

Poverty Reduction Schemes

What is poverty? Do you know it when you see it?

Where's the poverty line in the U.S.? In Bangladesh?

The World Bank defines poverty as "the inability to attain a minimum standard of living and an acceptable quality of life." (*World Bank Discussion Paper No. 366*) With words like "minimum" and "acceptable," this definition is subjective.

Poverty reduction policies have evolved over time. In the 1970s, Robert MacNamara advocated redistributing the world's wealth. In the 1990s, policy makers came to see choices as central to escaping poverty – a mindset that one cannot *force* people to step out of poverty, but they should at least have the *opportunity* to do so.

The UN has outlined a set of poverty reduction goals for the new millennium. Note these are pretty general in nature, and still a long way from eliminating poverty.

D-Lab Poverty reduction

- History
- Definition
- Measurement
- Poverty Reduction Strategies (PRS)
- Micro-Finance case studies
- BRAC, Grameen Phone

D-Lab Poverty-2 cent history

- First discovered 1901 by Booth and Rowntree in England who published poverty standards
- 1960s-Focus on GDP per capita (Pearson Commission)
- 1970s-Redistribution of wealth (Robert MacNamara)
- 1980s-Incorporation of non-monetary aspects, vulnerability, gender,
- 1990s-Well being, opportunities and choices
- 2004-Millennium goal to eradicate poverty

D-Lab UN Millennium Development Goals (www.un.org/millenniumgoals/)

- 8) Develop a global development partnership
- 7) Environmental sustainability
- 6) Combat AIDS
- 5) Maternal health
- 4) Child Mortality
- 3) Gender equality
- 2) Universal Primary Education

D-Lab Millennium Goal # 1 Eradicate extreme poverty and hunger

- Reduce by half the proportion of people living on less than half a dollar a day
- Reduce by half the proportion of people who suffer from hunger

Poverty Definition

There are many facets to poverty, many ways that it occurs. Some definitions are more qualitative, others holistic or qualitative.

The "\$1 a day" benchmark is widely used as a poverty indicator. Some point out that if you didn't consume any petrol, bought beans and a few fresh vegetables and ground your own grains, you could live quite inexpensively in the U.S.

Poverty Indicators

People use a variety of metrics to measure poverty. The slide lists some of the most common indicators – there is no single best indicator, it depends on what aspect(s) of poverty you're interested in.

- Mortality rate is an indication of access to health care
- GNI (Gross National Income) = GDP (Gross Domestic Product) + the income of people working in other countries as expats/migrants.
- A relatively high percentage of GDP from agriculture points to lots of subsistence activities.

See the table comparing Poverty Indicators in Zambia, Honduras, Haiti and U.S. (Source: World Bank "World Development Indicators")

Compare GNI (Gross National Income) and PPP (Purchasing Power Parity); PPP is in some ways a more accurate reflection of living conditions, taking into account the costs of things. While GNI in Zambia and Haiti are close, Haiti's PPP is much higher than Zambia because it benefits from being geographically close to the U.S. In Zambia, imports are much more expensive.

Poverty is not exclusively economic/monetary. Consider the effects of social poverty: poor human rights conditions, gender discrimination, lack of support services for the disabled, etc.

D-4a6 **What is Poverty?**
-Definition-

- "Lack of well-being"
- Earning less than \$1 per day
- Excluded from min acceptable way of life (EU)
- Maslov's Hierarchy of needs
 - Basis needs for survival
 - Higher order like affection and self esteem

D-4a6 **...From the WEB**

Poverty.....Lacking sufficient wealth to live a normal life in a society.

Poverty is the collective condition of poor groups, often nation-states.

To avoid stigma these are usually called developing nations.

D-4a6 **What is poverty?**
-Some Poverty Indicators-

- Life expectancy (yrs)
- Infant mortality rates (deaths /1000 live births)
- Literacy rates (%)
- Mean years of schooling
- GDP growth rates (%)
- Gross national income (GNI) per capita (\$/yr)
- Purchasing power per capita (PPP) (\$/yr)
- Share of agriculture in GDP (%)

D-4a6 **Poverty Indicators**

Indicator	Zambia	Honduras	Haiti	US
Life Expectancy	37	66	52	77
Infant Mortality (per 1000 live births)	102	32	79	7
Literacy Rate (%)	80	80	52	98*
Mean Years of Schooling			2.8	12.0*
GNI per capita	\$340	\$930	\$440	\$35,400
Purchasing Power parity (PPP)	\$850	\$2580	\$1630	\$37,500
GDP % growth	3.3	2.5	-0.9	3.0
% of Labor Force in Agriculture			67	3
Share of Agriculture in GDP			28	2*

D-4a6 **Other considerations**

- Is the poverty temporary or chronic?
- Is it economic or social poverty?
- Is it actual or potential poverty?
- Are the groups "at risk"?
- Is it absolute or relative poverty?

Example: Bangladesh

BRAC, the Bangladesh Rural Advancement Committee, is a large NGO that Kurt visited recently. They toured different communities, visiting families that were considered "poor" vs. "ultrapoor." How does an outsider tell the difference? Notice housing, clothes, number of children, gender balance and equity, other assets like livestock, presence of utilities like electricity.



Example: Zambia

Compare these photos from Mwape to those from Bangladesh. The women in the right-hand photo are gambling. Students notice there are lots of children; Kurt didn't see a single male over age 12 here. Their clothes look more ripped up.



Economic vs. Social Poverty

A student's observation: "if somebody has a "hard life," I don't think that makes them poor."

Amy agrees. Notice the differences in social aspects among different environments. She's observed much more despair among the urban poor, especially among "street kids," than among subsistence farmers. The farmers may be poorer in absolute economic terms, but they are still in their home communities, among friends and a support structure.

Poverty Reduction Schemes (PRS)

The slide lists some ways that poverty programs work. Micro-credit is intended as temporary help due to illness or natural disasters; micro-finance and micro-enterprise programs are more geared toward sustained structural impact.

What's a good poverty reduction scheme? Everybody can agree on the generic qualities of a PRS, but they prove very difficult to actually implement.

The slide lists some agencies involved in PRS. IMF's structural adjustments take the form of "austerity" measures, trade liberalization, and currency stabilization; their effectiveness is debated widely. Development agencies are government-run programs.

The first slide is titled 'D-lab Poverty Reduction Strategies (PRS)' and lists several strategies: Overall growth - "A rising tide sinks all ships", Re Distribution, Decentralization (market, privatization), Direct aid (Donations, infrastructure), and Micro-credit, micro-finance, micro-enterprise.

The second slide is titled 'D-lab' and states: 'Although donor organizations have had limited success they agree that a good PRS will...' followed by a list: Have local initiation and buy-in, Government support, and Build rural capacity and Infrastructure.

The third slide is titled 'D-lab Agencies in involved in Poverty reduction' and lists: International (IMF (Structural Adjustment), World Bank, UNDP), Major NGOs (CARE, BRAC, etc), and Development agencies (USAID, DIFID, DANIDA, FIDIDA).

Decentralization: see slides.

D-lab **Decentralization**

“the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations and/or the private sector”

D-lab **Decentralization**

- Political
- Administrative
- Fiscal
- Market (privatization, deregulation)

D-lab **Why Decentralization?**

- More responsive to local needs
- Better control of public program at the local level
- Promotes innovation

Two Bangladesh PRS

BRAC

Bangladesh has a population of about 120 million, and very high population density. Starting small, BRAC (<http://www.brac.net>) has become the largest NGO in the world. It is almost completely funded now by current income, especially loan interest; only 10% of its budget comes from donor subsidies.

See the slides. BRAC’s micro-credit programs keep extremely detailed records of each community, as shown in the photo example.

D-lab **BRAC**

- Started in 1972 by Fazle Hasan Abed
- 28,000 Staff, 34,000 p/t teachers
- 62,000 villages, over 4 million members
- Income generation and social development
- Focus on poor, rural, landless people
- Micro credit, health, education, and training

D-lab **BRAC Micro-credit**

- Disbursed over \$ 2.1 billion since 1976
- 98 % payback
- Must be a member of a village organization (VO)
- Loans from \$20-\$5000
- Compulsory savings (.10 per week)

D-lab

QUARTERLY TARGET SET FOR MICRO FIN

AREA NO.	PARTICULARS	CONTRIBUTION POSITION UPTO 2003
1	VILLAGE ORGANIZATION	1742
2	MEMBERSHIP	5223
3	AVERAGE MEMBER PER V.O.	37
4	AVERAGE MEMBER PER P.O. (MICRO FINANCE)	439
5	SAVATAY BANCHAY (WEEKLY DEPOSIT-COMPULSORY) TK.	48.31
6	% OF SAVERS (100000) x 100	79
7	TOTAL NET SAVINGS (CLOSING BALANCE)	10389798
8	TOTAL NUMBER OF LOANS DISBURSED	4091
9	TOTAL DISBURSEMENT (AMOUNT TK. LAC)	234.02
10	OUTSTANDING BORROWERS (NOS.)	4223
11	CLOSING-PRINCIPAL OUTSTANDING (AMOUNT IN TK. LAC)	192.30
12	TOTAL OVERDUE POSITION	105.26
13	PRINCIPAL OUTSTANDING WITH NO PAST DUE (% TOTAL)	98
14	PRINCIPAL OUTSTANDING WITH NO PAST DUE (% CUMULATIVE)	98
15	NET SURPLUS/DEFICIT	9.25

D-lab **BRAC “poor” Categories**

- Moderate poor
Less than 1 acre of land, manual labor, live in slums
- Vulnerable non-poor
More than 1 acre of land, mostly farmers
- In 2002 BRAC started “Challenging the Frontiers of Poverty Reduction Targeting the Ultra Poor” (CFPR-TUIP)

D-lab **Who are these ultra-poor?**

- Rural women
- Own no land
- Widowed or divorced



D-lab **BRAC’s PRS**

- Employment and enterprise development training (livestock, farming, horticulture)
- Investment for the ultra-poor (Woman receive assets to start an enterprise)
- Social development program (counseling, on livelihood strategies)
- Health care services (basic health, family planning, immunization)

Grameen Phone

Grameen Phone (<http://www.grameenphone.com>) is a widely cited example of a successful micro-enterprise based poverty reduction scheme. It began as a scheme to bring telephone service to rural communities, because the established telco repeatedly refused to take on rural expansion.

Groups of women in a village work together to buy phones, and then resell time on the phones to whoever needs to call. It needs no marketing, people just come in because they need the service. Typical users are making business calls, calling abroad, and dealing with government offices (i.e. checking on a travel visa).

Cultural impact of this enterprise being geared toward women owners? There is lore to the effect that men are "taking the phones away from women." In such cases, Grameen doesn't interfere with domestic issues. The phone assets and loans are officially in the womens' names. More importantly, the village social structure can quickly bring pressure on anybody that's behaving badly – i.e. when 40 families whose women comprise the village phone organization suddenly don't get meals cooked, things "work out."

Kurt Kornbluth has been working with Grameen founder Iqbal Quadir on a micro-financed electric utility service.

Discussion Questions

Not enough class time to discuss these. We only got into the first question: "Why are women the main focus of current PRS ?" Responses included:

- Leverages women's often-stronger social networks
- Women have longer life expectancy
- Women's empowerment and education are strong general indicators of development
- Women are more likely to be spending money on resources for the family, less likely to be selfish in its use.

Other questions not discussed were:

- Can you think of other marginalized groups?
- Is Grameen phone a repeatable model?
- Does "Marketing To The Bottom Of The Pyramid" [see Session 14, guest presentation by Alan Hammond of WRI] help the poor?
- Is all (any) micro-finance sustainable?
- Why can economic growth be a poor indicator of poverty?



The \$1-a-day Assignment

Putting poverty in perspective: for the coming week, students are to live on \$1 a day. See the assignment description.