]

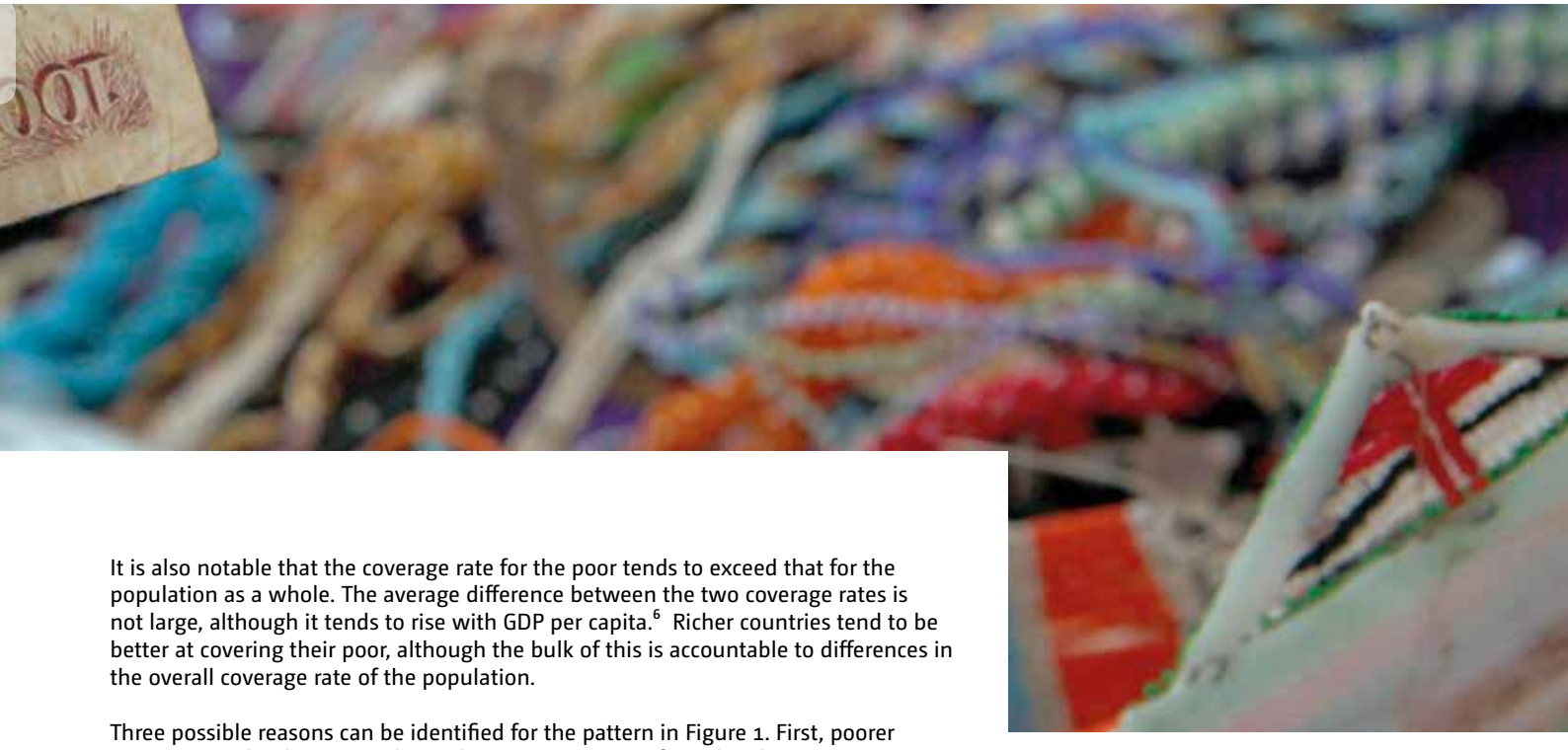
Coverage of both the population as a whole and the poorest quintile tends to be worse in poorer countries. Figure 1 gives a compilation of the data at country level plotted against GDP per capita. There is huge variation, spanning the range from virtually zero to virtually 100 per cent coverage, some of which is undoubtedly measurement error. But there is clearly a strong and positive income gradient across countries in safety net coverage. The average elasticity of social safety net coverage of the poor to GDP is about 0.9.[5]

Figure 1: The share of the population and of the poorest 20% receiving help from the social safety net



Note: Safety net spending includes social insurance and social assistance, including workfare programmes.

Source: Social safety net coverage rates for poorest quintile (poorest 20% ranked by household income or consumption per person) from the World Bank's ASPIRE site. GDP is from World Development Indicators (World Bank 2015).



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It is also notable that the coverage rate for the poor tends to exceed that for the population as a whole. The average difference between the two coverage rates is not large, although it tends to rise with GDP per capita.[6] Richer countries tend to be better at covering their poor, although the bulk of this is accountable to differences in the overall coverage rate of the population.

Three possible reasons can be identified for the pattern in Figure 1. First, poorer countries tend to have more limited economic capacity for redistribution as a means of eliminating poverty. Intuitively, these are countries with a great deal of poverty but only a relatively small stratum of rich folk who can afford to provide the necessary tax base. This strengthens the case for external (aid) financing. Elsewhere, where there is ample capacity for redistribution, there is a stronger case for financing by domestic taxes. Second, poor places tend to have weaker institutions, including limited state administrative capacity, making effective inventions more difficult to implement and enforce. Third, resistance to redistribution can be expected from at least some of the non-poor, and free-rider problems can arise even amongst those who care about poverty. Aggregate affluence may well make these problems less severe. Inequalities of political voice in poor countries do not help; the extent to which the political system concentrates power is likely to influence the interests served by the chosen policies. Inequalities, hierarchical social orders and social divisions and conflicts make it hard to attain consensus for reforms in all areas of development policy. As a result, while protection from covariate shocks could still be politically feasible, chronic poverty may come to be taken for granted.

For these reasons, a process of poverty reduction through aggregate economic growth may become the only feasible route, even though high levels of poverty can make this a slow process (Ravallion 2012). It is a cruel irony that in settings with a high incidence of poverty we also tend to find lower economic and administrative capacities, and often weak motivation among elites, for fighting poverty through interventions. In poorer places it appears to be harder to fight poverty this way.

The data underlying Figure 1 also confirm the recent signs of a rather widespread policy change in the developing world. The World Bank's database indicates that safety net coverage is increasing over time. Comparing the latest and earliest surveys for those countries, Ravallion (2016a: chapter 10) reports that the overall coverage rate (for the population as a whole) is increasing at 3.5 percentage points per year (standard error of 1.1 percentage points). Unfortunately, the coverage rate for the poor is not increasing at quite the same pace; for them the rate of increase is 3.0 percentage points per year (standard error of 1.0 per cent). It might be conjectured that this growth in the coverage of these policies is just a by-product of economic development. As economies become more developed, the tax base for redistributive policies typically expands. At the same time poor people tend to become easier to reach – geographic concentrations become more obvious, for example – and the administrative capabilities for reaching them are greater. The transition from a predominantly informal to a predominantly formal economy makes a big difference, on both the financing side and in terms of the policy options, including through more effective enforcement of formal rules.

[4] See World Bank (2014). For South Asia the overall coverage rate is 25 per cent, for MENA it is 28 per cent, for East Asia it is 48 per cent, while for EECA it is 50 per cent.

[5] The regression coefficient of the log of coverage rate for the poor on the log of GDP per capita is 0.91 with a standard error is 0.13. The corresponding elasticity for the population as a whole is 0.80 (s.e.=0.11).

[6] Regressing the log of the ratio of coverage rate for the poor to the overall coverage rate on the log of GDP per capita gives a regression coefficient of 0.16, with a standard error of 0.04.

However, the expanding coverage of this class of interventions in the developing world does not appear to be due to GDP growth alone; poor countries are not simply moving along the curves in Figure 1 as their GDP grows. One finds that rates of change in coverage at country level are very similar when one controls for growth (Ravallion 2016a: chapter 10). The developing world is clearly making a successful effort to expand coverage at any given level of GDP per capita. Other factors besides economic growth appear to be coming into play to generate the new enthusiasm for this class of policies in the developing world. Aid donors have encouraged social protection policies, starting from the 1990s, which saw greater efforts to help compensate losers from macroeconomic adjustment programmes. The World Bank has been more active in this area of development policy through an expanding set of 'social protection' lending operations, and policy advice including technical support. There have also been new technologies to help implement such programmes, and enhanced administrative and technical capabilities in developing countries (also with donor support).

The new millennium has also seen an expansion in our knowledge about the effectiveness of this class of interventions. Data have improved, notably though the coverage of household surveys, although there are continuing issues about how well the more commonly-used 'poverty proxies' perform in identifying the poor (Brown et al. 2016). Impact evaluations that were once rare have become fairly common, and a large set of evaluative tools have been developed – although too little of this evaluative effort has focused on poverty.[7] Governments have learnt from these evaluations, and there has been a substantial knowledge transfer across countries (also facilitated by the World Bank). These evaluations have also helped address some of the issues raised in long-standing debates about this class of policies; the next section turns to those debates.

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The new policy emphasis has its own well-established rhetoric, although it sometimes rings rather hollow. Many programmes aim (implicitly or explicitly) to assure a binding minimum level of living, which can be interpreted as raising the consumption floor above its biological level. The programmes in practice which can be interpreted that way include the two largest programmes to date in terms of population coverage, namely the *Dibao* programme in China and the *National Rural Employment Guarantee Scheme* (NREGS) in India (both of which we return to below). The consumption floor is not easy to measure, but an approach that is operational with the available data has been proposed in Ravallion (2016b). This suggests that the consumption floor for the developing world as a whole has not risen much in the new millennium – indeed, it has stayed on the same disappointingly low trajectory as was found prior to the change in policy. China and India have done better than average in raising the floor over the last 30 years, although it does not seem plausible that the aforementioned programmes played an important role given how they have been found to operate in practice.[8]

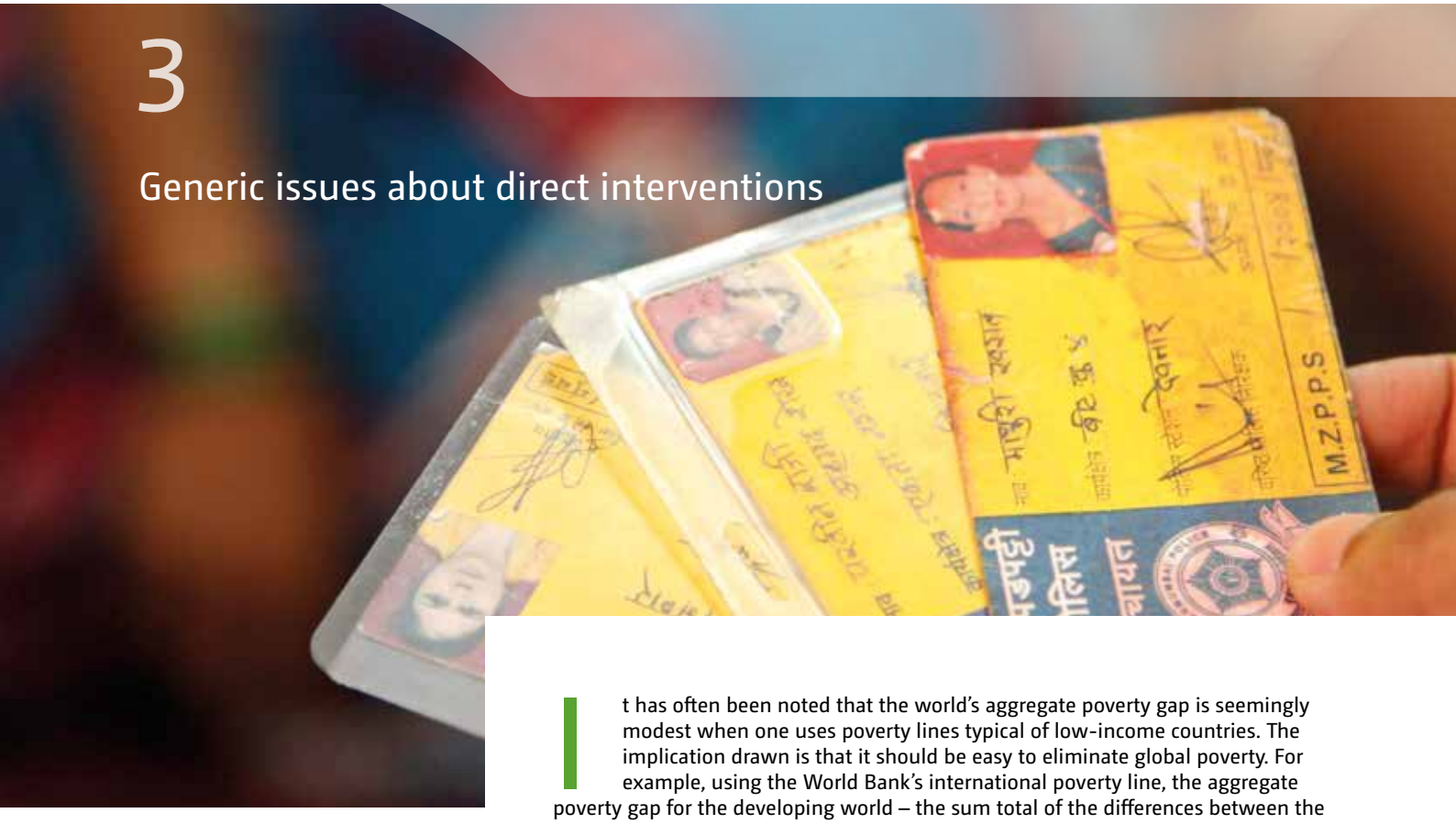
Reaching the poorest, and so raising the consumption floor, might be considered too ambitious, such that the 'social protection' rhetoric to be out of step with the reality. Nonetheless, many of the new programmes found in practice (including those for China and India mentioned above) are effective in reaching poor people, though not necessarily the poorest. The main problem is often not leakage to the non-poor but inadequate coverage of the poor. The following section returns to this point.

[7] This study will not say much about evaluation methods. Elsewhere I have tried to provide a reasonably complete overview of the set of evaluative tools that have been applied to this class of anti-poverty policies; see Ravallion (2008a) and (for a less technical exposition) Ravallion (2016a: chapter 6).

[8] On the performance of these two programmes see Dutta et al. (2014) (on Dibao) and Chen et al. (2008) (on NREGS).

3

Generic issues about direct interventions



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It has often been noted that the world's aggregate poverty gap is seemingly modest when one uses poverty lines typical of low-income countries. The implication drawn is that it should be easy to eliminate global poverty. For example, using the World Bank's international poverty line, the aggregate poverty gap for the developing world – the sum total of the differences between the poverty line and actual consumptions for all those living below that line – is about the same as the estimated size of the post-harvest food loss in the US (Ravallion 2016a). Such calculations have at times been used to motivate claims that it should be fairly easy to eliminate extreme poverty in the world; one might hear something like the following: 'If we could just divert all that wasted food in America to poor people in the developing world the problem of poverty would vanish'.

There are a number of reasons to question such a claim. The World Bank's international line is (deliberately) low, being anchored to the frugal lines in low-income countries, thus providing a conservative estimate of the extent of global poverty. A more generous poverty line would naturally give a larger gap; for example, the total poverty gap increases four-fold if one switches to a poverty line that is set at the median line for all developing countries (Ravallion 2016a: chapter 7). However, there are a number of other economic reasons why the cost of eliminating poverty could well be far greater than the poverty gap suggests. Understanding these reasons – the topic of this section – is key to sound policy-making.

3.1 Imperfect information

In countries where means-testing is a feasible option a guaranteed level of income support can be provided up to some point, above which the net benefit can be progressively reduced as income rises. This can be done relatively easily (though not without cost of course) through the income tax system. However, as already noted, poor places tend as a rule to have weaker administrative capabilities, which tends to mean less reliable information for deciding who should receive help, and relatively few people are covered by the income tax system. This naturally influences the types of policies found in practice.

When the public information base is not adequate for designing a reliable means test, two types of targeting come into favour, namely self-targeting mechanisms (such as using work requirements) and indicator-based targeting (such as programmes focussed on poor communities). These policies tend to be more popular in developing countries – including when the rich countries of today were developing – especially when there is a large informal sector. By contrast, the income tax system and transfer payments that require formalization dominate in rich countries. The information constraint stemming from a large informal sector not only influences the types of

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policies, it also constrains the ability to finance anti-poverty policies through taxation.

Household data have improved enormously in coverage and quality across the developing world over the last 30 years. The information base for designing and evaluating interventions has thus improved greatly. However, some important limitations remain. Sample surveys cannot be used directly to implement targeted policies. Instead one typically relies on a smaller set of observables covariates of poverty for the population, often using a proxy means test (PMT), which the discussion returns to.

However, household-level data may not be very informative about individual levels of welfare. Poverty measures are typically based on household consumption or income per person (or per equivalent single adult), assuming equality within the household. The limited evidence available suggests that this is an implausible assumption.[9] Anti-poverty policies have often assumed that targeting poor households based on such data will be effective in reaching nutritionally-deprived individuals. A comprehensive assessment by Brown et al. (2017) for SSA reveals that undernourished women and children are spread quite widely across the distribution of household wealth and consumption. While the expected positive household wealth effects on individual nutritional status are evident, roughly three-quarters of underweight women and under-nourished children are not found in the poorest 20 per cent of households, and around half are not found in the poorest 40 per cent. These results are consistent with evidence of substantial intra-household inequality in nutritional attainments.

New information technologies have increased transfer effectiveness by allowing better validation of applicant information and lowering transaction costs. An example is the new biometric identity card (aadhaar) that has been introduced in India. When properly implemented, this can avoid the scope for corruption such as through multiple payments to the same person or fictitious 'ghost applicants'. When the banking system is sufficiently well developed, automated teller machines and short-messaging services through mobile phones can reduce the costs of making transfers, including private transfers, as discussed in Jack et al. (2013) and Gibson et al. (2014).

3.2 Behavioural responses

Incentive effects have long figured in the debates about targeted interventions across all settings. While policy makers may want to assure a minimum standard of living, this can discourage personal efforts to escape poverty by other means. There can be a trade-off between protection and promotion. A perfectly targeted set of transfers to poor families in the imaginary world of complete information – meaning that the transfers exactly fill the poverty gaps and so bring everyone up to the desired minimum income – would impose a 100 per cent marginal tax rate (MTR) on recipients, in that the transfer received by a poor household will fall $-for-$ as the household's income from other sources rises. This could well destroy incentives to work among the poor. That is very unlikely to be optimal from the point of view of poverty reduction. Yet the tax-benefit systems of a number of developed countries have been found to entail high MTRs, often approaching or even exceeding 100 per cent.[10] Social policy reforms in developed countries since the 1990s have often aimed to reduce MTRs, to encourage welfare recipients to take up work opportunities when available without too much loss of benefits. Examples include the Earned Income Tax Credit (EITC) in the US, which tops up incomes when they fall below a certain level, and is now an important source of extra income for poor people, and the similar

[9] Evidence on this point includes Haddad and Kanbur (1990), Sahn and Younger (2009), Lambert et al. (2014), and De Vreyer and Lambert (2016).

[10] The OECD (1997) found MTRs around 100 per cent in the tax-benefit systems in some countries, including Australia and the UK.

Working Families Tax Credit in the UK. Such policies are often labelled 'making work pay policies'. The ideal rate of benefit withdrawal (minus one times the MTR) depends on the strength of the expected labour supply response.

In a typical developing country, behavioural responses to the tax-benefit system also involve the choices made between working in the formal versus informal sectors. The informal sector is typically a feasible option for anyone in the formal sector (though the converse need not hold). Thus, a social policy that can apply only to a formal sector worker (given that formality is required for administration) will have an added efficiency cost through the scope for substituting informal for formal activities.

Such behavioural responses can never be ignored in social policy, although history also teaches us that concerns about incentives are often invoked, with little or no evidence, to serve the needs of political opponents to such policies. (It also seems that incentives get far more attention in discussing programmes intended to help poor people than other programmes.) With better data and analytic tools, it can be hoped that future policy debates will be better informed about actual behavioural responses than past debates.

With better data and analytic tools, it can be hoped that future policy debates will be better informed about actual behavioural responses than last debates.

There has been much research on the labour supply effects of transfer programmes in developed countries, especially in the US where the topic attracted much attention from economists in the 1970s and again in the 1990s – two periods when major policy reforms were being implemented or debated. The responses that have been studied include both hours of work (the intensive margin of the labour supply response) and labour force participation (the extensive margin). The assumption is that the greater the labour supply response, the larger the efficiency cost of the policy – since that cost is taken to stem from the policy-induced changes in behaviour. Those changes are often called 'distortions', on the presumption that the situation in the absence of the specific policy intervention is efficient. That is questionable. It is not plausible that the economy is working fully efficiently in the absence of intervention, which means that there is scope for improvement.

In developed country settings, responses on the intensive margin appear to be typically small, reflecting the relative fixity of hours of work in formal jobs. More responsiveness can be expected at the extensive margin. This is less plausible for transfers to poor people in poor countries, where one is unlikely to see much response at the extensive margin. Poor men and women cannot be expected to stop working in response to a transfer that covers (say) 20 per cent of their consumption, although responses at the intensive margin are likely.

The bulk of the evidence for developed countries does not support the view that there is typically a large work disincentive associated with a targeted anti-poverty programme; indeed, some studies have been hard pressed to find anything more than a small response (Moffitt 1992, 2002; Saez 2006). From what we know about labour supply responses, it is evident that poor people gain significantly from transfers in a country such as the US.[11]

While there has been less research on the topic in developing countries, a series of randomized experiments in six countries found little or no sign of reduced work effort among transfer recipients (Banerjee et al. 2017). Generalizations can be hazardous here. The extent of the labour supply response in practice will depend crucially on the design of the programme, notably the (implicit or explicit) MTR, and we can expect heterogeneity in this parameter, as well as in the behavioural responses (Ravallion and

[11] The labour supply of married women in the US is thought to be more responsive than that of men, although there is evidence that they are converging to be similarly unresponsive (Blau and Khan 2007).

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Chen 2015). There can be little doubt that very high MTRs have a disincentive effect on labour supply, although the designers and/or implementers of safety net programmes are aware of this fact and higher MTRs can generally be avoided.

From the research to date, the bottom line on this much-debated policy issue is that the longstanding critiques of anti-poverty programmes as creating most of the poverty they relieve by discouraging work are greatly exaggerated. However, the scope for adverse incentive effects in specific contexts should never be ignored.

Moral hazard is another potential concern. Using public money to help those who took high risks, and lost out, can encourage excessively risky behaviour. This is no doubt relevant to financial-sector policies in rich countries. However, here too the trade-off may be exaggerated in the context of anti-poverty programmes in poor places. It does not seem plausible that poor people are over-insured. Lack of insurance for the poor is probably a more important reason for persistent poverty than too much insurance.

3.3 Putting behavioural responses in policy context

Behavioural responses also need to be seen in the context of a welfare-economic formulation of the policy problem. The existence of an incentive effect does not of course rule out an anti-poverty policy, as long as we expect sufficient gains through improved distribution. The policy maker faces an efficiency-equity trade-off. As a result, there will be limits to the extent to which redistributive taxes and transfers can be used to reduce poverty, even when that is the sole objective.

An important paper by Mirrlees (1971) provided a rigorous formulation of the problem of redistributive policy with imperfect information and incentive effects.[12] The government observes income, but not the effort or skill that went into deriving that income (though this is known to the individuals concerned). So welfare is unobserved even when preferences are known. People are presumed to care about income net of taxes (positively) and work effort (negatively). The policy problem is then to derive an income tax schedule that maximizes social welfare.

The key policy parameter here is the MTR on income. Higher taxes on the rich allow for more redistribution to the poor, but there are limits to this redistribution since the taxes discourage work effort, which reduces the revenue available for the anti-poverty policy. The policy problem is to balance these forces so as to come up with the socially optimal tax schedule. Mirrlees assesses alternative tax schedules against a utilitarian social welfare objective. The aspect of this problem that makes it so difficult (both in the real world and analytically) is that the information constraint comes with an incentive constraint on the extent of redistribution, given that one cannot tax the 'rich' beyond the point at which they would be better off to hide the fact that they are rich. The Mirrlees objective function was utilitarian, but this framework can also be adapted to a poverty reduction objective. Simulations suggest that marginal tax rates around

[12] There are good discussions of the Mirrlees model in Atkinson and Stiglitz (1980: chapter 13) and Boadway (1998). Also see the more recent comprehensive treatment of optimal taxation in Kaplow (2008).

60–70 per cent would be called for in an optimal anti-poverty policy using transfers allowing for incentive effects on labour supply (Kanbur et al. 1994).[13]

While labour supply responses are clearly part of the story, there are other effects of anti-poverty programmes that we know less about – such as impacts on child development, and behavioural responses through savings, migration and private transfers. For example, there is evidence that time spent talking with children at an early age is important for their cognitive development (Walker et al. 2007). This raises the question as to whether it is socially optimal for poor parents with young children to be working long hours. Maybe poor families work too hard, suggesting that any displaced labour supply due to an anti-poverty programme is a good thing.

Incentive problems can also arise in delivering anti-poverty policies in a federal government structure. The weight given to promotion relative to protection is likely to depend on the level of government. Here there is another moral hazard problem, stemming from the fact that risks are partly covariate. Local government can expect the central government to help in a crisis. So local implementing agents may well come to undervalue protection relative to the centre. The political economy may also lead the centre to put too high a weight on protection relative to promotion. While this class of incentive problems has received much less attention in the literature than those discussed above, an example is discussed in section 4.

3.4 The BIG idea

At the opposite extreme to perfect targeting with its high (implicit) marginal tax rates on poor people, one can imagine a basic income guarantee (BIG). This provides a fixed transfer payment to every adult, whether poor or not.[14] So there is no explicit targeting. BIG proposals have been for a universal cash payment. That will be assumed here, but it should be noted that a 'full income' concept may be more appropriate, including imputed values for services in kind, such as publicly-provided health insurance and schooling. The composition of the basic (full) income package is then a matter of policy choice.

BIG transfers are non-distortionary in the sense that there is nothing anyone can do to change their transfer receipts. Labour supply may be affected, though how much is unclear. There will be an income effect on demand for leisure, which will lead people to reduce their labour supply unless they derive sufficient utility from their work. The transfer may also help relieve other relevant constraints facing poor families, including uninsured risk and credit constraints, creating new employment prospects.

As with any intervention, a complete assessment of the implications for efficiency and equity of a BIG must also take account of administration and the method of financing. The administrative cost of a BIG would probably be low, though certainly not zero given that some form of personal registration system would probably be needed. Some BIG proposals in developed countries have entailed financing through a progressive income tax; see, for example, Meade (1972). Then the BIG idea is formally similar to the negative income tax (NIT), as advocated by Friedman (1962), though the mode of administration may differ and in the NIT version the transfer comes ex post, while the basic income is intended by its advocates to be paid ex ante. However, notice that progressive income taxes require a lot of information and this can be manipulated. So one cannot argue that a BIG financed this way avoids the aforementioned information and incentive issues.

The idea of a BIG has attracted considerable recent interest, and debate. An opinion poll by Dalia Research in 2015 indicates that about two-thirds of European citizens support the BIG idea in principle. In Switzerland, a referendum in 2016 proposed a BIG, though it was rejected (by a large margin). There have also been detailed BIG proposals for some developing countries, including South Africa (Standing and Samson 2003).

Critics have raised concerns about the cost and financing of a BIG. The Swiss referendum was rejected in large part (it seems) because of concerns about its uncertain cost and how it would be financed. A BIG can probably be devised as a

[13] Also see Kanbur and Tuomala (2011) on alternative characterizations of the policy objective.

[14] Recent discussions of the BIG idea include Raventós (2007), Bardhan (2011), Widerquist (2013) and Davala et al. (2015).

feasible budget-neutral way of integrating social benefits and income taxation, as shown by Atkinson and Sutherland (1989) with reference to the UK. In 2017 Finland started a two-year experiment in the form of what is essentially a BIG but only available to unemployed workers (Henley 2017). This replaces existing unemployment and other allowances. (Notably, the transfer payment continues if the worker finds a job, to avoid imposing a high MTR on recipients; this had been a serious concern about the prior system of unemployment benefits, which were believed to create a disincentive for the unemployed to find work.) There may well be ample scope for financing a BIG by cutting current subsidies favouring the non-poor, as Bardhan (2011) argues is the case for India. This type of scheme would appear to dominate many policies found in practice today; for example, it would clearly yield a better incidence than subsidies on the consumption of normal goods, which is a type of policy still found in a number of countries.

As of yet there have been very few examples of a BIG in practice at national level. However, there is a long tradition of using uniform (untargeted) state-contingent transfers. What this means is that the transfer is more-or-less uniform for people who fall into certain categories defined by some event ('state') such as being elderly or unemployed. Given that a BIG is likely to have at least some state-contingent aspect (such as being an adult and resident of a specific place) there is a conceptual common ground with state-contingent transfers, of which there are many examples, as discussed further in section 4.1.

3.5 Targeting

One strand of thought in social policy emphasizes the need for broad inclusion. Anti-poverty policy is seen as a tool for social solidarity, and targeting is not then especially important and may even be deemed detrimental. Of course, advocates of this approach can agree that it is preferable for the poor to benefit more than others, but they prefer to avoid means testing.

Against this view, efforts to improve the cost-effectiveness of direct interventions in both the rich world and developing countries have often called for explicit targeting. The idea seems simple. Including everyone (such as in a BIG) may entail a low benefit level given the resources dedicated to interventions. One response is to increase those resources, but another possibility is to try to focus the available resources on those who are deemed to truly be in need of help.

> "There have been many efforts to inform this debate using economics and data.

Critics of anti-poverty programmes have long pointed to any signs of benefits going to ineligible people. There might be non-poor citizens pretending to be poor (as in the Mirrlees model) or corrupt local officials taking their cut. Tightening up administrative processes can sometimes help. So too can the use of new technologies, such as smart cards with biometric information. Some leakage is hard to avoid, however, and the costs of reducing it to zero may well be prohibitive. Leakage may also help in assuring a broader base of political support for the programme. Furthermore, efforts to eliminate leakage can run against the overall aims of the programme. As in all aspects of programme design, one must consider both the costs and benefits of reducing leakage in the specific context.

These issues have long been debated. For some 300 years, England's Old Poor Laws (introduced in the sixteenth century) appear to have provided a degree of social protection and stability at seemingly modest cost (Solar 1995). The reforms in the 1830s to the Old Poor Laws called for better targeting, motivated in large part by the fiscal burden of the Poor Laws on the landholding class (Lindert 2004). (The present discussion returns to the Poor Laws.) Almost immediately, the New Poor Laws introduced in 1834 became the subject of social criticism. By confining beneficiaries to workhouses, the reformed policy was seen by critics to treat poor people as criminals. The conditions under which inmates were kept became a specific focus of criticism, famously so in the first few chapters of Dickens's (1838) Oliver Twist. Common

criticisms in the media and literature related to the inhumane treatment of workhouse inmates, including meagre rations. Similarly, in modern times, calls for better targeting in the West came in the wake of the 1979 oil crisis, and in many developing countries facing debt crises in the 1980s.

The political support for greater targeting comes from two distinct groups, with different motives. On one hand, some want existing public resources to have greater impact on poverty – their aim is to help poor people. The other side is keen to cut the total cost of public support for poverty, to reduce its fiscal burden, including the tax burden on the rich – their aim is in large part to help non-poor people. The coalition of these different interests has pushed for greater effort at targeting anti-poverty programmes. A strand of the development literature has concerned targeting.[15]

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Advocates of targeting in many countries (both rich and poor) have tended to focus on reducing inclusion errors. By contrast, concerns about coverage of the poor – exclusion errors – have tended to be downplayed. The two types of errors have different fiscal implications. Inclusion errors are generally costly to the public budget while exclusion errors save public money. Governments and international financial institutions concerned about the fiscal cost of social policies have thus put greater emphasis on avoiding inclusion errors as a means of cutting the cost to the government without hurting poor people. This emphasis on reducing inclusion errors appears to have emerged during macroeconomic adjustment efforts, notably in Latin America in the 1980s (Smolensky et al. 1995). Some observers have questioned this prioritization, arguing that exclusion errors should get higher weight when the policy objective is to minimize poverty (Cornia and Stewart 1995; Smolensky et al. 1995; Ravallion 2009; Klasen and Lange 2016). Yet too often 'better targeting' appears to be seen by governments and donors as the objective of anti-poverty policies.

There have been many efforts to inform this debate using economics and data. An early strand of the literature on targeting formulated the problem as that of choosing a schedule of transfer payments across types of households to minimize a measure of poverty subject to a budget constraint. The idea was developed in theoretical terms by Kanbur (1987) and the problem was formulated and solved numerically in Ravallion and Chao (1989) for the squared poverty gap index of Foster et al. (1984). Glewwe (1992) generalized this approach to allow for continuous variables. However, the bulk of the subsequent policy-oriented literature has instead emphasized 'targeting efficiency', almost invariably defined in terms of reducing inclusion errors. Various measures of targeting performance have been developed (as reviewed in Ravallion 2009, 2016a: chapter 5).

Readily measurable proxies for poverty are widely used for targeting in settings in which imperfect information entails that income means-testing of benefits is not likely to be a reliable option. Efficiency considerations point to the need for using indicators that are not easily manipulated by actual or potential beneficiaries, although this is rarely very clear in practice. Geographic proxies have been common, as has family size, certain assets owned and observable housing conditions.[16] These targeting methods

[15] Overviews of the arguments and evidence on targeting in developing countries can be found in Besley and Kanbur (1993) and van de Walle (1998). Besley and Coate (1992) focus on self-targeting.

[16] Grosh et al. (2008) provide a useful overview of the targeting methods found in practice in developing countries, with details on many examples.

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can be thought of as a proxy means test in which transfers are allocated on the basis of a score for each household that can be interpreted as predicted real income or consumption, based on readily observed indicators.

PMT has become a popular method of poverty targeting with imperfect information. In a now widely-used version, a regression for log consumption calibrates a score based on chosen covariates, which is then implemented for targeting out-of-sample. Brown et al. (2016) assess the performance of various PMT methods using data for nine African countries.[17] Standard PMTs help filter out the non-poor but exclude many poor people. Some econometric methods perform better than others. But even for the best method, either a basic income scheme or transfers using a simple demographic scorecard are found to do almost as well in reducing poverty, and can even do better when one allows for the administrative lags in implementing PMT.

One of the calculations in Brown et al. (2016) seems especially revealing. They simulate the effect of an anti-poverty programme with a budget sufficient to eliminate poverty with full information. Various targeting methods with imperfect information are then simulated. The authors find that none of these methods brings the poverty rate below about three-quarters of its initial value. The prevailing methods are particularly deficient in reaching the poorest.

The main alternative targeting method in practice uses local communities to decide who is in need. Such community-based targeting exploits local information that is not normally available for the PMT but it does so at the risk of capture by local elites.[18] Alatas et al. (2012) compare this form of targeting with PMT for a cash transfer programme in Indonesia. They find that PMT does somewhat better at reaching the poor but community-based targeting better accords with local perceptions of poverty and is better accepted by local residents.

Targeting performance in practice is often determined in large part by the local political economy. Including the non-poor as direct beneficiaries may sometimes be essential for the political sustainability of an anti-poverty programme. In programmes with relatively large start-up costs, early capture by the non-poor may well be the only politically feasible option (especially when the start-up costs must be financed domestically). This can be dubbed 'early capture' by the non-poor (Lanjouw and Ravallion 1999). In the (relatively few) studies that looked for early capture it was found to be present (Lanjouw and Ravallion 1999; Ravallion 1999; Dutta et al. 2014).

When budget cuts are called for, economists often advise governments to target their spending better. Yet this may run up against political economy constraints in practice that limit the welfare losses to the non-poor from spending cuts. A study of a major social programme in Argentina, the *Trabajar Program*, illustrated how cuts can come with worse targeting performance; in the case of *Trabajar*, the allocation to the poor fell faster than that to the non-poor when aggregate spending on the programme was cut (Ravallion 1999). In this case, it was the non-poor who were protected from cuts.

An issue that has received less attention is the specification of the target group. The ethical case is strong for giving priority to the poorest. However, when there are productivity effects, such as arising from the existence of credit-market failures, the poorest are not necessarily the people with higher returns to transfers. For example, de Janvry et al. (2001) found that transfers to poor farmers in Mexico increased their agricultural investments, with longer-term income gains. However, the gains were found to be lower amongst those farmers with the smallest holdings, who are presumably the poorest. If the policy had focused solely on those farmers it would have had less impact on poverty. This is only one study, and further research is needed on both the productivity effects of transfers and the implications for targeting.

3.6 Other factors relevant to performance

A strand of the literature has focused on how local institutions have influenced the impacts on poverty. A study by Galasso and Ravallion (2005) of the Food-for-Education programme in Bangladesh found that a number of village-level characteristics were significant predictors of the extent to which the programme was effective in reaching

[17] The specific countries studied are Burkina Faso, Ethiopia, Ghana, Malawi, Mali, Niger, Nigeria, Tanzania, and Uganda, being all those countries in SSA with recent and reasonably comparable surveys in the World Bank's Living Standards Measurement Study.

[18] Discussions of community-based targeting can be found in Alderman (2002), Galasso and Ravallion (2005), Mansuri and Rao (2012) and Alatas et al. (2012).

poor people within the village. Weaker programme outcomes for poor people were evident in more unequal villages. In neighbouring West Bengal, however, Bardhan and Mookherjee (2006) did not find that similar factors had much influence on the pro-poor targeting of publicly-supplied credit and farm inputs, although such factors did influence employment generation for poor people. For Brazil, de Janvry et al. (2011) found that local political institutions matter to the performance of a conditional cash transfer programme, with much larger impacts in reducing school drop-out rates in municipalities where the mayor faces re-election.

These findings point to the need for caution in forming generalizations across diverse settings. They also suggest that the problem of poor-area targeting with the aim of reducing aggregate poverty may well be more complex than simply reaching poor places, and also involves aspects of local institutions. There is a case for making policies contingent on local institutions although it is unclear how well policy makers will be able to do this in practice.

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Some delivery mechanisms are more costly than others. Delivering aid to poor people in the commodity form, such as food, is likely to be more expensive than delivering as cash. The extra delivery costs are a form of leakage. Even if markets are not competitive, traders may well be able to deliver food (say) more cheaply than the government; Coate (1989) discusses the issue in theoretical terms. Against this, various arguments are made in favour of in-kind payments, including that these are automatically indexed for inflation (while nominal cash transfers need to be adjusted), that in some settings local markets for the goods concerned do not work well, and that payment in-kind yields a preferred distribution of benefits and (in particular) that payment in the form of food differentially benefits mothers and children.

The effects on market prices of transfers can also depend on the mode of delivery. Payments in cash to poor people will tend to increase demand for food and so increase local prices of non-traded foods (with adverse effects for poor consumers), while payments in the form of food will have the opposite effect (with adverse effects for poor producers). One should be wary of generalizations in favour of one mode of delivery, as the balance of costs and benefits is likely to depend on the setting, such as how well food markets work, and the degree of spatial integration of local markets and whether food producers are poorer than food consumers.

3.7 Paternalism

Given transaction costs, in-kind transfers tend to encourage greater consumption of the goods in question, as one would expect.[19] Also, cash transfers are often made contingent on certain actions by the recipient, with the aim of encouraging behavioural change. (We return to these policies in the next section.) Whether one considers such effects a good thing or not depends crucially one whether one thinks that recipients are spending too little on the goods concerned, or doing too little of the relevant actions. That is often unclear, and there is a risk of making paternalistic judgments that override the preferences and knowledge of poor people, and do not properly account for the constraints that influence their economic decisions.

[19] See, for example, Cunha (2014), based on a RCT of Mexico's food assistance programme.

> Poor people should be presumed rational given the (often severe) constraints they face, and any presumption that others (including governments) know better should be questioned.

Concerns about paternalism in anti-poverty policies emerged in the 1970s, alongside a new recognition that the developing world's poor were no less economically rational than others. By this view, most famously associated with Schultz (1964), people are essentially the same; it is the resources and institutions that differ. This view did not rule out abundant inefficiency in underdeveloped economies. But they were institutionalized inefficiencies including market failures, not the failings of poor people to optimize given those institutions.

Schultz's views appear to have been a marked departure from thinking at the time, and there was much debate in the following years (Abler and Sukhatme 2006). Some recent thinking emphasizes the possibility of feedback effects from poverty to the decision-making process; see, for example, Duflo (2006). This might appear to open the door to allow paternalistic policies. But the case is far from clear. Using field experiments, modern behavioural economics suggests at most a small 'development gap' in the extent of economic rationality (Cappelen et al. 2014), although sample selection processes (such as relying on university students as the subjects of the experiments) cast doubt on the broader validity of these findings.

The existence of intra-household inequality is clearly relevant. The unitary model of the household (characterized by a single utility function) has found little support empirically, and alternative models have been proposed (as reviewed by Chiappori and Mazzocco 2017). These models permit new sources of inequality within households, such as in outside options (reservation utility levels). Such intra-household inequality can point to a possible case for over-riding the preferences of the household head when these differ from the preferences of other household members and those members are not thought to have been given adequate weight in the decisions of poor families. But this does not imply that the preferences of other household members should not be respected.

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My own view is that a good case must be made for assuming that poor people do not know what is best for them given the constraints they face. Almost always, poor people should be presumed rational given the (often severe) constraints they face, and any presumption that others (including governments) know better should be questioned. There may well be a good case for paternalistic policies in some circumstances, but respect for poor people demands that the case for such policies be made properly.

3.8 Targeting errors or measurement errors?

There are also measurement errors to consider in the data used for assessing targeting performance. This is rarely acknowledged explicitly in policy discussions, but can have important implications for assessments of leakage. In assessing the targeting performance of anti-poverty programmes, common practice is to include a question on programme participation in a survey that also asks about household consumptions or incomes. Armed with such data, one then measures the proportion of participants who are poor and the programme's coverage of the poor to quantify the aforementioned errors of exclusion and inclusion. These calculations have influenced numerous programme assessments in practice.

However, the concept of poverty underlying a programme's objectives often appears to be broader than the way income is normally defined and measured from surveys; i.e., there are other legitimate welfare-relevant variables in deciding eligibility besides current income as measured in the survey – past or expected future incomes are examples. While the programme's administrators can often list this broader set of variables, in my experience they are often vague about the precise weights attached to

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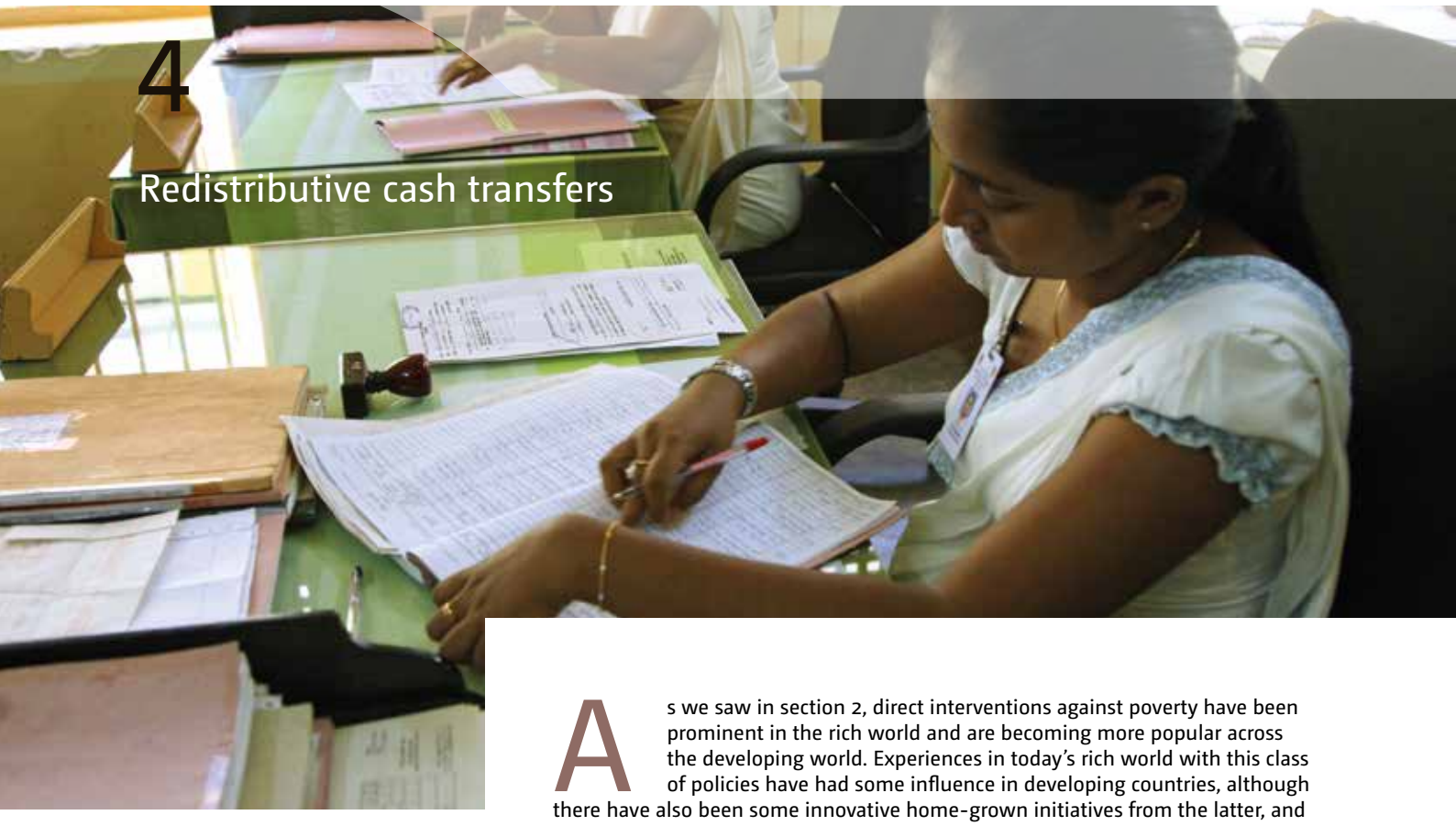
them. The problem for the evaluator is that the programme's apparent 'miss-targeting' could simply reflect the fact that the survey-based measure of income is not a sufficient statistic for deciding who is 'poor'. The policy maker has a different objective to that assumed by the evaluator.

This concern should be taken more seriously in practice. It is possible to test how robust assessments of targeting performance are to this source of welfare measurement errors. This can be done by calibrating a broader welfare metric to the observed programme assignment and the qualitatively known programme objectives, under the counterfactual of perfect targeting (Ravallion 2008b). Instead of imposing a prior judgment about how 'welfare' is to be measured one can derive the measure that best explains the observed assignment of the programme. In other words, the weights on determinants of welfare are chosen to be as consistent as possible with the policy choices actually made. If we find that the programme is still poorly targeted then this cannot be easily attributed to the possibility that the policy maker has a different concept of welfare.

For example, China's *Minimum Livelihood Guarantee Scheme* (known as *Dibao*) is a cash transfer programme that is known to be quite well targeted, but miss-targeting is evident in the available survey data (Chen et al. 2008). Some of this miss-targeting is due to discrepancies between survey incomes and the latent welfare metric used by administrators in targeting the programme. And the explicit criteria used by administrators appear to be defensible (such as in allowing for a longer time period in measuring 'income' than typically found in survey data). There is also evidence of substantial leakage to those who should not be eligible, and incomplete coverage of those who should be, even when income and other relevant household characteristics are weighted optimally from the point of view of predicting participation (Ravallion 2008b).

The debate on targeting continues. High costs of untargeted transfers naturally encourage efforts at targeting in favour of poor people to try to assure a greater impact on poverty for a given budget outlay. However, fine targeting it is not necessarily the best instrument for this purpose given the (sometimes hidden) costs and incentive effects. The political economy response to targeting is also a concern, whereby finely-targeted programmes can undermine the political support for social policies (De Donder and Hindriks 1998; Gelbach and Pritchett 2000). The programme becomes better targeted to poor people but in due course this undermines broader political support, leading to a lower overall budget and (possibly) less impact on poverty. One thing can surely be agreed: better targeting is not the objective of the policy design problem, but is is one potential instrument.

4 Redistributive cash transfers



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As we saw in section 2, direct interventions against poverty have been prominent in the rich world and are becoming more popular across the developing world. Experiences in today's rich world with this class of policies have had some influence in developing countries, although there have also been some innovative home-grown initiatives from the latter, and even some subsequent take up of those ideas in rich countries. For most countries, the policies are financed out of consolidated revenue – i.e., mainly from domestic taxation. In some developing countries external (grant or loan) donor funding has played an important role.

This section provides a broad overview of the policies and what we have learnt about their performance, aiming to illustrate the generic issues raised above.

4.1 State-contingent transfers financed by taxation

A class of interventions that has been important in the history of social policy does not involve means-testing or some other form of low-income targeting. Instead, what they target is an event, and hence they are called state-contingent transfers. However, these events are seen to be associated with some form of (temporary or permanent) deprivation. Those who experience the event are poorer in some relevant dimension (for example, when the main breadwinner losers their job, or a farmer's crop fails). Thus there is often a degree of implicit targeting. But explicit targeting among those experiencing the event is not required; essentially then this can be thought of as a *'state-contingent BIG.'*

State-contingent transfers have had a long history. This was the essential idea of England's Old Poor Laws that started in the sixteenth century, whereby state-contingent transfers were financed mainly by local property taxation. As we have learnt, there was a backlash against this policy in the 1830s, with (controversial) reforms aiming to reduce the cost notably through work requirements. The idea of untargeted state-contingent transfers (as in the Old Poor Laws) re-emerged in twentieth century Britain and elsewhere in Europe. Advocates were opposed to means-testing – universal provision at a flat-rate was seen to avoid the costs of targeting and to encourage social cohesion.[20] In Britain, the past, deliberately stigmatizing, approach typified by the workhouses – that had been the main instrument for reforming the Old Poor Laws – was to be abandoned.

Similar efforts were underway elsewhere soon after the Second World War. In France, long-standing ideas of social inclusion and social solidarity came to influence social policy through an effort to attain broad coverage of social insurance. Again, the idea was not to *'target the poor'* but rather to assure universal coverage at some reasonable

[20] The Beveridge (1942) report in the UK was influential. There is an interesting discussion of Beveridge's arguments in Thane (2000, especially chapter 19).

minimum level of living, including access to employment opportunities and key social services for health, education and social protection. As in Britain, this was something that everyone was seen to need and this was key to broad political support. The set of policies that emerged by the 1970s were termed the *'minimum income for inclusion'.* The US social security system also grew out of prior social policy thinking and relief efforts (notably in response to the Great Depression), but a fairly comprehensive set of state-contingent transfers, financed by taxation did not emerge until after Second World War.

During the second half of the twentieth century most rich countries developed a set of interventions using both cash and in-kind state-contingent transfers financed by taxation. Significant public resources are devoted to these schemes and there is a large literature.[21] Poverty reduction is typically an explicit aim, though not the only aim; social objectives of insurance for all and social inclusion/community solidarity are also emphasized in the literature and policy discussion, especially in Europe (Atkinson 1998).

There is continuing debate about this entire class of state-contingent transfers. For example, the US social security system was decried as 'socialism' in some quarters, and still is. Similarly to the 1834 reforms to the Old Poor Laws, calls for finer targeting were becoming common from around 1980, in attempting to reduce the fiscal cost of social insurance. In due course, the more finely-targeted policies that emerged came to be questioned, notably when they entailed high MTRs (in combination with other policies, including the income tax schedule), with the aforementioned risks of creating a poverty trap. *'Making work pay'* reforms emerged in the 1990s, such as EITC, to try to bring down MTRs facing poor workers.

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While uniform but state-contingent transfers have long been common in the rich world and in East Europe, they are not common in developing countries. Old-age pensions have provided a few recent examples in developing countries, some of which have introduced near-universal pensions for those over a certain age; examples are found in South Africa and Thailand. [22]

In the case of Thailand, the old-age pension introduced in 2009 replaced a scheme that had been targeted to only those elderly deemed to be poor. However, it had been found that the deficiencies of the decentralized implementation of targeting left many of the elderly poor uncovered (Sakunphanit and Suwanrada 2011). These problems with targeting appear to have been largely avoided by switching to a (modest) public pension that was available to all those over 60 who were not receiving a pension already. Rights-based arguments were also used to support universality politically.

South Africa's old-age pension is paid to all women over 60 and men over 65. In this case there is supposed to be a means test but in practice it appears that this is not implemented and virtually everyone who is eligible by age gets the transfer. And it is a sizeable sum – about double the median African income. There has been some interesting economic research on this scheme. With some degree of income pooling within households, the simple economics of work – leisure choice would imply that this transfer reduced work. One study found evidence in a cross-sectional survey that the scheme did just that (Bertrand et al. 2003). However, using longitudinal data (observing the same households over time to allow for household fixed effects) another study found the opposite (Ardington et al. 2009); the pension appears to have helped families get around credit constraints on out-migration by younger adult family members (often leaving the pension recipient to look after the children).

[21] A good recent overview can be found in Marx et al. (2014).

[22] Two other examples (not discussed in any detail here) are Bolivia's Dignity Pension, as described by Gonzales (2011), and China's Citizens' Social Pension, as described in Dorfman et al. (2013).

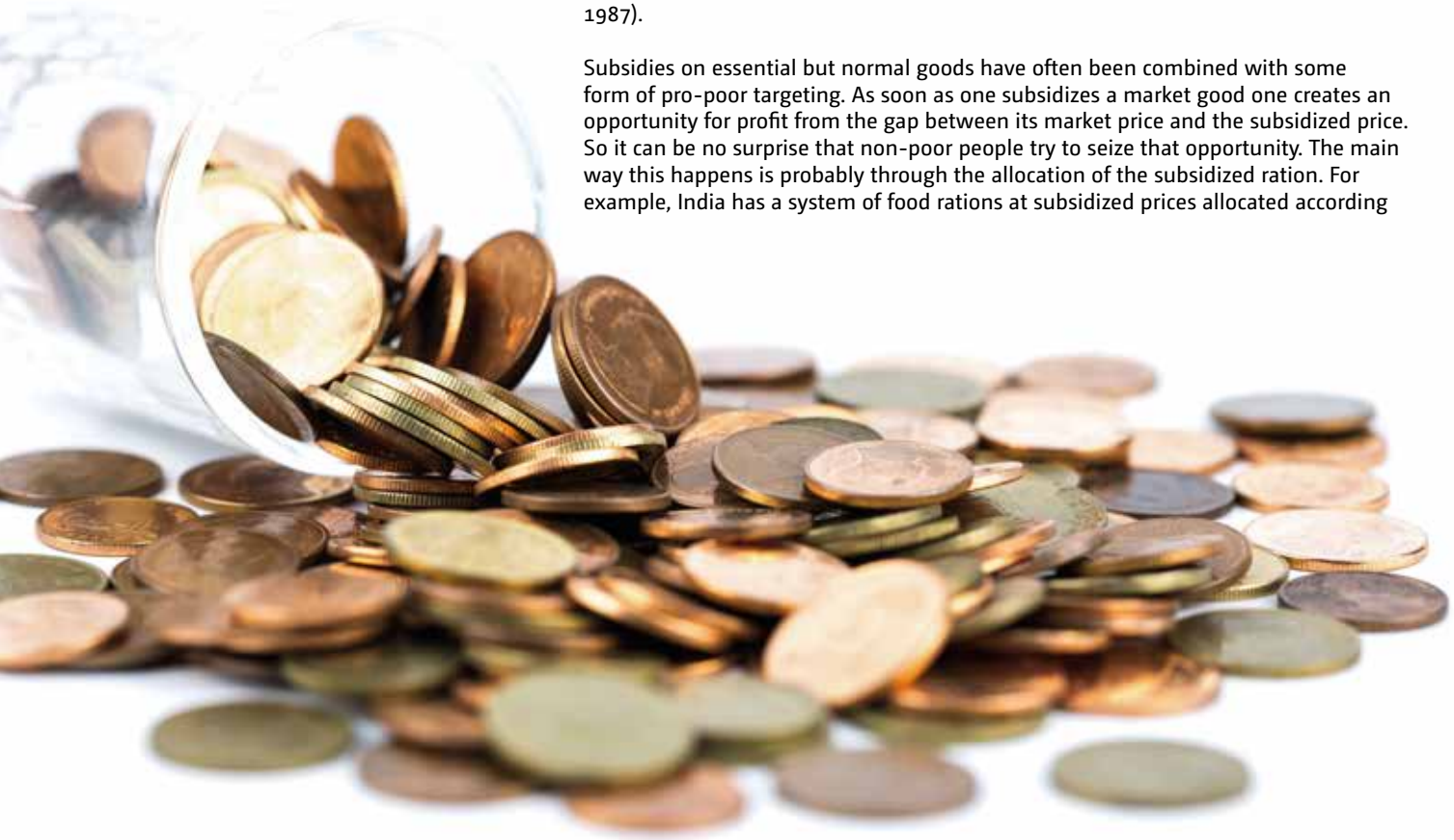
Aside from a few such examples, developing countries have tended to rely heavily on poverty targeting, often using some form of PMT. Universal or state-contingent transfers have largely been avoided. It is not entirely clear why this is the case or that it is a good idea from the point of view of sound policy-making. To explain why uniform state-contingent transfers of the social insurance type are not used more, it is often claimed on a priori grounds that such policies are unsuitable to poor economies; they would be too costly, and so targeting is called for. While the fiscal burden of social policies must never be ignored, if the same resources are better spent fighting poverty using uniform state-contingent transfers, or even a basic income, then that should be done. We can ask whether that is the case at any given level of spending. The degree of targeting should not be pre-judged but looked at carefully, on a case-by-case basis.

4.2 Unconditional subsidies and transfers

The income effect on demand for a good is a key factor in determining the incidence of a subsidy (or tax) on that good. Subsidies on the consumption of normal goods (meaning that they have a positive income elasticity of demand) are clearly not going to be well targeted. Subsidies to fossil fuel consumption are an example, also with undesirable environmental effects. The incidence of subsidies on normal goods will be automatically skewed toward the non-poor. Reforms to such policies can confront stiff resistance from those who lose, and there have been both successes and failures in reform efforts, though with some lessons emerging for the future – see, for example, the discussion in Laan et al. (2010). Public information on the costs, the incidence of benefits, and the policy options is clearly important to successful reform of these subsidies.

By the same logic, applying a subsidy to the consumption of an inferior good will automatically be self-targeted in favour of poor families ('inferior' here not being a judgment of quality, but rather meaning that the good has a negative income effect on demand). Inferior goods are not so common, but they can also be created, such as by packaging the subsidized good in a way that is unappealing to the non-poor (Tuck and Lindert 1996). Time spent queuing is also likely to be an inferior good, so that the rationing of food or health subsidies by queuing can also be self-targeting (Alderman 1987).

Subsidies on essential but normal goods have often been combined with some form of pro-poor targeting. As soon as one subsidizes a market good one creates an opportunity for profit from the gap between its market price and the subsidized price. So it can be no surprise that non-poor people try to seize that opportunity. The main way this happens is probably through the allocation of the subsidized ration. For example, India has a system of food rations at subsidized prices allocated according



to whether a household had received a Below-Poverty Line (BPL) card. Survey data indicate that those in India's poorest wealth quintile are the least likely to have some form of ration card, to allow access to subsidized goods, and that the richest quintile are the most likely (Ajwad 2006). Given that the central government must rely on corruptible agents to implement the BPL cards, the weak enforceability of the centre's targeting rules leads to worse targeting outcomes (Niehaus et al. 2013).

One study used the BPL card allocation as a counterfactual for assessing the distribution of the benefits of India's *National Rural Employment Guarantee Scheme* (NREGS) in the state of Bihar; another counterfactual considered by the same study is a BIG (Murgai et al. 2016). These two counterfactuals attained almost exactly the same level of poverty as the gross disbursements under NREGS. So, overall, the BPL cards were no better targeted than a BIG, although the BPL allocation is more horizontally inequitable. This illustrates a generic challenge that all such programmes face in assuring that the subsidy reaches those in greatest need.

The aforementioned issue of whether the transfers should be in cash or in-kind (section 3.6) has been prominent in this policy context. Advocates of in-kind transfers argue that this will assure a better distribution within the household, favouring women and children. Critics argue that this is paternalistic – that it would be better to make a direct cash transfer and let the family decide its priorities – and unnecessarily costly, since public resources are required for monitoring and enforcement. (Some retailers are willing to exchange cash for food stamps, discounting their face value and pocketing the difference.) The emphasis on targeting women in poor families also runs the risk of burdening women with even more work and responsibility – exacerbating the existing gender inequity (Chant 2008).

Unconditional cash or in-kind transfers targeted to poor people are found in many countries today, but have been more common in developed countries. An exception is China. Redistributive interventions have not been prominent in China's efforts to reduce poverty. Enterprise-based social security remained the norm, despite the dramatic changes in the economy, including the emergence of open unemployment and rising labour mobility. However this is changing rapidly. The *Dibao* programme has been the government's main response to the new challenges of social protection in the more market-based economy. The programme aims to guarantee a minimum income in urban areas by filling the gap between actual income and a *'Dibao line'* set locally. On paper this suggests a poverty trap, with 100 per cent marginal tax rates on poor people. A study of the incentive effects of the programme concluded that the marginal tax rate in practice is far lower – closer to 10 per cent (Ravallion and Chen 2015). Local officials have sufficient discretion to be able to actively smooth *Dibao* payments to lower the tax rate in practice. This illustrates a more general point that the way a programme works in practice can differ from its formal design, as Moffitt (2002) points out in the context of welfare programmes in the US.

While in theory a programme such as *Dibao* would eliminate poverty, the practice appears to fall well short of that goal, due largely to imperfect coverage of the target group and horizontal inequity between municipalities, whereby the poor living in poor areas fare worse in accessing the programme. Looking forward, the challenges are in reforming the programme and expanding coverage.

The *Dibao* programme also illustrates the tensions that can arise between the incentives of agents at different levels of government. The centre clearly puts a high weight on protection – as reflected in its aim of assuring that nobody lives below the stipulated *Dibao* lines – but it must rely on local implementing agents who tend to put less weight on protection given that the centre can be expected to help. This is an instance of the aforementioned moral hazard problem that can arise in implementing anti-poverty programmes in a federal system.

4.3 Longer-term effects of transfers

Credit and risk market failures have long been identified as a reason why poverty persists. Poor people are often credit constrained, which is one of the reasons they stay poor. And it is likely that they are more credit constrained than those financing the transfers. Then targeted cash transfers yield aggregate output gains by supporting

“Unconditional cash or in-kind transfers to poor people are found in many countries today, but have been more common in developed countries.

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investment in physical or human capital. Compensating for the market failures can then be good for **both** equity and efficiency. A similar point holds for risk. With incomplete markets, uninsured risk can also spill over into production decisions in ways that can impede longer-term prospects of escaping poverty. Examples include taking kids out of school in response to an income shock, or forgoing investment in the household's own enterprise.

However, realizing these potential longer-term gains in practice is a further challenge. There is some evidence of success. A few studies have pointed to longer-term impacts from cash transfers in Africa.[23] Two studies of the *Malawi Social Cash Transfer Scheme* found positive effects of the transfers on investment in farm tools and livestock (Boone et al. 2013; Covarrubias et al. 2013). Similar findings were obtained for Zambia's *Child Grant Programme* (Seidenfeld et al. 2013) and Ethiopia's *Productive Safety Net Programme* (Hoddinott et al. 2012). However, not all studies have found such effects. A study of the *Livelihood Empowerment against Poverty Programme* in Ghana did not reveal much impact on productive impacts, although the unpredictable nature of the transfer payments may have been a factor (Handa et al. 2013).

An important source of heterogeneity in the longer-term impacts of transfers to poor people is literacy, which conveys many advantages, including in the ability to learn and adapt, which are important to the success of entrepreneurial initiatives. The combination of transfers (assets and cash) targeted to the poorest with efforts to promote human development – especially (ordinary and financial) literacy and specific skill training – has been emphasized as a strategy for poverty reduction by the *Bangladesh Rural Advancement Committee* (BRAC). An important component of BRAC activities since 2002 has provided transfers to the 'ultra-poor' who are often left out of micro-credit schemes (discussed further later in this section). Evaluations of the Bangladesh programme have suggested that there are economic gains to the participants over time, mainly through the opportunities created for diversification out of casual labour in agriculture (Emran et al. 2014; Bandiera et al. 2013). A study spanning six other countries (Ethiopia, Ghana, Honduras, India, Pakistan, Peru) found evidence of sustained economic gains from BRAC programmes three years after the initial asset transfer, and one year after the disbursements finished (Banerjee et al. 2015a). In most cases, the cost of the BRAC programme was less than the present value of the extra earnings to participants over time.

Insurance benefits can also be expected since risk markets are imperfect. For example, it has been argued that the popularity of the *Employment Guarantee Scheme* in the Indian state of Maharashtra stemmed in part from the fact that many people who

[23] See Goldstein (2014) for further discussion of the longer-term impacts of cash transfers.

would not normally participate faced downside risk and could turn to the programme if needed. This class of programmes is examined in more detail in section 5.1.

4.4 Arguments for conditional transfers

Children from poor families tend to get less schooling and health care. This is common across the globe and it is one of the mechanisms perpetuating poverty across generations. The implications for inequality are less clear. A generalized expansion in education is likely to increase earnings inequality initially in countries with low initial levels of schooling (Ravallion 2016a: chapter 8). This will probably reverse later, and the majority of developing countries today are likely to be in the region in which education expansion will tend to lower income inequality. In the poorest countries, however, there may well be a case for targeting the gains in schooling to the poor, for both reducing poverty and its persistence, and for attenuating inequality.

While most targeted interventions against poverty have conditions of one sort or another, an important example in practice is the conditional cash transfer (CCT), for which the transfers are made under the condition that the children of the recipient family demonstrate adequate school attendance and health care in some versions. The promotion benefits of these programmes rest crucially on assuring that the transfers go to poor families, on the presumption that the children of the non-poor will already be in school. Thus, targeting has been seen to be instrumentally important to both the protection and promotion benefits. The promotion benefits also depend on designing the conditions such that the required level of schooling would not be attained in the absence of the programme.

Early influential examples of these programmes in developing countries were Mexico's *PROGRESA* programme and *Bolsa Escola* in Brazil. In the case of Brazil, a series of CCTs were targeted to poor families and eventually consolidated (and extended to include conditions on child health care) under *Bolsa Família*, which grew to cover 11 million families, or about one-quarter of the population – rising to about 60 percent of the poorest decile in terms of income net of transfers (Fiszbein and Schady 2010: Figure 3.1). The average transfer payment is about 5 per cent of pre-transfer income. The poorest families receive a transfer even if they have no children. The targeting of poor families uses a proxy means test, based on readily observed covariates of poverty (including location). Another early example was FFE in Bangladesh for which the transfers were made in kind, but also conditional on school attendance. Bolivia's CCT, *Bono Juancito Pinto*, introduced in 2006, is an example of a universal (untargeted) transfer programme, for which every child enrolled in public school is eligible, irrespective of family income.

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CCTs have become popular. All regions of the world, including around 30 countries, now have CCT programmes and the number is growing.[24] And other countries have formally similar policies not called CCTs; for example, in attempting to assure that poverty does not constrain schooling, since 2002 China has had a *'two exemptions, one subsidy'* policy for students from poor rural families; the exemptions are for tuition fees and textbooks and the subsidy is for living costs.

Advocates see these programmes as a means of breaking the poverty trap stemming from the economic gradient in human development, whereby poorer families cannot invest as much in their children and so those children are more likely to grow up poor. CCTs strive to strike a new balance between protection and promotion, premised on the presumption that poor families cannot strike the socially-optimal balance on their own. The incentive effect on labour supply of the programme (often seen as an adverse outcome of transfers) is now judged to be a benefit – to the extent that a well-targeted transfer allows poor families to keep the kids in school, rather than sending them to work.

[24] A useful overview of the coverage of CCT programmes can be found in World Bank (n.d.).

A CCT is essentially a price subsidy on the schooling and health care of children. Because the transfer is tied to the stipulated conditions it makes satisfying those conditions cheaper than it would have been otherwise.[25] If the sole concern was with current income gains to poor households then a policy maker would not impose schooling requirements, which entail a cost to poor families by incentivizing them to withdraw children or teenagers from the labour force, thus reducing the (net) income gain to poor people – there is still a current income gain, but less than it could be. The costs include, of course, the foregone earnings of children and teenagers, but there are other costs too, such as the time of (typically) the mother in complying with the conditions. Based on what we see empirically, it is reasonable to assume that the poorer the parents the less likely the children will be in school at any given age. Thus the cost of fulfilling the conditions of the CCT will be higher for poorer families. The fact that such costs are incurred does not mean that the CCT is a bad idea, but it does point to the importance of a comprehensive treatment of the costs and benefits.

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Critics of the use of such conditions argue that they are paternalistic – poor families will know better how to spend the transfer, and so it would be better to remove the conditions and so increase the value to recipients. Advocates of CCTs do not always have a good answer to that critique, and Das (2013) notes, economists who normally assume that the consumer knows best are sometimes loathe to assume that this applies to poor people.

Concerns about distribution **within** households are also found in the motivations given for such programmes; by this view, the programme's conditions entail that relatively more of the gains accrue to children. This is not clear on a priori grounds. Yes, when the conditions work the child will have more schooling, but that is not all that matters to welfare. Here the argument made by defenders of CCTs (and other policies, such as compulsory schooling) is that children often lose out in solving the intra-family bargaining problem that decides how long they stay in school rather than work. It is argued that the CCT rebalances the bargaining problem in favour of women and children, especially girls. However, concerns about paternalism within poor households do not clinch the case for paternalistic policies; one must also establish that there is something wrong with the preferences of the paternalistic head.

The presumption that poor parents are not making the right choices for their families is one of the most contentious aspects of these schemes, and it would be fair to say that this aspect has not been well defended by proponents of CCTs. There is an echo here of old ideas that blame poverty on the behaviour of poor men and women. In this case, advocates of CCTs argue that poverty persists across generations because poor parents do not keep their children in school long enough or do not seek public health care. This can be debated. Poor parents may well be better informed than policy makers about the choices they face in life.

Some of the arguments made for CCTs are less compelling than others. Defenders of CCTs have sometimes argued that credit market failures (whereby poor parents cannot borrow to finance their children's schooling) justify that incentive. However, this still requires that we do not think that parents are making the right choices; otherwise, the best way to relieve the borrowing constraint would be to make the transfer unconditional, since that will assure the largest income gain to the liquidity-constrained parents.

It has been argued that CCTs reduce child labour. Teenagers stay in school longer, delaying their entry into the workforce. For younger children it is less clear. One study showed that, under standard economic assumptions, a schooling subsidy will increase schooling but has theoretically ambiguous effects on the supply of child labour (Ravallion and Wodon 2000a). Empirically, the study found little effect of a schooling subsidy on child labour in Bangladesh.

[25] Ravallion (2016a, chapter 10, Box 10.6) discusses the economic incentives generated by a CCT in greater detail.

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Another economic argument for a CCT emerges when we consider the role played by prevailing social norms in schooling and health care choices by parents. A CCT has the potential to nudge the economy out of the bad equilibrium in which very few girls are sent to school.[26] The incentive works initially at the individual level, but it yields a collective gain given that the non-pecuniary cost facing girls will fall as a consequence. Depending on how that cost varies with the initial school enrolment rate and the size of the incentive effect, a sufficiently large transfer conditional on girls' schooling may well be able to change local social norms, putting a community with low school attendance by girls onto a path toward universal enrolment.

4.5 Evidence on CCTs

There are two aspects of a CCT's performance. The first is its ability to reach poor households while the second is its ability to change their behaviour. With respect to the former, CCTs raise no new issues beyond those already discussed (notably in section 3.5). So this discussion will focus on the second aspect of performance.

Impact evaluations of these schemes have generally suggested that they induce the expected behavioural change. For example, in the case of Mexico *PROGRESA* programme, the participating families that did not receive the necessary forms for monitoring school attendance were less likely to send their children to school (de Brauw and Hoddinott 2011). The various evaluations of *PROGRESA* have been positive.[27] While the bulk of the literature has focused on the partial equilibrium effects, notably on schooling, there is also evidence of general equilibrium effects on children's wages, which rose in programme villages relative to the controls (Attanasio et al. 2012).

While *PROGRESA* has clearly been the most researched CCT programme, there is now a body of evidence for other programmes and diverse settings. One study found sizeable gain from the schooling conditions in a Malawi CCT (Baird et al. 2011). A study for Burkina Faso found that the conditionality mattered more in encouraging the school enrolment of children who were initially less likely to go to school, including girls – children who are less likely to receive investments from their parents (Akresh et al. 2013). Another study found that a CCT programme in Indonesia, *Jaring Pengamanan Sosial*, had greatest average impact at the lower-secondary school level where children are most susceptible to dropping out (Cameron 2002).

There is also evidence that CCTs can help reduce the long-term costs of crises and idiosyncratic shocks stemming from their impacts on schooling. Again for *PROGRESA*, there is evidence that the programme helped protect the school enrolment of poor children, although parents still asked their children to help supplement family income at such times by working as well as staying at school (de Janvry et al. 2006). A study of a CCT in Colombia found that the programme helped poor families cope with the permanent departure of the father, which would otherwise curtail children's schooling, with implications for future poverty in addition to the loss of current income (Fitzsimons and Mesnard 2014).

Most evaluations have focused on the short-term impacts of CCTs. Are the gains in schooling sustained after the removal of the transfers? A study of the tuition-subsidy component of a poor-area programme in rural south-west China found that the impact on school enrolment vanished once the incentive had been removed (Chen et al. 2009). The gain during the incentivized period was not lost, however, implying a longer-term gain in schooling. Another study found that the half-grade gain in schooling attributed to a CCT in Nicaragua persisted 10 years later (Barham et al. 2013). The same study also found gains in the maths and language test scores of the young adults surveyed due to the earlier programme. The same programme was also found

[26] On how multiple equilibria in girls' schooling can arise see Ravallion (2016a: box 9.2).

[27] See the survey in Fiszbein and Schady (2010).

to improve the cognitive outcomes of children through better nutrition, and these gains also persisted two years after the programme.

The design features of CCTs have been debated. A series of papers on *PROGRESA* revealed that a budget-neutral switch of the subsidy from primary to secondary school would have delivered a net gain in school attainments, by increasing the share of children who continue to secondary school (Todd and Wolpin 2006; de Janvry and Sadoulet 2006; Attanasio et al. 2012). While *PROGRESA* had an impact on schooling, it could have been larger. However, it should be recalled that this type of programme has two objectives: promotion by increasing schooling (reducing future poverty) and protection by reducing current poverty, through the targeted transfers. To the extent that refocusing the subsidies on secondary schooling would reduce the impact on current poverty (by increasing the forgone income from children's employment), the case for this change in the programme's design would need further discussion.

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4.6 Early childhood development

Poverty in the first few years of life can have lasting consequences for health and learning abilities, with reduced labour earnings later in life. Poverty is typically associated with worse health and schooling outcomes (Ravallion, 2016a: Chapter 7, reviews the evidence). While these statistical associations do not imply causality, numerous psychosocial causal pathways have been identified from poverty in childhood to both current health status and heath as an adult.[28] This is one way that poverty persists across generations.

There have been a number of efforts to break this link through Early Childhood Development (ECD) programmes. There is evidence of long-term gains from ECD interventions in developing countries.[29] Mothers and their children in a district of rural Bangladesh received family planning and intensive early childhood health care in the 1980s. On comparing recipients with an observationally similar comparison group, the previously treated children had significantly higher cognitive functioning scores by ages 8-14 (Barham, 2012). A study for Guatemala followed up about 1,500 people who had joined a controlled trial programme for nutritional supplementation in childhood, some 20 or more years earlier (Maluccio et al. 2009; Hoddinott et al. 2011). Reduced stunting in the first few years was found to yield sizeable longer-term consumption gains and lower poverty rates in adulthood. These gains came with more schooling, better test scores, and higher adult wages. Allowing for costs, the results suggest quite high benefit-to-cost ratios for early childhood nutrition programmes in poor countries (Hoddinott et al. 2013). Even without taking account of the likely pro-poor distribution of the benefits, public investments in early childhood nutrition supplementation – specifically in the first 1,000 days of life – can make economic sense.

In the light of the many positive findings on ECD, it is notable that very few CCTs in developing countries have yet applied conditions on behaviours relevant to ECD.[30] Such conditions could include pre-school attendance and/or visits to health clinics to obtain lessons on (for example) talking to children, feeding and nutrition supplementation. Examples will surely emerge in due course, given the mounting body of evidence on the role of early childhood handicaps in perpetuating poverty.

In one of the few evaluations to date of a preschool programme in a poor country, Bouguen et al. (2014) randomized preschool construction in Cambodia, and followed up various outcome measures for both treatment and controls. Participating children saw only modest and statistically insignificant gains from improved access to preschools relative to the control group, and there was even evidence of an adverse impact on early childhood cognition tests. The main lessons drawn by the authors concerned programme implementation and addressing demand-side constraints in ECD interventions in poor countries.

[28] See Evans et al. (2012) for a survey of this literature. Also see the discussion in Haushofer and Fehr (2014).

[29] See Campbell and Ramey (1994), Campbell et al. (2014), Heckman (2006) and Anderson (2008). Useful reviews can be found in Horton et al. (2008) and Walker (2011) (who focuses on the under-3 age group).

[30] The only example I know of is a World Bank-supported CCT-nutrition programme in Yemen, approved by the Bank in 2014 and soon to be implemented at the time of writing.

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The balance of policy effort between children under 3 and over 3 remains an issue. It is easier to reach the latter group with preschools, and this has been the emphasis of many of the policies in place so far. While it is harder to reach the younger group, the benefits from doing so appear to be larger, given that this is known to be a critical period for nutrition and brain development through interaction and stimulation. The available evidence and experience suggests that parenting education using home visits at high frequency (every two weeks, say) can help, although this is costly; Walker (2011) reviews the evidence. Counselling mothers at clinics may well be more feasible although we do not appear to know much yet about its efficacy. There is much current interest in learning more about how effective ECD interventions might be devised for developing countries.

4.7 Service quality

We have seen various examples of policies that have aimed to create stronger incentives on the demand side for poor parents to keep their children in school, i.e., a greater quantity of schooling for children from poor families. However, the quality of schooling (and healthcare) is a serious concern.[31] If the services are of poor quality then the stronger incentive on the demand side may come to nothing. The success of these interventions may well require complementary efforts on the supply side, through more effective (public or private) service delivery. This is not just about building and equipping facilities, though that is clearly important. There must also be adequate incentives for the performance of service providers (teachers and health-care workers), with feedback to users on that performance. For example, parents should know how well their children are doing at school, not just that they are present.

The life-threatening dangers of encouraging greater use of public health facilities by poor people when service quality is inadequate were illustrated in the Indian state of Chhattisgarh, where 12 women died in 2014 after receiving tubal ligations. These operations and institutional deliveries were centrally encouraged as a matter of family-planning policy in India. But the facilities were of poor quality often with over-worked staff. Nor was the evaluative evidence on the benefits as supportive as advocates had claimed.[32]

Equity issues also arise in efforts to improve service performance. An example is a voucher programme, whereby, for each school-age child, parents receive a voucher that is redeemed by the school that the parents choose to send their child to. This directly links the income of each school to at least one aspect of performance, its enrolment rate. However, there are believed to be externalities in schooling – whereby children from richer families bring advantages to other students and staff. Schools may become more socio-economically segmented, with children from poorer families tending to go to different schools to those from better off families (Gauri and Vawda 2004). There is a risk that poor children end up with lower quality schooling.

[31] World Bank (2004) reviews the evidence and discusses incentives for service delivery.

[32] See the comments in Das and Hammer (2014).

5

Making markets and institutions work better for poor people

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In this second class of policies, market or institutional failures relevant to poverty are seen as an essential part of the rationale for intervention. The existence of a market or institutional failure does not imply that an intervention directed at that failure will help, or be the best form of intervention. That must be assessed empirically. This section reviews the evidence.

5.1 Workfare

Unemployment, or underemployment, has long been identified as a cause of poverty. This clearly reflects a labour market failure, in that (for some reason) the wage rate has not adjusted to clear the labour market. A natural policy response (though not necessarily the best response) is to provide low-wage work to those who need it. This is also believed to have in-built incentives to 'self-target' poor people. The type of work that people are willing to do has long been seen as an indicator of poverty.[33] Thus imposing a work requirement on welfare recipients offers a means of creating incentives to assure that non-poor people are deterred, and poor people are willing to take up other work when it becomes available.[34] In the absence of the work requirement, the non-poor will masquerade as the poor to receive benefits.

The workhouses that emerged in Europe in the 16th century famously used this device as a means of getting around the information and incentive problems of targeting. England's workhouses had been greatly scaled up in the 19th century (following the 1834 reforms to the Old Poor Laws) with the aim of reducing perceived inclusion errors. The cost of poor relief fell substantially. However, it seems that the bulk of this was due to more limited coverage of those in need. The reforms clearly went too far in imposing costs on participants to assure self-targeting. The costs came to be widely seen as objectionable. But the idea of self-targeting had lasting influence.

The workhouses are an example of a class of interventions often called today 'workfare schemes,' that impose work requirements on welfare recipients. Though not involving workhouses, this idea was embodied in the Famine Codes introduced in British India around 1880, and the idea has continued to play an important role to this day in the sub-continent (Drèze, 1990a). Such schemes have helped in responding to, and preventing, famines including in Sub-Saharan Africa (Drèze, 1990b). Workfare was also a key element of the New Deal introduced by US President Roosevelt in 1933 in response to the Great Depression.

An important class of workfare schemes has aimed to guarantee employment to anyone who wants it at a pre-determined (typically low) wage rate. *Employment Guarantee Schemes* (EGSs) have been popular in South Asia, notably in India where the Maharashtra EGS, which started in 1973, was long considered a model. In 2005, the central government implemented a national version, the NREGS scheme which we already heard about (section 2). This promises 100 days of work per year per household to anyone willing to do unskilled manual labour at the statutory minimum wage notified for the programme. The work requirement is (more or less explicitly) seen as a means of assuring that the programme is reaching India's rural poor.[35] These schemes can be interpreted as attempts to enforce a minimum wage rate in situations in which there is no other means of legal enforcement.

33 Early examples include Young's (1792) travelogue from rural France in the later eighteenth century; a number of times he identifies the fact that women were willing to do menial labour in the fields as an indication of their poverty.

34 The theoretical rationales for workfare have tended to emphasize incentive issues, but to assume full employment, as in the influential model of Besley and Coate (1992). Alik-Lagrange and Ravallion (2016) provide a generalization of the Besley-Coate model to allow for unemployment, which is invariably emphasized in policy discussions.

35 Dutta et al. (2014) provides an assessment. Also see Jha et al. (2012), Gaiha (1997), Imbert and Papp (2011).

A difference between an EGS and a statutory minimum wage is that an EGS aims to provide comprehensive insurance for the able-bodied poor, in that anyone who needs work can get it, at least on paper. Eligibility is open to all, so that a farmer who would not need the scheme in normal times can turn to it in a drought (say). This was explicit from the outset of the idea of an EGS (as it developed in Maharashtra in the early 1970s). Whether this insurance function is served in practice is another matter. There is evidence of considerable rationing on India's national EGS, which clearly reduces the insurance benefits (Dutta et al. 2014). The rationing tends to be greater in poorer states of India, which may well reflect weaker administrative capabilities for implementing a complex programme such as an EGS.

Workfare schemes illustrate well the point that even a well-targeted transfer scheme can be dominated by untargeted transfers when one takes account of all the costs involved, such as income forgone or other costs in complying with the conditionalities imposed in more sophisticated transfer schemes. The evidence suggests that in both the Maharashtra EGS and the NREGS an untargeted basic income scheme (i.e., a BIG, as discussed in section 3.4) would have been more cost effective in transferring money to poor people (Ravallion and Datt 1995; Murgai et al. 2016).

Workfare schemes have typically been seen as short-term palliatives – a form of social insurance. In principle, a workfare scheme can also directly serve promotional goals. One way is by generating assets that could change the wealth distribution, or shift the production function, which could also allow people to break out of a poverty trap. In practice, asset creation has not been given much weight in these schemes in South Asia, although it seems to have higher weight elsewhere, including in Latin America (such as Argentina's *Trabajar Program*).

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Another way that workfare programmes have tried to better serve the promotional aim of anti-poverty policies is by tying benefits to efforts to enhance human capital through training. Unemployed youth have been a special focal group for such efforts in a number of countries. Welfare reforms in many countries since the early 1990s have also aimed to make transfers conditional on investments in human capital, and to incentivize private employment search and take-up.[36] This form of workfare does not actually provide employment, as in the public-works form of workfare. Training and encouragements for private sector employment using wage subsidies have also been used to encourage the transition from public employment on workfare schemes to private employment. We turn next to these policies.

5.2 Training and wage-subsidy schemes

There is some evidence that low-wage workers tend to receive less training on-the-job, and invest less in skill enhancement by other means.[37] Again, this can be thought of as a market failure. This has motivated interest in public programmes that aim to provide training targeted to low-skilled workers. Efforts have also been made to subsidize the employment of those workers, such that they can find more high-paid work in the future, or simply get off the unemployment or workfare rolls into regular work. These are often called 'active labour market programmes.'

There is evidence that such interventions can help in the transition to regular work. But the results appear to have varied greatly according to the setting and the method used to assess impact, defying generalizations.[38] While such policies have been less common in poor countries, they are getting more attention as those countries

[36] Hemerijck (2014) provides an overview of such reforms in Europe.

[37] Evidence on this point for the UK can be found in Booth and Bryan (2007), who also refer to other studies.

[38] An overview of the arguments for and against wage subsidies can be found in Katz (1996), Bell et al. (1999) and Blundell (2001). Impact assessments can be found in Burtless (1985), Woodbury and Spiegelman (1987), Dubin and Rivers (1993) and Galasso et al. (2004). The theory and evidence on training programmes are reviewed by Heckman et al. (1999), and empirical studies include Lalonde (1986), Heckman et al., (1997), Dehejia and Wahba (1999), Smith and Todd (2001) and Galasso et al. (2004).

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develop, and especially so with the rising concerns about youth unemployment, notably in the cities.

One of the difficulties faced in assessing this class of interventions is in obtaining reliable estimates of impact using non-experimental methods. LaLonde (1986) found large biases in non-experimental methods when compared to a randomized evaluation of a US training programme. On the same data set, a follow-up study found that propensity-score matching achieved a good approximation (Dehejia and Wahba 1999). Yet another study (again using the same data set), questioned this finding, arguing that the results are sensitive to choices made in sample selection and model specification (Smith and Todd 2001).

While generalizations about this class of programmes can be hazardous, a closer look at one specific example can illustrate some key points. The example is the *Proempleo* scheme in Argentina introduced around 2000. This was motivated by concerns about welfare dependency in company towns that had seen sharp reductions in employment due to retrenchments by the principal employer. The main form of welfare assistance provided to such towns was temporary work, at a relatively low wage, oriented to social infrastructure or community services. In some towns, a heavy dependence on such workfare programmes emerged in the wake of privatizations and subsequent sharp contractions in local employment; an unusually higher take-up rate for workfare programmes was being observed in these towns even five years later. Workfare participants may well need assistance in getting regular employment in the private sector.

Wage subsidies and/or training programmes have seemed obvious responses. *Proempleo* provided both intensive training in skills identified as relevant to local labour demand and a sizeable wage subsidy which was paid to the employer on registering any qualifying worker who had been given a private sector job. An evaluation of the pilot programme used randomly assigned vouchers for the wage subsidy and training across (typically poor) people currently in a workfare programme and tracked their subsequent success in getting regular work (Galasso et al. 2004). A randomized control group identified the counterfactual.

The results of this evaluation indicated that the training component had an impact but only for those workers with a reasonable level of prior schooling. There was also a significant impact of the wage-subsidy voucher on employment. But when cross-checks were made against central administrative data, supplemented by interviews with the hiring firms, it was found that there was very low take-up of the wage subsidy by firms. The scheme was highly cost effective; the government saved 5 per cent of its workfare wage bill for an outlay on subsidies that represented only 10 per cent of that saving.

However, the cross-checks against these other data revealed that *Proempleo* did not work the way its designers had intended. The bulk of the gain in employment for participants was not through higher demand for their labour induced by the wage subsidy. Rather the impact arose from supply side effects; the voucher appears to have had credential value to workers – it acted like a 'letter of introduction' that few people had (and how it was allocated was a secret locally). This finding could not be revealed by the RCT, but required supplementary qualitative data. The extra insight derived from the qualitative work also carried implications for subsequent scaling up, which put emphasis on providing better information for poor workers about how to get a job rather than providing wage subsidies.

5.3 Land-based policies

Access to land is still the main non-labour asset of poor people. In rural areas, lack of land can be thought of as an indicator of poverty. Interventions can either target extra resources to those with little land, or they can try to make land-markets work better from the point of view of poor people.

In rural economies, landholding has often played a role as an indicator of poverty for the purposes of targeting transfers in some form. If (rural) poverty is defined by having little or no cultivatable land, then land-based targeting has the potential for a large reduction in poverty. If instead a broader welfare metric is used, based on total consumption or income, the case becomes less clear. Indeed, even in a setting such as rural Bangladesh (where landlessness is a strong correlate of poverty), targeting the landless may have only modest impact on overall consumption poverty, as shown by Ravallion and Sen (1994). However, the focus here is not on the use of land as an indicator of poverty, but rather the scope for addressing causes of poverty that relate to imperfections in the market for land.

It has also been argued that redistributive land reforms bring dynamic efficiency gains favouring poor people. The classic argument is based on the inverse relationship typically found between the productivity of land and farm size.[39] Family farms tend to use labour more efficiently because they face lower costs of monitoring effort and lower search and transaction costs. Redistributing land from large holdings to small ones will then generate a gain in aggregate productivity – enhancing both efficiency and equity. The efficiency gains may not materialize in practice in the presence of other market or governmental failures that restrict the access of smallholders to credit and new technologies (Binswanger et al. 1995). The policy lesson here is to develop a package of interventions supporting smallholders.[40]

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Large-scale redistributive land reforms have been identified as a key factor in some of the success stories in poverty reduction, notably Taiwan. In the case of mainland China and Viet Nam, it has also been argued that the relatively equitable distribution of land that could be attained as a result of agrarian reforms was important to the substantial growth in food output and fall in rural poverty.

There are a number of reasons why we have not seen more redistributive land reforms. The political power of the large landholding class has often been a factor given limited commitment, as discussed by de Janvry (1981) in the case of Latin America.[41] Another reason is the widely held but generally false belief that large commercial farms are more efficient – the rejection of '*...the idea that small, ill-clothed and uneducated farmers can be more efficient than large, modern, well-dressed and well-educated ones*' (Berry 2011: 642). And large landholders and their political representatives have undoubtedly encouraged such beliefs.

Another area for intervention relates to land-property rights, which are often less secure for poor people. We will return to this set of issues below when discussing legal institutions in section 5.6.

5.4 Microfinance for poor people

As already noted, credit market failures have been identified as a cause of poverty and a reason why it can be costly to overall economic performance. On top of long-standing moral arguments, transfers to poor people can be interpreted as a means of relieving the constraints stemming from such market failures. There is another option, namely policies that aim to make financial institutions for saving and borrowing work better for poor men and women, who cannot meet the collateral requirements.

[39] Early evidence for this inverse relationship was provided by Berry and Cline (1979); for a recent review of the extensive literature broadly supporting the existence of this inverse relationship see Lipton (2009).

[40] On complementary policies for supporting smallholder agriculture see IFAD (2011, Chapter 5).

[41] For further discussion of land reforms see Binswanger et al. (1995), Fields (2001, Chapter 10) and Lipton (2009).

“Microfinance programmes aiming to support small-scale credit and savings transactions by poor people have attracted much interest since the idea emerged in the late 1970s, and there are now many examples in the developing world.

Such policies can matter for protection, by facilitating income and consumption smoothing. However, the new theories on inequality and development also point to a motivation for such policies as a means of promotion, premised on the idea that it is the inequality in access to credit that matters to subsequent growth prospects in a credit-constrained economy.[42]

Microfinance programmes aiming to support small-scale credit and savings transactions by poor people have attracted much interest since the idea emerged in the late 1970s, and there are now many examples in the developing world. The instruments that emerged tend to be better suited to supporting small non-farm business development, rather than farming. This is because re-payments start as soon as the loan is received, whereas a farmer must wait until after the harvest when credit is taken for agricultural inputs.

The classic argument for this class of interventions is about promotion, namely that relaxing borrowing constraints facing poor people allows them to invest and so giving them new freedom, including to eventually escape poverty by their own means. Credit and savings are also potentially important instruments for protection, by allowing poor households to more effectively smooth their consumption in the face of income fluctuations.

Much of the early (and on-going) enthusiasm for microfinance was really little more than advocacy, with weak conceptual and empirical foundations. In recent times there has been a rise in popular concern in the media (in South Asia especially) about over-borrowing by poor people once given new access to microfinance as well as high interest rates charged by many some lenders to poor people. Much of this concern also appears to stem from anecdotes, and the debate has also become politicized. Positive average impacts do not, of course, mean that there are no losers among recipients. This is probably true of all anti-poverty policies but it is especially so in the case of credit-based interventions. Risk is not eliminated, shocks do occur and mistakes are made, such as due to faulty expectations. There will be both gainers and losers.

The earliest and still most famous example of this class of policies is Bangladesh's group-based lending scheme, *Grameen Bank* (GB). GB has made a conscious effort to reach the poor both through their eligibility criteria and their branch location decisions, which (in contrast to traditional banks) have favoured areas where there are unexploited opportunities for poor people to switch to non-farm activities (Ravallion and Wodon, 2000b). Research on GB has indicated that the scheme has helped in both protection and promotion; in the former case by facilitating consumption smoothing and in the latter by helping to build the physical and human assets of poor people.[43] This was found in research by Pitt and Khandker (1998) who relied on the design features of GB for identifying its impact, notably that it is targeted to the landless. Given that access to GB raises the returns to being landless, the returns to having land will be higher in villages that do not have access to GB credit. Thus, comparing the returns to having land between villages that are eligible for GB and those not (with controls for other observable differences) reveals the impact of access to GB credit. Put another way, the authors measured impact by the mean gain among households who are landless from living in a village that is eligible for GB, less the corresponding gain among those with land. The results indicate a generally positive impact on measures relevant to both protection and promotion. This was confirmed in subsequent research using survey data on 3,000 households spanning 20 years (Khandker and Samad 2014). The success of GB has led to a proliferation of microfinance schemes in Bangladesh, with over 500 providers at the time of writing, and the idea has spread to many other countries. Women have often been favoured by these schemes.

Even careful observational studies require identifying assumptions that can be questioned, and there has been a debate in the literature about the robustness of past findings on the impacts of GB.[44] This is a type of policy intervention for which it will

[42] See Ravallion (2016a, chapter 8) for an overview of these arguments.

[43] An early contribution to knowledge about GB was made by Hossain (1988).

[44] See Morduch (1999), Roodman and Morduch (2014) and Duvendack and Palmer-Jones (2012). Also see the detailed rejoinder in Pitt and Khandker (2012).

inevitably be hard to convince everyone of the validity of the identifying assumptions given the likelihood of unobservable factors jointly influencing take-up and impacts. Experimental evaluations relying on randomized assignment have offered the hope of more robust results and there have been some interesting examples. A study of the impacts of opening new micro-finance bank branches in the slums of Hyderabad India found that overall borrowing, business start-ups and spending on consumer durables (but not non-durables) increased in the areas that were randomly assigned the new branches relative to the control areas (Banerjee et al. 2015b). However, this study did not find evidence of positive impacts on health, education or women's self-efficacy. A recent review of lessons from such randomized evaluations concluded that there was 'a consistent pattern of mostly positive but not transformative effects' (Banerjee et al. 2014). The review pointed to positive effects on access to credit – which is consistent with the presumption that such access was constrained in the first place. Relaxing such a binding constraint on choice must bring welfare gains. Whether they will be evident in current consumption or income and (hence) current poverty is another matter, and here the evidence is mixed.

Heterogeneity is again evident in the evaluations to date. This was the focus of a recent experimental evaluation of access to micro-credit by working-age women in Mexico (under *the Compartamos Banco* scheme) (Angelucci et al. 2015). The authors found positive average impacts in a number of dimensions. There was heterogeneity in the impacts, but they found little evidence of significant losses, including among poor borrowers. More research on the benefits and costs of microfinance schemes can be expected.

We have seen a huge shift in thinking about this class of policies over the last 200 years; in the days when poor men and women were routinely blamed for their poverty, giving them a loan would not have made much sense. Of course, identifying credit market failures as one cause of poverty does not imply that credit will work for all poor people. But well-designed programmes have a role, as a complement to other policies for both protection and promotion.

5.5 Poor area development programmes

Almost all countries (at all levels of development) have their well-recognized *'poor areas'*, in which the incidence of poverty is unusually high by national standards. Concerns about these poor areas have promoted geographically-targeted anti-poverty policies. 'Poverty maps' are widely used to inform such efforts,[45] whereby extra resources are devoted to the identified poor areas.

The case for this type of intervention depends on why we find poor areas in the first place. Such areas are often characterized by low capital-to-labour ratios. In principle, the low capital-to-labour ratio (K/L) can be dealt with by either increasing the K or reducing the L. There has been much debate on which is the better approach – investing in lagging poor areas or supporting out migration.

Under certain conditions, we can expect the process of economic growth to help poor areas catch up even without labour mobility. This is implied by the standard neoclassical model of economic growth with diminishing returns to capital (following Solow 1956; and Swan 1956). The process need not be rapid, however. Also, there may be more fundamental problems in poor areas, resulting in a low average income in steady-state. Possibly the low capital endowments reflect a low productivity of capital in poor areas, such as due to poor natural conditions or chronic local governance problems. Unless these problems can be changed, assistance with out-migration may make more sense, although this may sometimes call for some selective investments in poor areas, such as in schooling or re-training.

Impediments to the mobility of capital (into poor areas) or labour (out of them) can often be seen as the root cause of the problem of lagging poor areas. In some countries the government itself is a source of impediments to mobility between poor areas and non-poor areas within the country. The most famous example is probably China's *hukou* system –essentially an internal passport system, the most important implication of which is that rural migrants to the cities suffer disadvantages, notably in access to urban public services, including for their children.

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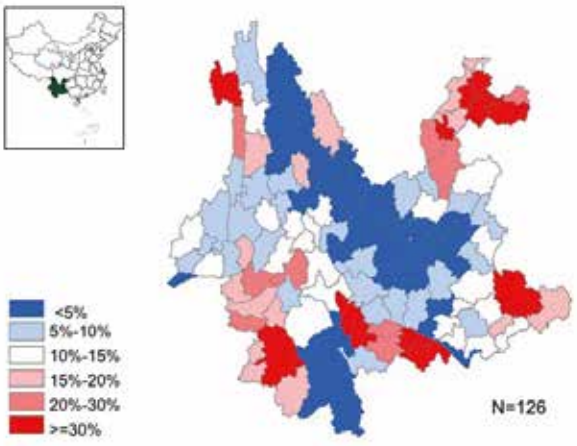
[45] The small-area estimation method proposed by Elbers et al. (2003) has often been adopted for this purpose whereby a consumption model calibrated to survey data is used to predict poverty rates for the population as a whole at a fine geographic area.

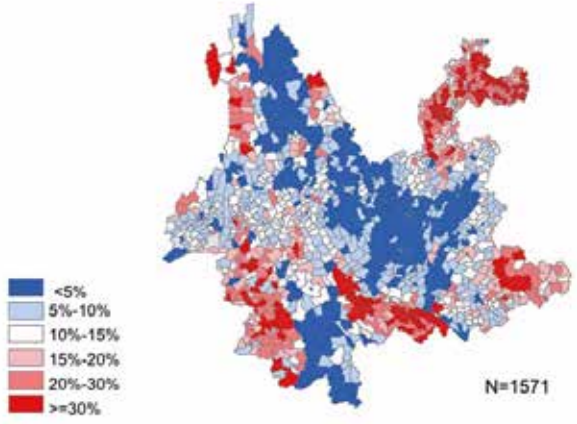
Poor area development projects are one of the oldest forms of development assistance. The policies come under various headings (including *'Integrated Rural Development Projects'* and *'Community Driven Development'*). Extra resources are channelled to the targeted poor areas for infrastructure and services and developing (farm and non-farm) enterprises. Emphasis is often given to local citizen participation in deciding what is done. This makes sense but it is not assured to work. A survey of the available evaluative research found somewhat mixed success given the scope for capture by local elites (Mansuri and Rao 2012).

Figure 2:
Yunnan – County poverty incidence



Source: Author's illustration.

Figure 3:
Township poverty incidence



Source: Author's illustration.

Geographic externalities can play an important, but a still poorly understood, role. In the case of China, there is evidence of geographic divergence. Some observers have taken this to be evidence of increasing returns, such that the neoclassical growth process fails in assuring that poor areas eventually catch up. In the case of China, there is evidence that the divergence is not, however, due to increasing returns to scale but rather it is due to pervasive geographic externalities, whereby households living in poor areas have lower growth prospects than seemingly identical households living in well-off areas (Jalan and Ravallion 2002; Ravallion 2005).

The policies found in practice have had a mixed record. The main concerns about the incentive effects of poor-area programmes relate to the responses of local governments to external aid and to migration. For example, one study demonstrated that local government spending allocations changed in response to efforts by higher levels of government to target poor villages in rural China, dampening the targeting outcomes (Chen et al. 2009). On migration, one often finds rather limited intra-rural mobility in developing countries, sometimes reflecting institutional and policy impediments (such as local administrative powers for land re-allocation as in China). Rural-to-urban migration has been more important, and has generally been associated with faster rates of overall poverty reduction, although this can come with a slower pace of urban poverty reduction (Ravallion et al. 2007). Urban governments have at times resisted in-migration from rural areas, which can slow the pace of overall poverty reduction.

There has been very little research on the longer-term impacts of poor-area development programmes. In one of the few exceptions, Chen et al. (2009) evaluated a large, World Bank-financed, rural development programme in China, 10 years after it began and four years after disbursements ended. The programme emphasized community participation in multi-sectoral interventions (including farming, animal husbandry, infrastructure, and social services). Survey data were collected on 2,000 households in project and non-project areas, spanning 10 years. Only small and statistically insignificant gains to mean consumption emerged in the longer-term—though in rough accord with the average gain to permanent income. There were appreciably larger impacts among the educated poor (those who had completed primary school). The use of community-based beneficiary selection greatly reduced the overall impact, given that the educated poor were under-covered.

This is suggestive of an equity-efficiency trade off in local implementation; the assignment of benefits within villages was more equitable than would have been efficient from the perspective of the programme's goal of reducing overall poverty measures. There was also evidence in this study of spillover effects to the comparison villages generated by the response of local governments to the external aid, whereby local governments diverted their own efforts from the treatment villages to the comparison villages. However, the spillover effects were not strong enough to overturn the study's main findings.

There is still much we do not know about the impacts of poor-area development

efforts, especially over the longer-term, and the trade-offs faced against policy options, including assisted migration. While local infrastructure development may sometimes be crucial to fighting poverty, it has not attracted the degree of attention in evaluative research that we have seen in social policies. Here an important factor is the extent to which development impact is challenged by donors and citizens. Impact is too often taken for granted with infrastructure. By contrast, the 'softer' social policies have had to work hard to justify themselves, and evaluative research has served an important role. If the presumption of impact is routinely challenged by donors, aid organizations and citizens then we will see stronger incentives for learning about impact, and fewer knowledge gaps.

5.6 Making legal institutions more pro-poor

Secure property rights and equality-before-the-law have long been seen as pre-conditions for economic development. Famously, Adam Smith (1776) argued that the behaviour of self-interested people could advance their collective welfare in an institutional environment of competitive markets as long as property rights were secure. This idea was to become a theme in the modern political economy of institutions, and a central tenant of economic policy.

In practice, however, poor people are often ignored or even threatened by prevailing legal institutions. Insecure land rights have been a specific concern in many countries, in both rural and urban areas. Poor rural residents who have farmed their land for generations and happen to find themselves in a potentially resource-rich area can be especially vulnerable to government-supported land grabs by local or international elites. Indigenous groups and ethnic minorities have been especially vulnerable in many developing countries. On top of the equity concerns, a number of studies have pointed to dynamic gains to poor people from greater security of their land titles, including through their own investment decisions (as Smith had argued).[46] Civil society groups have taken leadership on this issue in the development community. Local NGOs, with coordinating support from international networks, including the **International Land Coalition**, have advocated policies for more secure land rights, equal rights for women and indigenous peoples, and legal defenses for those who have lost their land or are under threat of expropriation.

Poor people are often ignored or even threatened by prevailing legal institutions.

Personal safety has also been an important concern of poor people, especially when they live in poor areas (Narayan and Petesch 2002; UN Habitat 2003; Pradhan and Ravallion 2003; Haugen and Boutros 2014). Village studies have described the many forms that violence takes (and not necessarily physical), where those empowered to enforce the law can sometimes be a threat to poor people; see, for example, Hartmann and Boyce (1983). These observations are not surprising. The well-off also have greater ability to protect themselves from crime and violence. Indeed, it is plausible that, globally, poor people are disproportionately the victims of many forms of violence and are in a relatively weak position to obtain help from the police and courts.

It is a plausible hypothesis that the scale of the problem of violence is greater when the public justice institutions are least developed or effective, which tends as a rule to be in poor places. Discrimination against disadvantaged minorities by the legal system has been a common concern. But this is not just a problem in poor places. For example, it has been argued that failures of the legal system to treat violence against blacks the same way as whites is a causative factor in America's high murder rate (Leovy 2014). A discriminatory, or even more deeply failed, public legal system fosters parallel private arrangements. Private resources are needed to assure protection (including through bribes), and so poor people are typically the least well protected—they cannot afford safety and justice even when the formal laws claim to provide them to all. Thus we can understand why poverty and powerlessness often go hand in hand.

Developing more effective legal institutions and processes that work for all citizens is likely to be crucial for reducing violence generally, and especially the violence facing poor people across the world. A policy agenda for reducing violence by fostering better and more inclusive legal institutions can also be seen as an investment in longer-term economic progress. Here there is an important role for NGOs. For example, the **International Justice Mission** has worked since 1999 to help protect poor people from violence across much of the developing world, typically working closely with local NGOs and authorities with the ultimate aim of assuring that justice systems work as well for poor people. There is still much to do.

[46] Deininger (2003) provides a review of the arguments and evidence on land titling and related issues.

6

Conclusions and lessons for policy makers

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The progress that the developing world is making against absolute poverty is one of the great achievements of modern times. While there can be no guarantee that extreme poverty will be eliminated within the next generation, it is certainly possible with a sustained effort. There will undoubtedly be economic fluctuations ahead, but maintaining the new post-2000 growth trajectory for the developing world over the longer-term without an increase in overall inequality in the developing world as a whole (though not necessarily within countries) can be expected to lift about one billion people out of extreme poverty by 2030 (Ravallion 2013).

> Maintaining the new post-2000 growth trajectory for the developing world over the longer-term without an increase in overall inequality can be expected to lift about one billion people out of extreme poverty by 2030.

While the heavy-lifting against poverty will probably continue to come from pro-poor growth processes, there is a potentially important supportive role for redistribution and insurance. And that role is unlikely to be temporary; all countries need a permanent safety net. In thinking about the options, policy makers in developing countries should be more open to the idea of only broadly targeted and largely unconditional transfers, as distinct from finely targeted conditional transfers. Improving tax systems in poor countries to expand the revenue for domestic anti-poverty policies must also be a high priority.

Even lifting one billion people out of absolute poverty, as defined by frugal poverty lines found in the poorest countries, will leave another one billion or more people in the world who are still poor by the standards of the countries they live in. Such relative poverty is still poverty. Welfare concerns about relative deprivation and costs of social inclusion demand higher real poverty lines as average incomes grow. This type of poverty can also be eliminated but it will require much stronger redistributive efforts than we have seen to date in most countries.

The policies are available, and this study has discussed a number of options. There have been both successes and failures, but it is clear that well-designed policies can be effective. It is important, however, that policy makers understand what can be feasibly accomplished by such policies, especially in settings of highly imperfect information and weak administrative capabilities. The idea of (literally) eliminating poverty as is the first of the United Nations' new **Sustainable Development Goals** by this means alone is almost certainly unrealistic. But these policies can have an important role.

The specific lessons for policy that emerge from this study are not so much about 'what exactly to do' but rather about 'how to think about what to do'. This will be disappointing to some policy-oriented readers anxious for magic bullets, but it is (I believe) an honest reflection of the state of knowledge. Here is the list of lessons I draw from all this:

1. Effective interventions must be tailored to the realities of the setting. Successful policies respect local constraints on the information available, administrative capabilities, and incentive constraints. A key role for analysts is to learn about these constraints and make them explicit. Too often policy-making is done in the absence of a proper understanding of these constraints, which makes for bad policies. Policy makers and citizens need to have realistic expectations of what can be accomplished by direct interventions alone.

2. Tapping local information can help identify those in need, and help in responding, but it must be combined with strong governments. We have seen greater use of participatory, community-based (governmental and non-governmental), institutions for income support and/or service provision. However, these should not be seen as substitutes for sound public administration, which will still be needed in guiding and monitoring local institutions, including addressing grievances to help avoid elite capture at local level.

3. Policy makers should focus on poverty reduction through protection and promotion, rather than finer targeting per se. The most finely targeted policy (with lowest inclusion errors) need not have the most impact on poverty. There are often hidden costs of participation, including to poor people. While incentive effects have been exaggerated at times by critics of these policies, there can be little doubt that means-tested transfers can have adverse incentive effects, notably through high marginal tax rates on participants. But possibly more importantly, fine targeting can undermine broad political support for effective interventions. While it does not seem that a universal basic income at some decent level is yet feasible in most countries, more universality in service provision and social protection, and less fine targeting, could well make for better and more sustainable social policies.

4. A trade-off between protection and promotion can be expected. While targeted income guarantees can be good for protection, they can generate adverse incentives for promotion. Effectively reaching the chronically poor may lead to policies that are too inflexible to shocks. Good policy-making is often about improving the terms of this trade off. Transfers have a role in allowing markets to work better from the perspective of poor people. 'Social investment' approaches (conditional transfers and productive workfare) show promise, though assessments must consider all the costs and benefits.

5. Monitoring and evaluation are crucial. There are persistent knowledge gaps about the effectiveness of this class of policies. In addressing those gaps, generalized preferences among the methodological options are rarely defensible in the absence of knowledge about the setting, and (especially) the data that are available. There is a menu of defensible options. It is no less important that policy makers are active in identifying key knowledge gaps, and/or supporting the creation of relevant knowledge.

6. Policy makers must also adapt to evidence of failure, admitting and learning from mistakes as well as scaling up successes. Too often, it seems, deficient programmes survive well beyond their useful life. Bureaucratic inertia and participant capture appear to be common problems. The NGO GiveWell has a page on its website devoted to acknowledging its own mistakes (the first listed of which was not hiring a PhD economist, which the NGO is in the process of correcting at the time of writing). Citizens should demand that governments are willing to do the same.

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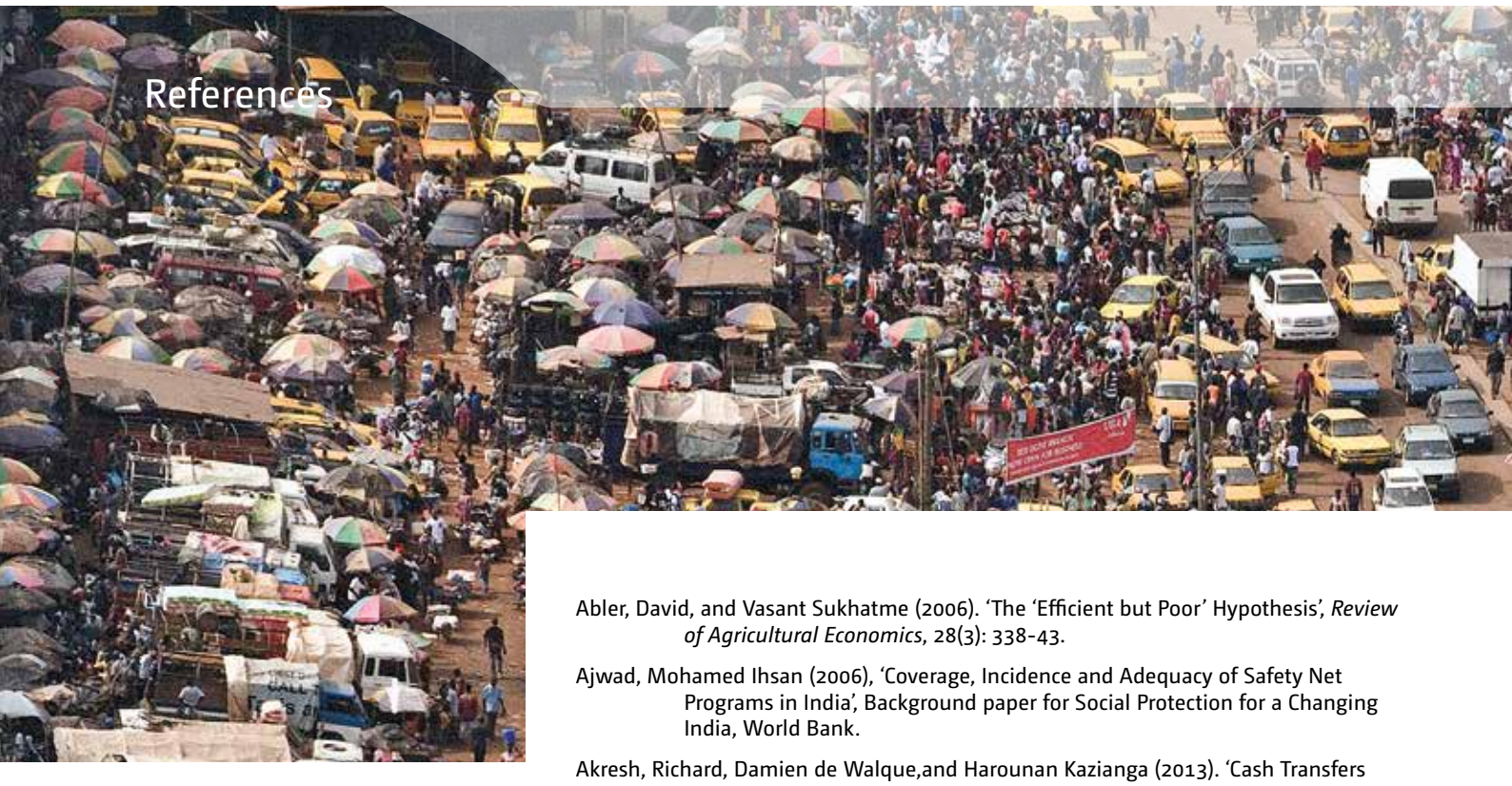

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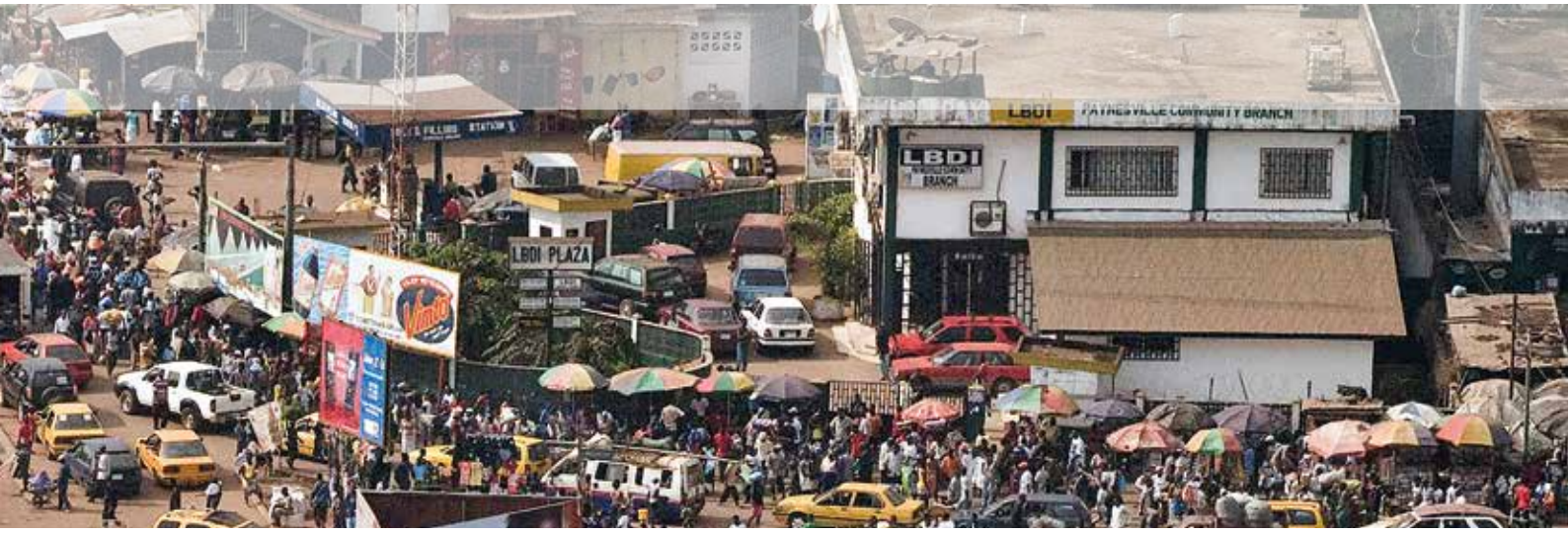

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