

Leaving it behind

How to rescue people from deep poverty—and why the best methods work

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IN A small hut overlooking a muddy river, a dozen women are trying to explain how they fell into destitution. After a few stories of husbands falling ill or vanishing, of ill-paid work drying up, of children sickening, of resorting to begging, almost all are crying. This is quite usual, says Sagarika Indu. BRAC, the large aid organisation she works for, has chosen these women and about 1.6m others since 2002 precisely because they are among the most desperate, ground-down people in one of the world's poorest places.

But then something unexpected happens: the women invite your correspondent to visit again in a couple of years. Is this mere politeness or confidence in the future? It could be either—because they are very likely to be much better off by then.

Roughly 700m people are thought to live in extreme poverty, defined as getting by on less than \$1.90 a day. That is huge progress: more than 1.9 billion lived on less than the equivalent amount in 1990. Yet the gains are uneven. Poverty has plummeted in China but declined more slowly in sub-Saharan Africa and South Asia. And the poor are diverse. Among them are a particularly desperate bunch: the “ultra-poor”, who routinely go hungry. In Bangladesh, most are landless, illiterate rural women with children.

In the 1990s it became clear that microfinance, then the most exciting tool in development economics, was not reaching the very poorest people, recalls Sir Fazle Abed, BRAC’s founder. Microlenders offer small loans at lower interest rates than moneylenders charge. Costs are kept down by assembling small groups of borrowers and encouraging them to exert pressure on each other to repay their loans. One reason the poorest were not

borrowing, Sir Fazle says, was that other villagers viewed them as hopeless cases.

BRAC came up with a scheme to help the ultra-poor. It gives them a small stipend for food, followed by an asset such as a cow or a few goats, which they are expected to manage. Field workers visit weekly for the next two years, teaching recipients, for example, how to tell when a cow is in heat and how to get it inseminated. The aim is to help women “graduate” from extreme poverty to the normal kind—as Sir Fazle puts it, “to help them back into the mainstream of poor people”. Then, perhaps, they can start borrowing.

Later research showed that microfinance was not the cure-all that had been thought. But BRAC’s graduation programme proved highly effective. Large randomised controlled trials (explained in the next article) show that it makes people wealthier and raises their spending on food and durable goods. It works outside Bangladesh, too. A study published earlier this year in *Science* showed that similar programmes run by other NGOs boosted consumption in Ethiopia, Ghana, India, Pakistan and Peru, with the effects lasting at least a year after

they ended. The only failure was in Honduras, where many of the chickens given as assets died.

Such programmes are pricey. In India and Bangladesh they cost more than \$1,000 per household at purchasing power parity. In Peru, where field workers are better paid, the cost was \$5,742. If they are to expand—and about 30 countries are mulling or testing them—two questions must be answered. Do the recipients stay out of deep poverty or slip back? And how exactly do they work?

The results of two big research projects, presented at a conference in London on December 9th, provided some powerful hints. Esther Duflo of the Massachusetts Institute of Technology showed that women who were offered cows, goats and intensive training in the Indian state of West Bengal not only did not fall back into indigent poverty but kept climbing out of it. Seven years after the programme began their average monthly consumption was almost one-third higher than it had been after two years. The gap between these women and the untreated control group grew much wider.

Other research explains why. Oriana Bandiera and Robin Burgess, both of the London School of Economics, and four others followed 21,000 people in 1,309 Bangladeshi

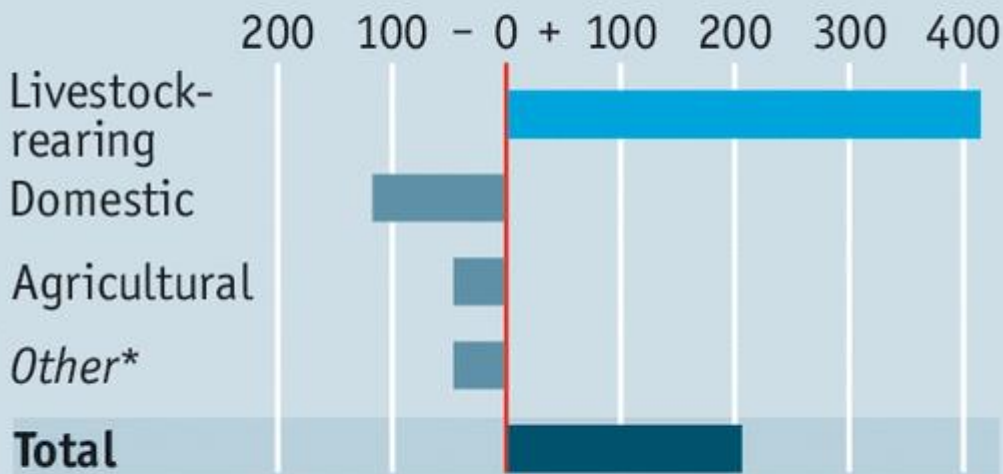
villages. They tracked ultra-poor women, some of whom were randomly assigned to the graduation programme, and also kept an eye on everyone else. Of the 21,000, only 6,700 were deeply poor at the start. The rest were a mixture of fairly poor, middle class and upper class (by rural Bangladeshi standards, that is: they do not swan around in Hermès).

The poorest women, it turned out, did far more hours of income-generating work: 991 per year on average, compared with 553 for middle-class ones. Yet they packed them into fewer days: the average ultra-poor woman worked for only 252 days a year, compared with 302 for a middle-class woman and 325 for an upper-class one.

The reason is that they toil mostly as domestic servants and in the fields—and casual agricultural work is seasonal. During planting and harvest they work extremely hard; the rest of the year they do little. Better-off women usually rear livestock, which is not only steady work but pays about twice as much per hour. When the poorest women are given cows, they quickly fill their idle time (see chart). They also cut back a little on domestic and field labour.

Better than bootstraps

BRAC programme's impact after four years on hours worked by ultra-poor women in Bangladesh per year



Source: "Labour Markets and Poverty in Village Economies" by O. Bandiera *et al.* Forthcoming. December 2015

*Includes begging

Economist.com

This is a clue to why microfinance does not reach the poorest. Ms Bandiera and Mr Burgess estimate that the internal rate of return for ultra-poor women going through the graduation programme is between 16% and 23% per year, depending on the assumed opportunity cost of time. That is roughly the interest rate on a microloan. So it ought to be worthwhile for a poor woman to borrow money to buy a cow (and returns would be even higher if they did not require the training BRAC's field workers

provide). The problem is that no microlender would lend them that much.

Some questions remain. The big one is whether the schemes would work in cities. Slum-dwellers are seldom as indigent as agricultural labourers, but they can still get trapped in poverty, and cannot be rescued by gifts of cows. Urban populations are growing so much faster than rural ones that this question is becoming urgent. Another is whether the programme can be run more cheaply. BRAC will soon test sending field workers to visit each recipient once a fortnight instead of once a week.

Their words are heard

For all the advances in research, some things defy measurement. Near Bonabalia, another group of women, recent graduates of the ultra-poor programme, have gathered. What is striking is not so much their greater wealth (reflected in their finer saris and mobile phones) but the way they stand straighter, and their direct looks. Their relatives have started talking to them. Asked to explain how their lives have changed, one of the first things they say is that they now get invited to weddings.