

# VISION FOR ENDING EXTREME POVERTY



**USAID**  
FROM THE AMERICAN PEOPLE

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# MESSAGE FROM THE ACTING ADMINISTRATOR

I am pleased to present USAID's Vision for Ending Extreme Poverty. USAID has been at the forefront of global poverty reduction efforts since our founding, and President Obama's clarion call to join with our allies to end extreme poverty by 2030 has revitalized our mission. The accomplishment of Millennium Development Goal #1—cutting extreme poverty in half—has galvanized the world to believe that ending extreme poverty is possible and has launched a global movement behind this effort. This document articulates how USAID defines extreme poverty, how we can achieve a world without extreme poverty and what USAID's role in this global effort will be.

This Vision comes as the Millennium Development Goals (MDGs) expire and the 2030 Agenda for Sustainable Development is adopted. Nearly one billion people have been lifted out of extreme poverty since 1990. This goes beyond mere measurements of income or consumption—we have seen remarkable progress across every dimension of poverty. A child born today is twice as likely to survive into adolescence as in 1990, while malnutrition and youth illiteracy have both substantially decreased.

This progress is heartening, but it is not enough. One billion people continue to live in extreme poverty. If anything, recent gains compel us to do even more to finish the job and ensure that no child goes to bed hungry, that nobody is forced to choose between sending her daughter to work or sending her to school and that everybody has the opportunity to fully participate in the economic and civic life of their country.

The U.S. commitment to ending extreme poverty is enshrined in the 2015 National Security Strategy, in the 2015 Quadrennial Diplomacy and Development Review and in USAID's mission statement: We partner to end

extreme poverty and promote resilient, democratic societies while advancing our security and prosperity.

As the lead development agency of the United States, USAID is uniquely positioned to partner with the international community in this effort. Whether we are promoting agricultural productivity and improved nutrition, partnering to increase energy access or investing in global health and education systems—we are working to support inclusive and sustained economic growth and reduce extreme poverty. Utilizing an approach to development that brings together local ownership, expanded partnership, science, technology and innovation and relentless focus on results and accountability, we will hone our efforts to help eradicate extreme poverty.

This document is the product of an extensive, yearlong consultative process that included the 2014 Frontiers in Development Forum, multiple rounds of engagement by both internal and external stakeholders, a robust synthesis of the current state of knowledge and a summit with leading experts, voices from the field, and USAID staff. It forms a strong foundation that can forge a path to lift the remaining billion people out of extreme poverty and set them on a path towards prosperity and well-being, in collaboration with country governments, civil society, businesses and local actors.



ALFONSO E. LENHARDT  
Acting Administrator

# EXECUTIVE SUMMARY

## A CALL TO ACTION

President Obama has powerfully asserted in consecutive State of the Union addresses that a world without extreme poverty is within our reach. The United States is helping to lead a concerted, international effort to end extreme poverty. Success will depend, foremost, on the actions of governments and citizens in the countries that are home to the world's extreme poor. USAID, as the U.S. Government's lead development agency, will act as partner and catalyst to achieve this goal, which lies at the core of our mission statement: We partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. USAID's vision for ending extreme poverty frames our role in this collective effort. It lays out our definition of extreme poverty; our understanding of what has driven progress; an analysis of pertinent trends and challenges; and a strategic framework for USAID's approach. This vision is not a new initiative—but rather an opportunity to sharpen our enduring commitment to sustainable, inclusive development that reduces extreme poverty in all its forms. By seizing this opportunity together with our partners in the U.S. government, we will advance U.S. leadership on this global priority and enhance U.S. national security.

## DEFINING EXTREME POVERTY

Extreme poverty is the inability to meet basic consumption needs on a sustainable basis. The persistence of extreme poverty is a complex and multidimensional phenomenon. People who live in extreme poverty lack both income and assets and typically suffer from interrelated, chronic deprivations,

including hunger and malnutrition, poor health, limited education and marginalization or exclusion. Women and girls in particular face distinct challenges. The extreme poor often face discrimination, marginalization or exclusion and are vulnerable to falling further into extreme poverty, lacking the resilience to cope with economic setbacks, natural disasters or illnesses.

## A THEORY OF CHANGE FOR ENDING EXTREME POVERTY

The development record is clear: The driver of extreme poverty reduction is inclusive economic growth supported by a foundation of effective governance and accountable institutions. Each country's path is unique, but there are commonalities across success stories. Economic growth spreads through dynamic, vibrant and open markets; it thrives on investments in people's capacity and human capital; it relies on modern infrastructure; it flourishes in peaceful and just societies; and it both benefits from and contributes to strong, reliable safety nets. Local ownership and political will are paramount. Growth itself must be sustainable and cannot rely on the destruction of environmental assets as the extreme poor often rely heavily upon irreplaceable natural resources.

## THE CURRENT AND FUTURE DEVELOPMENT CONTEXT

The eradication of extreme poverty within a generation is feasible—but it is far from guaranteed. Projections of economic growth are highly uncertain, but unless growth is both rapid and inclusive, extreme poverty is likely to persist in today's poorest countries, many of which are

in sub-Saharan Africa. A significant number of vulnerable people also remain in Asia, and pockets of extreme poverty continue to exist in all regions, even in countries that have grown into middle-income status. There are daunting challenges associated with conflict and fragility and with climate change, and the implications of urbanization may vary sharply across countries. Emerging opportunities lie in evolving sources and mechanisms of development finance, including greater attention to domestic resource mobilization; youth bulges that can provide a demographic dividend if supportive social and economic policies are in place; and the transformative potential of data and technology. These global trends will shape individual country trajectories; USAID's task is to help push these trajectories toward their most promising possibilities.

## A MOMENT OF OPPORTUNITY

USAID is sharpening its focus on ending extreme poverty by integrating this overarching objective into policy, planning and programming. We have developed analytical tools, conducted case studies, hosted learning events and incorporated this priority into selected Country Development Cooperation Strategies. USAID will continue to build on this momentum around four lines of effort:

- issuing operational guidance on integrating extreme poverty into the Program Cycle;
- tailoring our analytic tools to Mission needs to embed a greater focus on extreme poverty;
- rigorously measuring and evaluating the effects of our extreme poverty-reducing programs; and
- planning strategically to create the flexibility to focus resources where extreme poverty persists.

In the short term, we will exploit opportunities to enhance the impact of existing resources and programming in reducing extreme poverty. This ensures a strong, focused and clear commitment within existing budget limitations and relevant program areas. Over the longer term, USAID will focus even further on countries where extreme poverty is likely to persist and on challenges where we are most likely to make an impact. We will continue to work with developing country governments, civil society, other donors, local actors and the private sector to define the most effective approaches. This does not simply mean targeting pockets of extreme poverty or limiting our engagement to very poor countries; in line with a systems approach, it involves much more than the direct provision of assistance to the extreme poor. As we join with our partners to achieve the 2030 Agenda for Sustainable Development, our Vision for Ending Extreme Poverty sets a strategic direction for the Agency. It does not provide all of the answers, but by better understanding how we can more effectively contribute to this goal, we can move forward with a new clarity of vision.

# A CALL TO ACTION

President Obama has powerfully asserted in consecutive State of the Union addresses that a world without extreme poverty is within our reach.<sup>1</sup> This view embodies the global consensus expressed in the 2030 Agenda for Sustainable Development, the successor framework to the Millennium Development Goals (MDGs). The United States is helping to lead this concerted, international effort to end extreme poverty, and we are committed to implementing this agenda with our partners to drive development progress by mobilizing action and resources at scale.

“In many places, people live on little more than a dollar a day. So the United States will join with our allies to eradicate such extreme poverty in the next two decades.”

— President Barack Obama, 2013 State of the Union Address

Our optimism stems from unprecedented progress in recent years: Between 1990 and 2011, the share of the world’s population living on less than \$1.25 a day—the global benchmark measure for extreme poverty—fell by more than 60 percent. Much of this progress stems from extraordinary growth in China, India and other emerging markets in Asia. Yet there have been remarkable improvements across all regions, especially in the last decade. Driven by rapid economic growth, rising incomes are complemented by improvements in health, education, gender equality, security and human rights.<sup>2</sup> These striking advances reflect broad-based economic and social progress—enabled by more responsive governments, more evidence-based policies and a new generation of leaders taking charge of their countries’ development.<sup>3</sup>

Yet 1 billion people still live below the international poverty line, with disproportionate shares in low-income countries (LICs), conflict-affected states, rural areas and among children and disadvantaged groups.<sup>4</sup> We need to build on recent momentum to secure gains and extend these promising trends. Success will depend, foremost, on the actions of governments and citizens in the countries that are home to the world’s extreme poor, and the United States can support these efforts directly. U.S. leadership can also help inspire and mobilize others to do their part. U.S. policies on investment, trade, immigration, climate change, corruption and other issues that reach beyond our borders can bolster global prosperity, stability and access to opportunity. U.S. development efforts can help build pathways for sustainable escapes from extreme poverty for millions of people globally.

To this end, in 2014, USAID officially adopted a new mission statement. USAID's mission statement establishes ending extreme poverty as an overarching Agency goal and underscores the inextricable linkages between reducing extreme poverty, fostering resilience and building democratic institutions. It also connects global development directly to U.S. interests, a point reiterated in the 2015 National Security Strategy, which elevates ending extreme poverty as a priority for our national security.<sup>5</sup> Importantly, the mission statement emphasizes the centrality of partnership to long-lasting success.

BOX 1:

#### USAID'S MISSION STATEMENT

We partner to end extreme poverty and promote resilient, democratic societies, while advancing our security and prosperity.

This paper presents USAID's vision for how we—collectively—can end extreme poverty and what USAID's role is in this effort. The paper offers our definition of extreme poverty; our understanding of what has driven progress to date; our analysis of emergent trends and challenges; and a plan for USAID to better contribute to this moral, economic and security imperative.

PHOTO: MORGANA WINGARD FOR USAID



# DEFINING EXTREME POVERTY

USAID recognizes that extreme poverty is a complex and multidimensional phenomenon;<sup>6</sup> its causes and consequences are not monolithic, and they vary according to region, gender, age and other variables.<sup>7</sup> In addition to financial hardship, for instance, people living in extreme poverty also tend to be in poorer health and lack basic, employable skills.

## BOX 2:

### USAID'S DEFINITION OF EXTREME POVERTY

Extreme poverty is the inability to meet basic consumption needs on a sustainable basis. People who live in extreme poverty lack both income and assets and typically suffer from interrelated, chronic deprivations, including hunger and malnutrition, poor health, limited education and marginalization or exclusion.

In many countries, the extreme poor face discrimination, marginalization or exclusion—whether defined by characteristics such as age, sex, gender identity, sexual orientation, ethnicity, race, caste, religion, origin, geography, disability, legal status or, in many cases, by multiple, intersecting minority identities. Many are vulnerable and may make progress only to fall back into extreme poverty, lacking the capabilities to cope with economic setbacks, natural disasters or illnesses that deplete or destroy assets and reduce incomes. For many, extreme poverty is a chronic condition extending from one generation to the next. Acknowledging these inherent complexities, USAID is adopting the definition of extreme poverty in Box 2.

Women and girls in particular face distinct challenges, including gendered aspects of extreme poverty that manifest themselves *within* homes and are therefore masked by poverty statistics at the household level that are rarely disaggregated by sex or sensitive to gender. Women spend at least twice as much time in unpaid domestic work as men, meaning less compensation for longer hours.<sup>8</sup> Disparities in land holdings are also severe in many developing countries, where women constitute fewer than 20 percent of agricultural holders and the plots they own tend to be smaller and less fertile.<sup>9</sup> Further, gender-based violence can reduce school enrollment, increase absenteeism and increase dropout rates,<sup>10</sup> disrupting learning and diminishing future economic opportunities.

We will continue to rely on the World Bank's international poverty line\* as a benchmark for monitoring broader progress. People at such a low level of consumption—or below—lack even the most essential goods and services and tend to face other

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\* The international extreme poverty line is currently set at individual consumption equivalent to \$1.25 per day at 2005 prices, adjusted for differences in purchasing power across countries. This line will likely be updated to \$1.75 or more at 2011 prices, with the adjustment determined by new data on relative purchasing power in 2011.

deprivations such as inadequate shelter. Nevertheless, while a consumption-poverty line serves as a useful benchmark for measuring extreme poverty, it does not define extreme poverty, nor does it convey the whole story. Those living just above the international poverty line remain vulnerable to shocks and stresses that could lead to impoverishment. National strategies to address poverty and exclusion often feature considerably higher lines. Our partnerships to reduce extreme poverty clearly cannot stop once the last person gets above the international line.

We also believe that USAID should be tracking its contribution to extreme poverty reduction beyond consumption poverty at the international poverty line. This effort should build on existing indicators for monitoring and evaluating programs that contribute both directly and indirectly to ending extreme poverty through the theory of change presented in the next section.

Extreme poverty is a complex and multidimensional phenomenon.

PHOTO: AHMED OULOBA / AFP



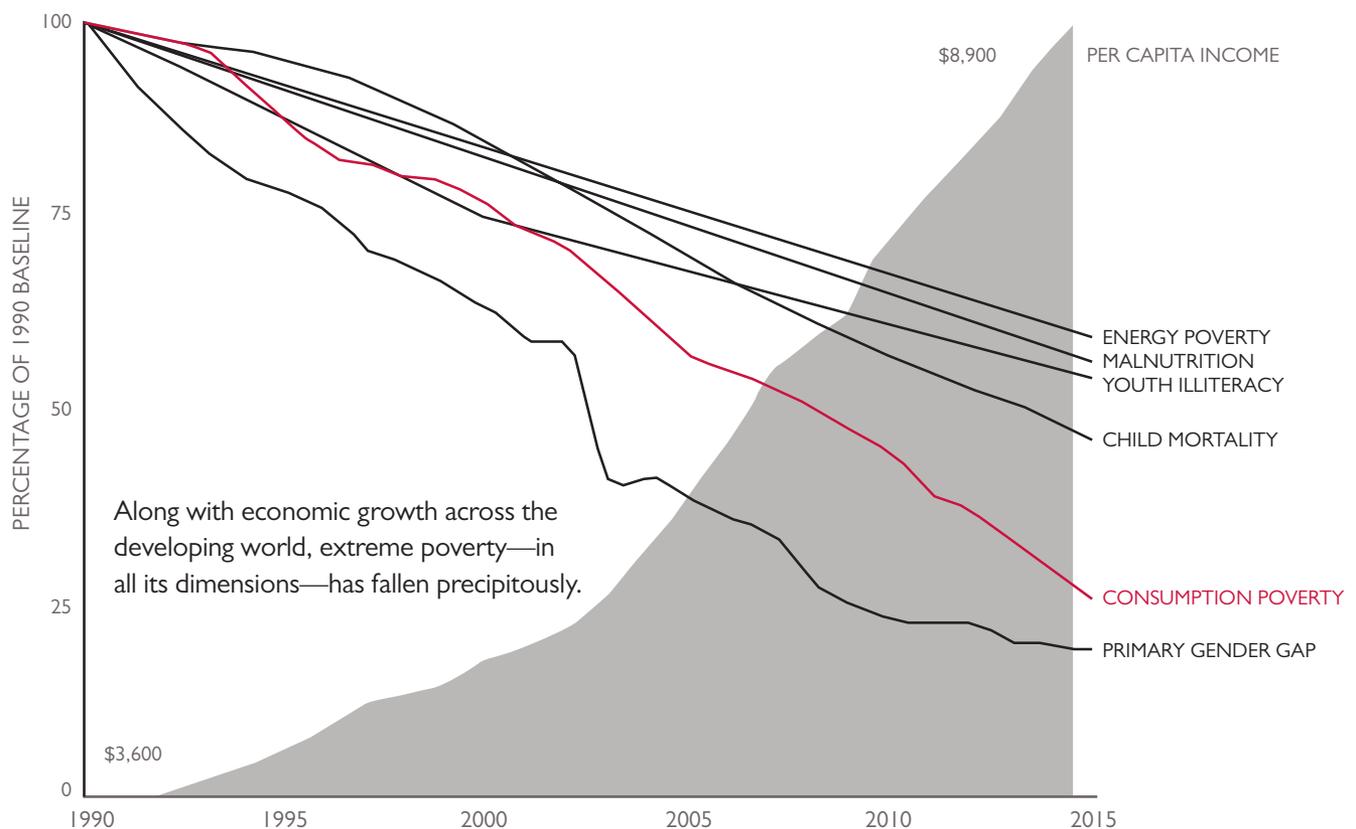


PHOTO: MERKLIT MERSHA

# A THEORY OF CHANGE FOR ENDING EXTREME POVERTY

The past two decades have witnessed extraordinary global declines in extreme poverty.<sup>11</sup> Between 1990 and 2011, the total population living on less than \$1.25 per day fell by more than 900 million people.<sup>12</sup> Alongside rising incomes, we have seen improvements in other dimensions of well-being: A child born in the developing world today is nearly twice as likely to survive into adulthood, about 40 percent less likely to be malnourished, and 16 percent more likely to finish primary school.<sup>13</sup> Figure 1 depicts annual proportional changes for seven key development indicators, relative to 1990 levels.<sup>14</sup>

FIGURE 1:  
EXTREME POVERTY HAS FALLEN PRECIPITOUSLY



This section lays out USAID’s understanding of the recent, rapid reductions in extreme poverty. It begins with the individual-level, interrelated outcomes of extreme poverty reduction inherent in our multidimensional definition and then explains the relevant factors driving progress at the systemwide level. These various elements are explained in turn and then pieced together to form a theory of change for ending extreme poverty. When this theory of change is combined with the individual-level outcomes, it forms a comprehensive conceptual framework.

Just as individual consumption is an indispensable but limited measure of extreme poverty, higher income is a vital but insufficient condition for ending it. In addition to increasing incomes, households must be able to build assets—especially *productive* assets—that sustain their future consumption and provide security in times of crisis.

Eradicating extreme poverty depends on multiple individual or household-level outcomes (see Figure 2). Improved food security and nutrition, better health and well-being, enhanced skills and knowledge, and greater freedom and autonomy are mutually reinforcing outcomes. While progress on any one dimension does not guarantee improvements on the rest, each outcome supports the others.<sup>15</sup> For example, higher incomes allow households to afford more nutritious foods and reduce malnutrition, which leads to improvements in health and productivity. The resultant asset accumulation provides a buffer against shocks that could endanger the household’s food security and lead to children being pulled out of school.<sup>16</sup>

The following sections explore how gains are achieved and describe the system-level factors that are important for enabling and making progress across the individual-level outcomes laid out above—that is, the various dimensions

of extreme poverty. The primary driver of extreme poverty reduction is inclusive economic growth supported by a foundation of effective governance and accountable institutions. We explain the importance of these elements and then describe the supporting pillars that enable inclusive growth, e.g., vibrant markets and modern infrastructure.

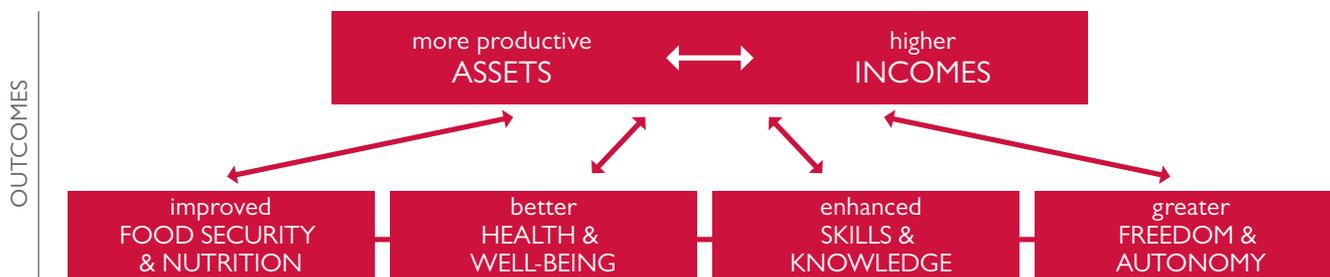
## DRIVER: INCLUSIVE ECONOMIC GROWTH

Extreme poverty is—in simple terms—a deficit of the most basic resources. There are two ways to reduce it: expand the pool of resources overall or reallocate existing resources. Historically, both factors—growth and changes in the income distribution—have been important, but only the former has been indispensable. No country has rapidly and sustainably reduced extreme poverty without substantial economic growth. Across countries, aggregate growth—lifting incomes across the economic spectrum—has accounted for at least two-thirds of reductions in extreme poverty.<sup>17</sup>

Nevertheless, growth is not all that matters—positive societal outcomes are not guaranteed, and the averages mask significant differences in country experiences. The widespread distribution of gains—that is, the *inclusiveness* of growth—is essential, not just for sharing the benefits of growth widely, but for accelerating and sustaining the growth process itself.<sup>18</sup> Furthermore, economic growth must be sustainable over the long term to avoid sacrificing future progress for short-term gains.

Many countries with high rates of extreme poverty rely heavily on agriculture as the basis of their economies.<sup>19</sup> Across Bangladesh, the Democratic Republic of

FIGURE 2:  
INTERRELATED OUTCOMES FOR ENDING EXTREME POVERTY



Congo (DRC), Ethiopia, Madagascar and Tanzania, for instance, agriculture accounts for anywhere from 16 (Bangladesh) to 45 percent (Ethiopia) of gross domestic product (GDP) and for a significantly higher share of employment.<sup>20</sup> With large shares of the extremely poor in these countries living in rural areas and depending on farming and related activities, agricultural productivity growth remains key to reducing extreme poverty. Across sub-Saharan Africa, in particular, growth in agriculture has been associated with much larger reductions in extreme poverty than growth in other sectors.<sup>21</sup>

For the extremely poor, inclusive growth entails—above all—obtaining more productivity from their labor. Increased productivity happens every day in commonplace ways: the use of modern seed varieties and other improved inputs to increase output and sales; a new, better-paying job in a nearby factory or shop; a mobile phone to allow online banking; another year of learning in school to provide employable skills; insurance to defray unexpected health costs; a connection to the

BOX 3:

### DEFINING INCLUSIVE ECONOMIC GROWTH

Inclusive growth is economic growth that includes all major income groups, ethnic groups and women, and significantly reduces extreme poverty. It is essentially synonymous with broad based or pro poor growth, and USAID has used the terms interchangeably. For instance, USAID's most recent *Strategy for Economic Growth* calls for rapid, sustained and broad based economic growth. USAID's interpretation of pro poor growth is in line with the *absolute* definition, which focuses on increases in the incomes of the poor. This is opposed to the *relative* definition, which characterizes growth as pro poor only if the incomes of the poor grow faster than those of the population as a whole, i.e., if inequality falls.

energy grid to allow a child to do schoolwork at night; a cleaner, closer water source to reduce the burden of fetching water on a woman's time and energy; the use of modern contraception to enable smaller families and more women in the labor force; a vote for a more honest and capable leader, with the promise of less corruption and more local investment. The cumulative effect of everyday improvements like these is what propels extreme poverty reduction.

## Sustainable escapes from extreme poverty require preventing impoverishment by reducing vulnerability to shocks and stresses.

Economic growth, however, is often variable, volatile and unevenly distributed—not everyone benefits equally.<sup>22</sup> In addition to concerns about the equity of non-inclusive growth, increasing inequality can lessen the impact of growth on extreme poverty<sup>23</sup> and also stifle further progress as lower inequality is associated with faster and more durable long-term growth.<sup>24</sup> Inequality has decreased in recent years both globally<sup>25</sup> and within most developing countries<sup>26</sup>—including unprecedented improvements over the last decade in Latin America.<sup>27</sup> There are nonetheless still many countries where inequality remains high or has increased in recent years. Resource riches, for instance, may only enrich a corrupt elite or corporations that control commodity exports, or a thriving technology sector may be slow to benefit rural areas.

In many countries, certain regions face historical inequities and neglect, and particular ethnic, religious or caste groups face entrenched discrimination, leading to disproportionately high levels of extreme poverty.

Other characteristics like disability; lesbian, gay, bisexual, transsexual and intersex (LGBTI) orientation; and non-citizenship or asylum status are commonly correlated with higher poverty rates due to social or economic exclusion.<sup>28</sup> These patterns can generate significant economy-wide costs due to decreased labor and productivity, underinvestment in human capital, and an inefficient allocation of human resources.<sup>29</sup>

The extreme poor are highly vulnerable to shocks and stresses, including weather extremes and other effects of climate change, which can render the benefits of economic growth unsustainable.<sup>30</sup> Many are dependent on land-based, climate-sensitive economic activities such as farming, fishing and tourism. Extremely poor communities tend to live in harsh, disaster-prone areas with higher temperatures, variable rainfall patterns, greater flood risk, and increasingly frequent severe weather.

BOX 4:

## HOW USAID REDUCES EXTREME POVERTY

USAID's existing lines of effort promote development progress and provide a significant contribution to reducing extreme poverty. Yet these programs can be refined and reinforced to achieve even greater impact. This does not require a radically different approach or a new, standalone initiative, but, rather, an extension and deepening of the work we carry out with our partners:

- Increase **food security**
- Improve lives through **education** and learning
- Promote **global health** and strong health systems
- Promote sustainable, broad based **economic growth**
- Prevent and respond to **crises, conflict, and instability**
- Provide **humanitarian assistance** and support disaster mitigation
- Expand and sustain the ranks of **stable, prosperous and democratic societies**
- Reduce **climate change** impacts and promote low emissions growth

Boxes 5 through 13 highlight how USAID's existing core development objectives and strategic priorities contribute to ending extreme poverty. These diverse programmatic examples strongly reinforce that the multidimensional nature of the extreme poverty problem requires we take a multidimensional approach.

Economic growth cannot rely on the destruction of environmental assets.

The extreme poor also have the least capacity to cope when disaster does strike, or to rebuild in its aftermath. Sustainable escapes from extreme poverty thus require preventing impoverishment—that is, falling *back into* extreme poverty. Growth itself reduces the risk of impoverishment, but sustainable escapes from extreme poverty also require building resilience to immediate shocks such as an earthquake or drought; long-term stresses like changing weather patterns; and personal or systemic risks such as a bout of malaria, the loss of land, an economic slowdown or a civil conflict.<sup>31</sup>

Growth itself must also be sustainable, without sacrificing long-term stability and competitiveness for near-term gain. With nearly 1.6 billion people in the developing world relying on forests for part of their livelihood and 500 million depending on fisheries,<sup>32</sup> growth cannot rely on the destruction of environmental assets by myopically sacrificing irreplaceable resources such as land, forests, bodies of water or other natural capital. Energy and industry, for example, are fundamental to a country's economic transformation but can produce harmful externalities that aggravate global climate change, alter weather patterns, cause respiratory disease or other illnesses, and endanger local species.

The extreme poor are to a far greater degree the victims of environmental degradation than the perpetrators, and the sound management of common resources such as wildlife, forests and watersheds is essential to long-term prospects for ending extreme poverty.

In summary, the development record is clear: Inclusive economic growth drives extreme poverty reduction. While there is no one path to growth,<sup>33</sup> there are broad commonalities across successful episodes of growth and extreme poverty reduction. As outlined later in this section, inclusive economic growth spreads through dynamic, vibrant and open markets; it thrives on investments in people's capacity and human capital; it relies on modern infrastructure; it flourishes in peaceful and just societies; and it both benefits from and contributes to strong, reliable safety nets—public and private, formal and informal. At the base of these pillars of inclusive growth lies a foundation of effective governance and accountable institutions.<sup>34</sup>

## FOUNDATION: GOVERNANCE AND INSTITUTIONS

The fundamental difference between societies that sustain high levels of prosperity and human development and those that do not lies in the formal and informal policies and institutions that govern the exercise of political power, relations within society, and the functioning of markets.<sup>35</sup> Therefore, all components of our theory of change rely on a foundation of effective governance that must ultimately be sustained by a web of accountable institutions in both the public sector and civil society. Governments that secure the safety of their citizens, implement smart fiscal and regulatory policies through accountable institutions, and expand the scope for political voice and participation not only drive inclusive growth, but also sustainably reduce poverty in all its dimensions. Many governments, including across Africa, have been doing just this.<sup>36</sup>

Extreme poverty is underpinned by poor governance and corrupt institutions.

Strengthening the underlying mechanisms of voice and accountability will be crucial to reinforcing ongoing advances in domestic revenue mobilization and ensuring that all segments of society have access to quality public services, whether in agriculture, health, education or infrastructure.<sup>37</sup>

Conversely, in a country in which institutions are ineffective, the prospect for eradicating extreme poverty are dim. Fragile states are home to an increasing proportion of the world's extreme poor (for further discussion, see Section 4).<sup>38</sup> These countries are prone to dysfunction in how the state operates or interacts with its citizens because of ineffective policies and institutions, illegitimate leadership and corrupt politics,<sup>39</sup> or a combination of these factors. USAID's *Democracy, Human Rights, and Governance (DRG) Strategy* emphasizes that extreme poverty is underpinned by poor and undemocratic governance, corrupt institutions, and entrenched power dynamics that lead to exclusion.<sup>40</sup>

### BOX 5:

#### ADAPTING TO CLIMATE CHANGE THROUGH CLIMATE RESILIENT GROWTH

USAID's *Global Climate Change and Development Strategy* seeks to promote low emission, climate resilient economic growth. It is organized around three strategic objectives: mitigation to accelerate the transition to low emission development through investments in clean energy and sustainable landscapes; *adaptation* to increase the resilience of people, places and livelihoods; and *integration* to incorporate climate change considerations into core development programs. For example, communities in the high mountains of Asia are extremely marginalized and poor given the inaccessibility of their locations and their proximity to the impacts of climate change. Glacier retreat and more erratic snows are reducing the available water supply and affecting communities dependent on highland agriculture and pastoralism. In response, USAID supports the planning and implementation of adaptation practices in highly vulnerable communities living at the headwaters of Asia's great rivers.

Many fragile states have been devastated by past conflict or are highly conflict-vulnerable today, which further impedes meaningful prospects for stability and growth. Maintenance of peace and stability is a core function of governance and a critical enabler of investment and growth (see the discussion of the Peace and Justice pillar).

The role of democratic political institutions in growth and extreme poverty reduction is complex and subject to ongoing debate. Recent evidence suggests that democratization increases GDP per capita by 20 percent over the long-run<sup>41</sup> and that it is good for development overall.<sup>42</sup> But sequencing of political, social and economic reforms depends on country context, local ownership, and political will. In terms of social outcomes, democracies have performed better than non-democracies in achieving the MDGs, on average, though the difference is small.<sup>43</sup>

BOX 6:

## STANDING WITH CIVIL SOCIETY

In addition to voicing citizens' views and holding governments accountable, the innovation and energy that civil society actors bring are essential to tackling complex issues like ending extreme poverty. In recent years, however, constraints on freedom of expression and assembly and limitations on foreign financing have narrowed civil society space in many countries around the world. In response, President Obama launched Stand with Civil Society in September 2013, a multilateral, multiyear effort to support, defend and sustain civil society across the globe. USAID plays a leading role in implementing Stand with Civil Society by strengthening the legal and regulatory environments; supporting regional civil society innovation hubs; and fostering innovation, partnerships and support for the activities of civil society in their efforts to end extreme poverty. For example, USAID is leading the Civil Society Innovation Initiative, a multidonor partnership that, together with civil society leaders, will create six networked regional civil society innovation hubs around the world by 2016.

On the whole, autocracies have experienced more volatile growth patterns and more extreme growth episodes. While a few have seen rapid growth and development, these constitute a small minority of non-democracies, and others have seen comparably dismal development results.<sup>44</sup>

Countries with sustained development progress tend, at minimum, to have sufficient controls on executive power,<sup>45</sup> and powerful national legislatures can provide such checks and disperse power more evenly.<sup>46</sup> Successful countries typically embed leadership in an effective institution, e.g., a political party, bureaucracy or parliament. Sound economic governance is embodied by efficient regulatory and trading systems that protect the competitive process and allow enterprises to grow and prosper in a manner that brings prosperity to all. This also requires the capacity to implement and enforce policies and to ward off rent-seekers, and the ability to overcome informational and coordination constraints through constructive engagement with the private sector (see Box 10).<sup>47</sup>

## PILLARS OF INCLUSIVE ECONOMIC GROWTH

### VIBRANT MARKETS: EMPLOYMENT AND ENTREPRENEURSHIP, ECONOMIC TRANSFORMATION

Labor income plays a crucial role in the ability of extremely poor households to exit poverty. These incomes reflect the interplay between the amount and type of labor the household can supply and the wages or self-employment incomes available to labor in locations accessible to the household. At the household level, therefore, labor income is constrained by the household's demographic, health and education history, which determines its endowment of labor. For low-skilled households, this endowment can generate vastly different incomes, depending in large part on system-wide determinants of productivity, wages and the self-employment income available to the extremely poor.

Most of the extreme poor work as part of small-scale enterprises in the farm sector, rural non-farm sector or urban informal sector, and often rely on multiple sources of income. Income gains in these activities therefore pay a disproportionate return in reducing extreme poverty.<sup>48</sup> Nearly half of the extreme poor of working age are employed as wage workers, whether in farm or nonfarm enterprises.<sup>49</sup> In the agricultural sector, key system-wide determinants of increased labor and self-employment income include the introduction of new crops or techniques through extension activities, and secure property rights that incentivize productivity-enhancing investments.<sup>50</sup>

Integration into international value chains is another increasingly important determinant, as improvements in transport and communications reduce the cost of participating in wider markets. In urban areas and the rural nonfarm sector, improvements in the business environment can generate sustained increases in the return to unskilled labor, including market reforms that allow small-scale enterprises to flourish, remove barriers to formalization, and encourage the expansion of profitable private enterprises in manufacturing and services.

The extreme poor also benefit greatly from wage-labor markets that are open to all workers. This is particularly true of women—who comprise approximately 43 percent of the agricultural labor force in developing countries<sup>51</sup>—and other marginalized groups, who

often face systemic barriers in accessing wage-labor opportunities and acquiring the inputs necessary for profitable self-employment and entrepreneurship.<sup>52</sup>

Better functioning financial institutions and markets are crucial to growth and extreme poverty reduction via business investment and the demand for labor.<sup>53</sup> While there are limitations to the transformative impacts of microcredit, it can provide more freedom of choice and the opportunity to be more self-reliant.<sup>54</sup>

Across all sectors, mobile technologies are expanding the access of the extreme poor to formal financial services, including secure vehicles for saving. In combination with other interventions, including financial literacy training and transfers of productive assets, financial inclusion has been shown to generate sustainable increases in labor income for the extreme poor.<sup>55</sup>

At the economy-wide level, a twofold economic transformation has played a key role in the achievement of inclusive and sustained economic growth in countries with large rural populations. At the heart of this process is a transformation of rural markets, driven by improved and more input-intensive farm technologies and increased agricultural output per hectare. This rural transformation includes the development of a flourishing rural nonfarm sector.

Non-farm earnings account for half of rural income in Asia and Latin America, and at least one-third in Africa.<sup>56</sup> Alongside this rural transformation is a shift in the economy's labor force from agriculture to sectors with higher labor productivity. Jobs in industry and services add nearly twice the value per worker as jobs in agriculture. And within all sectors, there is a shift from informal to formal occupations, along with diversification into new and higher-value market activities.<sup>57</sup> The details differ sharply according to context,<sup>58</sup> but the transformation of local and national economies is essential to providing market opportunities and broadening options for sustainable escapes from extreme poverty.

Successful integration into international markets will continue to be a hallmark of rapid growth and extreme poverty reduction.<sup>59</sup> Globalization will continue to favor "production cities" that reduce extreme poverty through the expansion of jobs in export-oriented manufacturing and services. Africa's exports, by contrast, continue to be dominated by primary commodities, often in sectors that generate large economic rents such as oil and minerals. These exports can sustain high rates of urbanization, but with little formal-sector job creation or direct contribution to economy-wide productivity.<sup>60</sup>

FIGURE 3:  
USAID'S THEORY OF CHANGE FOR EXTREME POVERTY REDUCTION



BOX 7:

## INCREASE FOOD SECURITY

Feed the Future is the U.S. Government's cornerstone initiative to combat extreme poverty, hunger and food insecurity through inclusive agriculture led growth, promoted by increasing agricultural productivity, expanding markets and trade, increasing investment and job generation, and improving nutrition. Across the areas where we work, Feed the Future aims to reduce extreme poverty by an average of 20 percent as measured by the \$1.25 a day consumption threshold. As an example, in the Senegal River Valley, Feed the Future supported the Project for Economic Improvement (PCE), which focuses on building smallholder based rice value chains. In 2014, almost 61 percent of PCE households reported having improved their farm operations through increased sales, use of transport services, machinery acquisition, fertilizer use, and land rental or purchase, with greater access to loans to finance their productive investments. Furthermore, in Africa, Feed the Future helps to strengthen regional institutions through capacity building and technical and financial assistance, including support for the Comprehensive Africa Agricultural Development Program (CAADP), an Africa owned policy framework for improved food security and nutrition, agricultural transformation, and inclusive economic growth.

BOX 8:

## IMPROVING LEARNING IN BASIC EDUCATION

USAID's *Education Strategy* responds to a stark reality: Many poor children never learn to read, despite years spent in a classroom. Worse, as kids fail to learn, their parents are more likely to pull them out of school altogether. USAID efforts start with Early grade Reading Assessments. The program then tailors interventions to context, including to increase time devoted to learning (e.g., by combatting teacher absenteeism); improve teaching techniques, especially for reading; provide instruction in children's native languages; and continually assess whether students are in fact learning. In Kenya, for example, USAID partnered with the Ministry of Education to pilot a program to train more than 5,800 teachers and principals and gather rigorous data on learning outcomes. Nearly 316,000 children benefitted from the improved teaching methods and educational materials. Evidence of the pilot's success convinced President Kenyatta to embrace the approach, which will be scaled up to serve more than 5 million children.

Increasing agricultural productivity, therefore, remains crucial to reducing extreme poverty in Africa. So does increasing the quality of urban public spending, including infrastructure improvements that can enhance the productivity of labor in Africa's cities and accelerate the transition to increased reliance on manufacturing and services and higher-value agricultural production.

## HUMAN CAPACITY: EDUCATION AND TRAINING, HEALTH CARE AND FAMILY PLANNING

Access to schooling is critical for breaking the transmission of extreme poverty from one generation to the next. In developing countries, an additional year of schooling increases earnings by more than 10 percent.<sup>61</sup> More broadly, each 10 percentage point increase in the share of students with basic literacy boosts economic growth by 0.3 percentage points per year.<sup>62</sup> Basic literacy and math skills raise prospects for finding a better job and have

substantial positive spillovers like improved health, lower fertility, less crime, and greater civic participation.<sup>63</sup>

Improved learning in early grades also paves the way for better performance in post-secondary learning and training.<sup>64</sup> Yet extremely poor families generally face barriers in sending their children to school and in continuing their education. Barriers may include fees, supplies and uniforms, transport and other out-of-pocket costs, plus the opportunity cost of keeping children in school rather than putting them to work. Under-investment in education is especially common in areas of conflict—leading to fewer years of education and decreased literacy<sup>65</sup>—and in difficult economic circumstances, particularly in poor countries.<sup>66</sup> Ultimately, however, time spent in the classroom only matters if students learn valuable skills (see Box 8).

Better health care and nutrition, likewise, improve the quality of life, increase longevity, bolster learning, and contribute to a strong and productive workforce. Poor



nutrition during a child's first 1,000 days can have a lifelong impact resulting in 20 percent lower lifetime earnings.<sup>67</sup> Poor health can trap households in extreme poverty due to diminished earnings and uninsured costs of care, which diverts savings from productive investments.<sup>68</sup> Globally, malnutrition reduces gross economic output by an estimated 6 percent.<sup>69</sup> Catastrophic health shocks, like the death of a breadwinner, can also sink a family into extreme poverty. These shocks tend to be substantial, infrequent, and pose lasting effects,<sup>70</sup> but smaller families are better able to mitigate their effects.

Women who are able to plan their families are more likely to have fewer children, be healthier and better nourished, finish school, and participate in economic and civic life. As a result, those women and their children are less likely to be poor. Voluntary spacing of child births and limiting of family size enhance the ability of families to increase household savings and invest more resources in each child. Moreover, lower fertility leads to demographic changes,

reducing the ratio of dependents to income-earners and increasing the size of the workforce and national savings.<sup>72</sup> In fact, lower dependency ratios accounted for nearly one-fifth of extreme poverty reduction in a study of successful countries.<sup>73</sup>

### **MODERN INFRASTRUCTURE: CONNECTIVITY AND ENERGY, WATER AND SANITATION**

Energy and connective infrastructure—both physical and digital—are essential for economic growth. Roads, energy access and mobile networks have made it easier for people to engage in markets and have allowed them to be more productive with their labor and assets. In the same way, infrastructure enables business growth—ports, highways, airports, broadband Internet, and reliable electricity supply enable firms to increase output in manufacturing and services and engage more widely in national, regional and international trade.

Many of the extreme poor, however, lack access to modern infrastructure, and nearly 1.4 billion people lack electricity altogether. The challenges in meeting infrastructure needs are immense: The total shortfall in developing countries is estimated upward of a trillion dollars per year, excluding operation and maintenance, with considerably larger infrastructure costs per capita in sub-Saharan Africa.<sup>74</sup> Progress is dependent not only on financing but also on addressing institutional constraints that undermine the effective provision of infrastructure, including corruption, weak regulatory regimes, and neglect of environmental impacts.<sup>75</sup>

On the other hand, the exponential spread of mobile technology—which leapfrogged landline access in Africa—shows that when technological conditions are favorable, modern services can flourish even in the poorest regions, thus transforming economic participation, civic engagement, and communications for the extreme poor.<sup>76</sup>

Infrastructure is also critical for clean water and sanitation. Water is the most basic necessity, and without it, a person cannot live, let alone rise out of extreme poverty. One-fifth of the developing world lacks access to clean water and nearly half lack adequate sanitation.<sup>77</sup> Approximately 1.2 billion people live in areas of physical water scarcity, and another 1.6 billion people live in countries facing economic shortages in which governments lack the resources to provide adequate water.<sup>78</sup>

For most of the extreme poor, however, water is available, but it is unclean and sanitation systems are deficient. This poses health risks due to waterborne and communicable diseases, parasites and toxins from tainted water sources; open defecation; unsafe trash disposal; and poor hygiene practices that lead to chronic illness and death. Moreover, water collection perpetuates gender inequality by imposing a significant time burden on women in LICs. Poor water and sanitation cost developing countries 2 percent of GDP, on average, and up to 5 percent in sub-Saharan Africa—exceeding total foreign aid to the continent from all donors.<sup>84</sup>

## PEACE AND JUSTICE: SECURITY AND RULE OF LAW, CITIZEN VOICE AND SOCIAL COHESION

Public order and the rule of law underlie well-functioning markets and are vital for securing property and ensuring protection from harm. This is true both in conflict

settings and in stable developing countries. Nearly two-thirds of the extreme poor live in countries affected by high levels of violence from armed conflict that can result in significant hardship at the household level:<sup>85</sup> a breadwinner killed; fear of harm inhibiting or distorting behavior; assets destroyed; displacement from land; or essential services cut off. In areas of armed conflict or high levels of violence, women and men encounter risk in pursuit of their everyday livelihoods and women also experience a sharply elevated risk of gender-based violence (GBV).<sup>86</sup> For the broader economy, insecurity can divert public resources, scare off private investment, destroy infrastructure, or feed political instability.<sup>87</sup> For example, Syria lost 35 years of development progress between just 2011 and 2013 as a result of its conflict.<sup>88</sup>

### BOX 9:

#### STRENGTHENING HEALTH SYSTEMS

USAID health programs seek to help our partners break the vicious cycle of health crises and impoverishment—in particular, by ending preventable child and maternal deaths, achieving an AIDS free generation, and protecting communities from infectious diseases. A strong health system provides the foundation for a healthy society and protects against a disease burden that is shifting rapidly and in unpredictable ways, and we invest in health systems as a foundational and integral part of our Global Health programs. In Rwanda, for example, USAID supports the Ministry of Health's community based health insurance system, which now covers 90 percent of the population. USAID helped assess households' financial status to ensure that extremely poor Rwandans can enroll without being charged for premiums or services.

The rule of law extends beyond personal safety alone: Property rights and secure land tenure are essential for enabling entrepreneurs and investors to obtain land and expand businesses.<sup>89</sup> Lack of property rights is also a major barrier undermining women's economic empowerment.<sup>90</sup> A secure property right allows an adult to leave home for work, thus enabling more productive employment and increasing a household's labor supply.<sup>91</sup>

Additionally, legal identity is key to legal recognition, including enabling participation, the enforcement of rights and claims, and the equitable delivery of public services.<sup>92</sup>



PHOTO: MORGANA WINGARD FOR USAID



PHOTO: NOAH SEELAM / AFP

Nearly 300 million children under the age of 5 lack birth certificates—more than two-thirds in LICs<sup>93</sup>—which can exclude them from essential services such as education or social protection.<sup>94</sup> Exclusionary standards of legal identity are of particular concern for members of the LGBTI community who do not fit binary gender definitions.

Constraints on autonomy and opportunity, limited freedom and mobility, and marginalization or exclusion from political or social structures are all characteristics of communities living in extreme poverty. For example, GBV often goes unreported or unpunished due to discriminatory cultural norms or limited capacity, and this can negatively impact the ability of women to participate productively in the labor force.<sup>95</sup> GBV can have large impacts on aggregate economic output. For instance, the direct and indirect costs of intimate partner violence amount to more than 2 percent of GDP each year in Bangladesh.<sup>96</sup>

Through more meaningful citizen voice—whether through voting, public discourse, participation in local governance, or simply the freedom to engage in markets—people living in extreme poverty can better express their demands and desires. This applies not just to their governments, but also to civil society organizations, corporations and foreign donors. True participation also requires transparency of rich and accurate information from holders of the public trust, as well as accountability mechanisms so that demands are not ignored.

Likewise, stronger social cohesion—signified by social inclusion, upward mobility and strong community networks—creates space for debate, forestalls conflict, and fosters trust among political leaders and bureaucrats, producers and consumers, and investors and lenders to support an equitable and well-functioning economy. When inequality or social tensions are severe, more effective institutions can defuse their negative effects by managing conflict, controlling corruption, and enforcing the rule of law.<sup>97</sup>

#### BOX 10:

#### ENABLING THE PRIVATE SECTOR

USAID aims to help achieve growth that is rapid, broad based and sustainable. The primary focus of the strategy is on strengthening markets, primarily through interventions that help improve the business enabling environment for private sector activity and employment. Access to reliable power remains one of the most significant impediments to growth in Africa, and, in response, Power Africa is supporting renewable energy projects across the continent. For example, the U.S. African Development Foundation and USAID partnered with GE Africa on a competition to fund innovative energy projects that benefit energy poor communities. To date, 28 African entrepreneurs have been awarded grants to deploy renewable resources to power economic activities in rural or peri urban communities. One winning enterprise, The Kumasi Institute of Tropical Agriculture, is working with farmers to install a 20 kilowatt biomass to energy plant. The electricity will be used to process local women's palm oil products in an off grid town in central Ghana, helping them to produce better quality goods that can be sold at higher prices.

#### BOX 11:

#### EMPOWERING WOMEN AND GIRLS

USAID's *Policy on Gender Equality and Female Empowerment* highlights the asset gap women face, its impact on their earnings and productivity, and the importance of reducing these disparities. Gender differences in access to productive inputs, particularly land and credit, are one of the main factors driving gender gaps in earnings and productivity.<sup>79</sup> Female headed households are far less likely to own land than their male counterparts,<sup>80</sup> especially in sub Saharan Africa. Women individually own just 17 percent of all documented land in Malawi, 11 percent in Tanzania, and 5 percent in Niger.<sup>81</sup> In contrast, women in Tanzania with strong land rights are three times more likely to work off farm and more likely to have higher earnings.<sup>82</sup> USAID is helping women and men in Tanzania use a mobile application to record their land rights. As a result of community training that changed men's perceptions about women's ability to hold land, 30 percent of parcels are being registered to women as individuals, and a further 30 percent are being registered jointly.<sup>83</sup>

BOX 12:

### APPLYING DEVELOPMENT APPROACHES IN FRAGILE AND CONFLICT AFFECTED STATES

USAID's approach to reducing fragility and vulnerability to conflict applies lessons learned, leverages partnerships, and involves policy efforts aimed at sharpening the international focus on fragile states. This three pronged approach underpins the Agency's support for the New Deal for Engagement in Fragile States—a shared policy approach endorsed by the International Dialogue on Peacebuilding and Statebuilding, a coalition of self identified fragile states and international partners. The New Deal establishes inclusive politics, security, justice, economic foundations, and revenue and services as national priorities. In these fragile states, the New Deal is providing a platform for better strategic planning, improved dialogue between government actors and citizens, more transparent financial management and coordination, and greater attention to the inherent connection between politics and development.

BOX 13:

### BUILDING RESILIENCE AND PREPAREDNESS

In late 2011 and early 2012, large scale humanitarian emergencies in the drylands of the Horn of Africa and Sahel resulted in thousands of deaths and the loss of billions of dollars to the affected countries' economies. For instance, more than a quarter of a million people died in Somalia<sup>102</sup> and Kenya's economy suffered over \$12 billion in losses.<sup>103</sup> These largely preventable human catastrophes prompted a renewed commitment by African leaders, donors and partners to end drought emergencies through more effective risk management and investment in addressing the root causes of these recurrent crises. Since 2013, USAID has invested heavily in resilience programs in Ethiopia, Kenya, Niger and Burkina Faso, which build on development food assistance and humanitarian activities. These are aimed at stabilizing communities' access to food, water and critical services while strengthening livelihoods and enabling households to move out of extreme poverty.

## SAFETY NETS AND TRANSFERS: SOCIAL PROTECTION, MIGRATION AND REMITTANCES

Public and private transfers—social assistance and insurance, remittances, pension payments, etc.—account for nearly one-quarter of consumption gains among the moderate poor, and nearly half among the extreme poor.<sup>98</sup> Social protection systems play a crucial role in both raising incomes and providing a safety net in times of crisis. Direct cash and asset transfers, including conditional cash transfers, alleviate extreme poverty directly while building resilience to future shocks and stresses.<sup>99</sup> *Bolsa Familia* in Brazil, for example, reaches one-quarter of the country's population for a total cost of less than 0.5 percent of GDP.<sup>100</sup> And despite the greater financial challenge in countries with lower per capita incomes, the number of national cash transfer programs nearly doubled in just five years to 52 countries by 2013.<sup>101</sup>

Social protection can feed a virtuous cycle with economic growth; facing less deprivation, workers are free to become more active producers and consumers, and children are free to attend school. With economic growth, governments are able to mobilize more resources back into stronger, more efficient safety nets. Recent research supports the cost-effectiveness and sustainable impact of bundled interventions combining resource transfers with information and skills related to health services and financial literacy.<sup>104</sup> Yet, two-thirds of the extreme poor—870 million people—are not covered by social safety nets.<sup>105</sup>

One often overlooked source of extreme poverty reduction is mobility—the ability of workers to pick up and move to a better-paying job or other venture, whether in a nearby village, a far-off city or another country. In some cases, the entire household migrates; in others, workers leave and remit earnings back to their families. In both instances, the ability to migrate safely creates a powerful conduit for extreme poverty reduction. In most rural areas, remittances account for 5 to 10 percent of household income, though, in some cases, much more. They can provide an important diversification and risk reduction strategy with a constant revenue stream insulated from many of a household's other threats.<sup>106</sup>

Migration can sometimes pose pernicious externalities, however. For instance, migrant workers—especially women—are vulnerable to exploitation and abuse. Likewise, because up-front costs of travel may be high, migrants also face risks from predatory lenders and human traffickers. More broadly, the more an economy becomes dependent on remittance flows from abroad, the more likely it is to suffer damaging distortions such as excessive currency appreciation and inflated labor costs.

## USAID’S THEORY OF CHANGE FOR ENDING EXTREME POVERTY

Taken together, these elements—the primary driver of inclusive growth, the various supporting pillars, and the foundation of governance and institutions—form the comprehensive theory of change represented by the

diagram in Figure 3. When combined with the individual-level outcomes represented in Figure 2, these two pieces collectively form a conceptual framework modeling a system of extreme poverty reduction as shown in Figure 4.

This framework incorporates our understanding of the evidence on what has worked in reducing extreme poverty to date. While there is no one-size-fits-all approach to ending extreme poverty, this general framework captures the main elements of countries’ experiences: inclusive economic growth, supported by effective governance and accountable institutions, has been the primary driver of extreme poverty reduction. This is not, of course, a theory for how USAID alone can end extreme poverty. Instead, it is within this framework that USAID’s contributions to ending global poverty can best be understood and documented. How USAID and its partners contribute within this conceptual framework will vary by country, reflecting the different opportunities in a given context.

FIGURE 4:  
DIAGRAM OF USAID’S CONCEPTUAL FRAMEWORK FOR EXTREME POVERTY REDUCTION

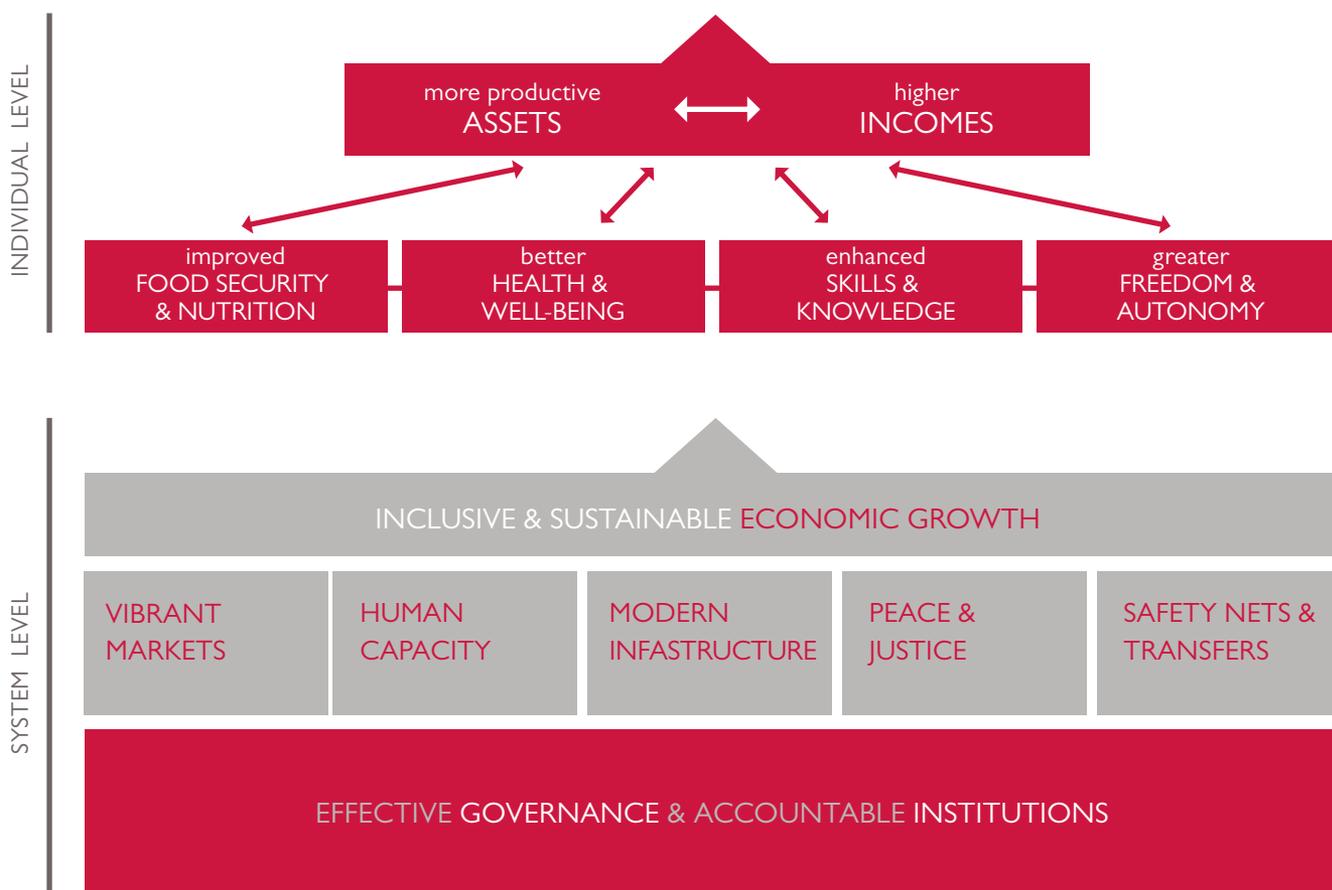




PHOTO: NICOLAS ASFOURI / AFP

# THE CURRENT AND FUTURE DEVELOPMENT CONTEXT

The remarkable decline in extreme poverty in recent decades has put an extraordinary goal within reach. But while the end of extreme poverty is possible, it is far from guaranteed. Progress on extreme poverty during the first Millennium Development Goals campaign was largely due to economic growth in China and India; deep and persistent deficits remain for 1 billion extremely poor people worldwide, and an additional billion people remain vulnerable to impoverishment.<sup>107</sup> Looking ahead, projections point to an evolving geography of extreme poverty, but emergent global trends will affect individual country trajectories and present both opportunities and challenges for ending extreme poverty. USAID’s task is to nudge these trajectories toward their most promising possibilities.

FIGURE 5:  
COUNTRIES WITH LARGEST PROJECTED POPULATIONS IN EXTREME POVERTY IN 2015 AND 2020



Source: USAID staff calculations using purchasing-power parity (PPP) adjusted 2011 exchange rates and survey data from PovCalNet, UN population projections, and IMF *World Economic Outlook* growth projections.

## THE CHANGING GEOGRAPHY OF POVERTY<sup>108</sup>

Today, more than 75 percent of the world's extreme poor live in sub-Saharan Africa and South Asia, and more than half live in just five countries: India, China, Nigeria, the DRC and Indonesia. Looking ahead to 2020, extreme poverty is likely to continue falling in China, India and Indonesia, but the number of extremely poor in Africa will decline much less rapidly and is projected to remain constant or increase in several key countries including Nigeria, the DRC and Madagascar.<sup>109</sup> Figure 5 shows country-level estimates of the total number of extreme poor for the countries projected to have the largest total numbers of extreme poor in 2015 or 2020.<sup>110</sup> These projections are subject to very substantial uncertainty, mainly due to the unpredictability of growth rates over time.<sup>111</sup>

Optimistic scenarios for 2030 depend not only on more rapid growth, but also more inclusive growth, especially in a few large LICs with substantial populations in extreme poverty such as the DRC, Ethiopia and Tanzania.<sup>112</sup> As impressive and propitious as recent growth has been in Africa, Asia and elsewhere in the developing world, the pace of global extreme poverty reduction will slow significantly without much faster growth in Africa,<sup>113</sup> the region where extreme poverty is likely to become increasingly concentrated.<sup>114</sup>

### STARTING BEHIND OR FALLING BACK

As fast-growing middle-income countries (MICs) continue to lift millions of households out of extreme poverty, the problem will become concentrated in the world's poorest countries. In these countries, many people live significantly below the international poverty line. Ending extreme poverty will be especially difficult in these countries because even with strong growth, large shares of the population are simply starting from too far behind.<sup>115</sup>

Sixteen countries currently have more than half of their population living in extreme poverty, of which 15 are in Africa (Haiti is the other). In many, the depth of extreme poverty is severe. In Madagascar, the DRC and Zambia, the distance between the average income of the poor and the international poverty line—the poverty gap—is larger than 40 percent, meaning the *average* poor person would have to nearly double their consumption to escape extreme poverty.

For those households living just above the international poverty line—about 1.15 billion people worldwide—vulnerability to impoverishment remains a critical concern. For example, panel surveys in several African countries show that between one-third and two-thirds of households that escape extreme poverty are re-impoverished at some point.<sup>116</sup>

This is of particular relevance in Asia. Even though the region now accounts for less than one-third of those living below the international poverty line globally, it is still home to more than three-quarters of the vulnerable.<sup>117</sup> The key implication is that rising just above the international poverty line is not enough—households remain subject to impoverishment until they reach much higher levels of sustainable consumption.

### PERSISTENT POCKETS OF POVERTY

Significant pockets of extreme poverty can persist even in countries that have experienced overall growth and significant reductions in extreme poverty. Households with large initial poverty gaps may, of course, be unable to clear the poverty line within a given period, even if they participate fully in economy-wide income gains. But in some cases, households may simply not have the education, skills or resources to benefit from expanding economic activity. Or they may live in low-productivity areas with limited growth potential.

In other cases, they may be excluded due to a disability or their gender, age, ethnicity, caste or religion. In Latin America and the Caribbean, for example, households that failed to exit poverty between 2004 and 2012 (using a \$4/day PPP-adjusted poverty line) not only had larger initial poverty gaps on average than households that successfully escaped poverty but also tended to be concentrated in less productive geographical regions, face barriers to entry into the labor force, and depend more on non-labor incomes.<sup>118</sup>

In response, USAID must proactively help to connect the extreme poor to the economic growth process. This will be essential because projections suggest that it will not be enough for the incomes of the poor simply to keep pace with economy-wide incomes—growth will have to be more inclusive than this neutral benchmark. USAID can help connect the extremely poor to a growing economy by expanding access to information and market opportunities that enhance economic

productivity; working with country partners to expand the coverage and quality of universal public services and social protection systems that work to break the intergenerational transmission of extreme poverty through investments in education, health, water and sanitation, power and social safety nets; and empowering the extreme poor by protecting their assets from private and public predation and broadening their voice and participation in political and economic systems.

## FRAGILITY AND INSTABILITY

As fast-growing economies lift the living standards of millions, extreme poverty will become increasingly concentrated in fragile and conflict-affected states. For many reasons—lack of resources, unaccountable institutions, self-serving leaders, extremist actors, hostile or troubled neighbors—many of these countries have been unable to sustain the rapid, inclusive growth needed to significantly reduce extreme poverty.

Breaking cycles of violence and conflict poses particular challenges in fragile states, which are characterized by dysfunctional government-society relationships. Armed conflict threatens both prior economic gains and future economic growth, but an effective strategy must address the conditions that enable armed conflict, and thus the underlying sources of fragility.<sup>119</sup> Enacting longer-term solutions often requires patience, trust, compromise and creativity, which need to be effectively coupled with shorter-term efforts addressing pressing crises.

In many sub-Saharan African countries, the depth of extreme poverty is severe.

PHOTO: ALEXANDER JOE / AFP



Solutions could not be more imperative, however, as the economic impact of fragility is profound. Civil wars, on average, nearly double governments' military expenditure, and this diverts resources from essential services when they are needed most, all while tax revenues are falling, thus compounding the effect. A typical civil war reduces countries' growth by more than 2 percent annually, in addition to the destruction of capital, increased capital flight, and widespread human costs.<sup>120</sup> War tends to exacerbate extreme poverty across its many dimensions—a medium-sized conflict can increase infant mortality by 10 percent, reduce overall life expectancy by one year, raise undernourishment by more than 3 percent, and deprive nearly 2 percent of the population of water access.<sup>121</sup>

In past decades, some countries have grown and even substantially reduced extreme poverty amid fragile conditions. Looking forward, ending extreme poverty will require substantial turnarounds in a number of such settings. Such reversals are never simple, but two fundamental elements are domestic political will and right-sized external support. With these principles in mind, the U.S. joined with a group of 20 self-identified fragile states—called the g7+—and their international partners to endorse the New Deal for Engagement in Fragile States (see Box 12).<sup>122</sup>

While not a panacea, this is a crucial first step. It acknowledges that we need a paradigm-shift in many fragile states—in how local institutions govern and interact with the public, in the manner in which donors and multilateral institutions channel their investments, and in the nature of engagement from other outside actors, including the private sector. All of this requires deeper contextual understanding; more flexibility and adaptability to country needs; a greater appetite for experimentation and risk; patience for results; and, especially, the stewardship of leaders in fragile countries.

## COMPOUNDING CHALLENGES

In addition to the increasing concentration of extreme poverty in poor and fragile states and the increasing number of vulnerable people, the coming decades will also see mounting challenges as we cope with a changing climate and rapid urbanization in poor countries.

### RAPIDLY CHANGING CLIMATE

Many of the countries in which extreme poverty will remain concentrated are highly susceptible to climate-related natural disasters such as droughts, floods and rising sea levels. Projections suggest that countries most at risk for disaster-induced poverty include Bangladesh, the DRC, Ethiopia, Kenya, Madagascar, Nepal, Nigeria, Pakistan, South Sudan, Sudan and Uganda.<sup>123</sup> The extreme poor are often the most vulnerable to climate change—they rely heavily on natural resource-based, climate-sensitive economic activities, such as agriculture, while having the fewest resources to weather these shocks. Climate-related natural disasters not only keep millions in extreme poverty, but can also quickly wipe out any progress they have made in improving their livelihoods.

USAID needs to recognize the risks posed by these natural disasters and the communities most likely to suffer from them to ensure smarter approaches to development. Along with country counterparts, USAID is supporting early warning systems (see Box 14), more drought-tolerant technologies and soil management, social protection, and efforts to help households build assets that can enhance their resilience to extreme climate events. Such disaster risk reduction programs help communities to build the capacity to reduce the damage caused by natural hazards.

Extreme poverty is likely to become increasingly concentrated in fragile states.

Three-quarters of the extremely poor reside in rural areas, yet most developing countries are urbanizing rapidly.

## RISING URBAN POVERTY

Even as three-quarters of the world's extreme poor remain in rural areas, developing countries are rapidly urbanizing. By 2030, the urban population is expected to exceed its 2010 level by nearly 1.5 billion people, with the vast majority of this increase taking place in the developing world.<sup>124</sup> The share of the extremely poor living in urban areas could exceed one-third in developing countries by 2030 and rise to nearly 40 percent in sub-Saharan Africa—a level already exceeded by Latin America.<sup>125</sup>

While the depth of poverty is more severe on average in rural areas, the urban poor typically must purchase their food and water, which makes them more vulnerable to price spikes. They also have limited access to formal employment, face increased vulnerability to urban environmental hazards and disasters, and often lack a social support system. Residents of squatter settlements and slums live in overcrowded and unsanitary conditions and rarely benefit from secure land rights.<sup>126</sup>

Historically, urbanization has been driven by industrialization and, as governments accommodated urban growth by providing residents with water, sanitation, health, security and other services, urbanization became a catalyst for inclusive economic growth.<sup>127</sup> Transitions from low- to middle-income status have nearly always been accompanied by a transition to a more urban-based economy. Today, some of the poorest countries in the world are also those with the most rapid rates of urbanization, and many countries have struggled to provide services in a manner that keeps pace with urbanization.<sup>128</sup> As a result, over 1 billion people live in slums without access to basic services and susceptible to hunger, disease, crime and disaster.<sup>129</sup>

Supporting sustainable urbanization is critical to fostering inclusive economic growth. To reduce extreme poverty and forestall future challenges, USAID will need to continue to support local capacity to improve equitable

PHOTO: THOMAS CRISTOFOLETTI / RUOM FOR USAID



and accountable service delivery, establish secure tenure and encourage shelter upgrading in slums, strengthen municipal institutions, and build resilience to natural disasters, economic volatility, conflict, and other shocks and stresses.<sup>130</sup> At the same time, strengthening urban-rural linkages will ensure that rural households are able to benefit from urbanization and contribute to economic growth by connecting to markets, non-farm employment, and remittances.

Cities are complex systems, and understanding urban dynamics—including the emergent properties that structure social relations, political economies, physical infrastructure, and environmental impacts within them—will help to illuminate policy and programming solutions.

## EMERGING OPPORTUNITIES

Fortunately, there are several trends working in positive directions, including increases in the global resources available to developing countries, a changing age structure that could lead to a demographic dividend, and the information technology revolution, all of which raise new possibilities for what we do and how we work.

### NEW SOURCES AND NEW MECHANISMS FOR DEVELOPMENT FINANCE

Today, private capital flows, remittances and philanthropy substantially outpace foreign aid in aggregate, and domestic resources dwarf these external sources of development finance. Countries across the development spectrum can engage with a growing array of official and private donors, while seeking access to vastly expanded pools of private external finance. Domestic revenues continue to expand via tax reforms and economic growth.

As can be seen in the bottom panels of Figure 6, official inflows constitute a large proportion of the external resources available to LICs—an observation that is even stronger for the “typical” LIC (as shown by average shares in the right-hand panel) than for the LIC group in aggregate. The upper panels illustrate the increasing importance of non-official flows for the developing-country group as a whole. Here too, compositional effects are substantial; the totals are dominated by a handful of large countries like China, India and Brazil, whose inflows are predominantly private. Official

flows are therefore more important for the “typical” developing country than the aggregates would suggest.

The expanding overall availability of non-official finance, however, implies that traditional donors have an increasingly catalytic role to play in partnership with the private sector, foundations, and new actors emerging from the global South. A critical challenge will be to crowd in private investments in LICs and fragile states, where the private sector has been reluctant to invest previously due to high perceived risks.

The emergence of non-traditional development actors—including South-South donors providing opportunities for trilateral cooperation and social entrepreneurs breaking ground with new financing mechanisms—will spur innovation and expand the resources available for development finance. USAID will continue to engage these new actors in the spirit of the Busan Declaration for Effective Development Cooperation. Even more important—and a focus of the Third International Conference on Financing for Development in Addis Ababa—is the momentum many governments have established over the past decade in strengthening their own domestic resource mobilization. Recipients of debt relief under the HIPC initiative, for example, have increased the ratio of government revenues to GDP by a quarter between 2003 and 2013. Together with more rapid growth, this has enabled an expansion in real poverty-reducing expenditures by well over 10 percent per year.<sup>131</sup> Opportunities abound to deepen the underlying tax-system reforms, increase the efficiency and development focus of spending, and improve the quality of public financial management.

### THE DEMOGRAPHIC DIVIDEND

While advanced economies are facing the problem of an aging population, Africa holds the world’s largest youth population. When coupled with declining fertility and child and maternal mortality, the resulting increase in the share of the population who are of working age has the potential to create a demographic dividend, a phenomenon in which the labor force expands more rapidly than the younger and older populations that depend on it. This means there are relatively more people working and able to invest their incomes in productive activities and human capital that help fuel economic growth.

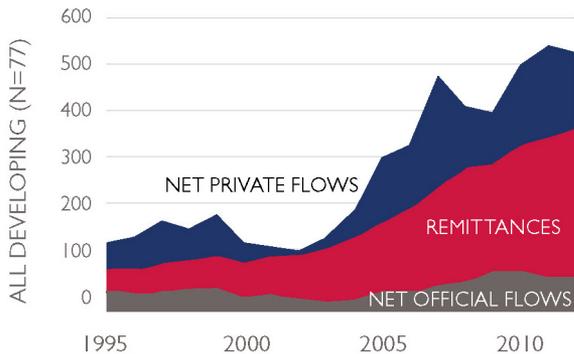
FIGURE 6:

NET FINANCIAL INFLOWS TO DEVELOPING COUNTRIES AND LOW-INCOME COUNTRIES

FINANCIAL FLOWS ACROSS INCOME LEVELS

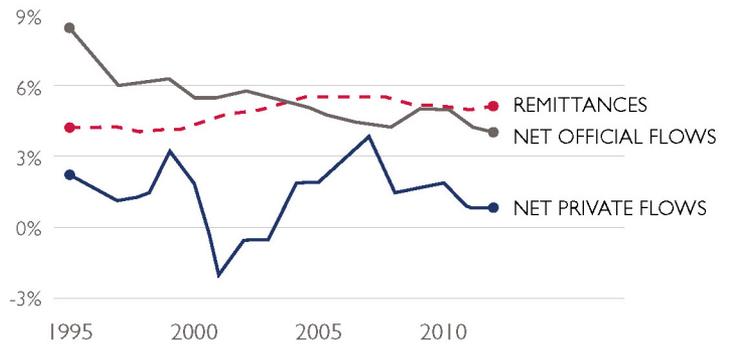
TOTAL CURRENT BILLIONS (USD)

Total net private flows and remittances outstrip total net flows from official donors, but this is driven by a handful of larger economies.

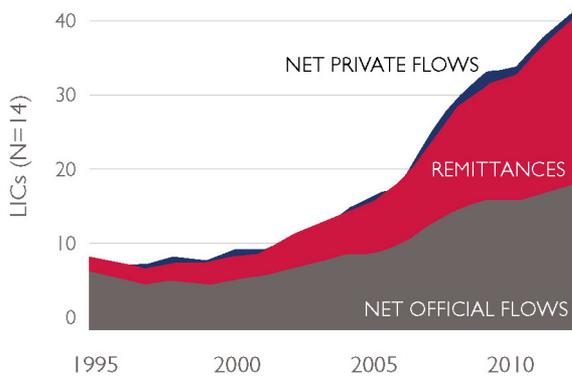


AVERAGE SHARE OF GDP (AS A PERCENTAGE)

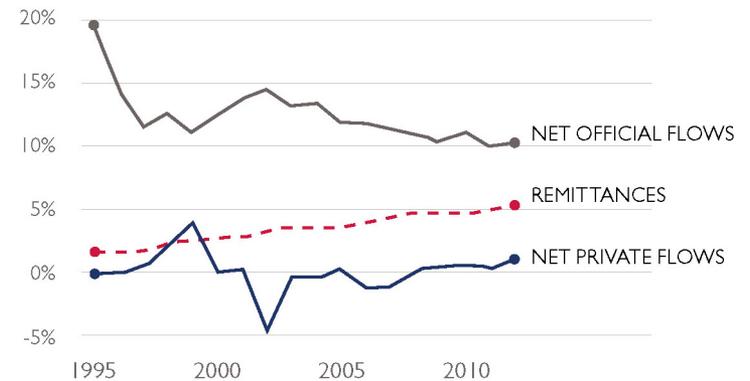
For the average country, official flows are declining in importance but remain larger than private flows.



For low income countries, private flows remain negligible by comparison to remittances and donor flows.



Again, for the typical LIC, aid is much more important than other flows.



Source: Net Official and Net Private Flows, OECD; Remittances and GDP, The World Bank.

Notes: The sample consists of the 77 developing countries with data for both 1995 and 2012; missing observations between 1995 and 2012 are linearly interpolated; shares are unweighted averages across countries.

On the other hand, the combination of a “youth bulge” and limited economic opportunity can have explosive consequences. Especially for countries with growing populations and slow economic growth, a youth bulge may increase the risk of domestic armed conflict.<sup>132</sup> Rapid population growth and the subsequent youth bulge can therefore either be a blessing or a curse.

In the case of the East Asian Tigers, the demographic dividend lasted up to 25 years and has been estimated to account for between 25 to 40 percent of East Asia’s “economic miracle.”<sup>133</sup> Across Africa, estimates suggest that a demographic dividend could raise average incomes by 56 percent compared with a scenario where the share of the working age population remains constant.<sup>134</sup>

The demographic dividend is a window of opportunity for countries to take advantage of a robustly expanding workforce. The payoffs will be high if social and economic policies support the education and employment of young people, especially girls.

A youth bulge can become a demographic dividend if supportive social and economic policies are in place.

Proactive policies to empower women and families to better manage fertility are a critical first step in the policy agenda. Special attention should be given to youth populations at risk for conflict and to marginalized groups—such as young women or people with disabilities—frequently excluded from policy dialogues. Of particular importance are policies that promote the demand for labor by favoring investments in job-generating goods and services, and that reduce the risks of temporary out-migration for workers seeking incomes abroad. Importantly, the payoffs from falling dependency ratios are more likely to be long-lasting if countries invest in financial systems that encourage savings and pension funds. These are all efforts that USAID and other donors can help countries advance.

## **DIGITAL TECHNOLOGY AND DATA FOR DEVELOPMENT**

Recent decades have seen innovations that can further improve the effectiveness of how we work.<sup>135</sup> These improvements include the widespread adoption of digital technologies and the beginnings of a data revolution that is ushering in a new era of ubiquitous, real-time information driven by technology. These developments have transformed the exchange of information and economic transactions and have enabled poor households to access financial services, participate in markets, and hold their governments accountable as never before. Advances in research methodology, including the application of randomized controlled trials, have meanwhile opened up new avenues for rigorously assessing what works in particular development contexts and why.<sup>136</sup>

The emerging digital economy—characterized by new modes of communicating and sharing ideas, new business models, and data-driven decision-making—has the potential to accelerate extreme poverty reduction by increasing both the inclusiveness of growth and the effectiveness and accountability of public and private institutions. For example, USAID launched a Grand Challenge for Development in 2012—Making All Voices Count—that promotes citizen engagement and supports open, responsive government by utilizing innovation and technologies to improve government performance and accountability. This partnership will amplify the voices of citizens and enable governments to better listen and respond to citizen demands.

The data revolution can have particularly profound impacts for the extremely poor by giving voice to the marginalized or excluded, improving the provision of basic services through better access and targeted investments, and utilizing real-time information to provide feedback loops. For example, advances in the generation and analysis of spatial data are already making it easier for governments to target their services, manage disaster relief, and coordinate efforts with donors and other stakeholders.

Data must be accessible to users, and of sufficient quality and comparability to support analysis that can inform action. And information or its control can, of course, be put to the wrong ends, becoming an instrument for discrimination, exclusion or repression. Strengthened country capacity is therefore needed for data collection and analysis that is relevant, accessible and user-centric.

USAID should encourage a focus on disaggregated data while adopting and sharing new technologies to incorporate real-time and disaggregated data into programming and policymaking, particularly to measure the progress of those starting from the furthest behind. An increased emphasis on sex-disaggregated data would provide the opportunity to better design gender-sensitive policies and programs and enable evidence-based solutions to address sub-household inequities. The combination of opening up data to the public and real-time access to information allows policymakers to make quick decisions that lead to better results.

It is also essential that USAID invest not only in the application of digital products and services, but also in the policies, practices and institutions that will ensure that the digital economy spreads in an inclusive and enabling way. USAID's Global Development Lab is building new partnerships and leveraging information technology to break down the distances that perpetuate extreme poverty—distances of people from people, people from information, and civil society from government. Through the use of data and technology—including real-time data on performance and feedback from citizens—we can better measure progress and rapidly respond to a changing world.

BOX 14:

APPLYING SCIENCE, TECHNOLOGY,  
AND INNOVATION STRATEGICALLY

USAID has been investing in science, technology and innovations that can generate large scale benefits for the extreme poor. This effort includes high tech interventions such as introducing mobile financial services to transform cash economies<sup>137</sup> as well as low tech interventions such as clean cook stoves, nutritional supplements, and safe approaches to childbirth. It also goes beyond new technologies or products to include business processes or global services such as FEWS NET that use geospatial observation as a first indicator of acute food insecurity for on the ground collaboration.



PHOTO: DAVID ROCHKIND / USAID

# A MOMENT OF OPPORTUNITY

As we embark upon the 2030 Agenda for Sustainable Development, the United States is in a unique position to help lead efforts to resolve humanity’s most entrenched and vexing challenges—including persistent extreme poverty. But only leadership through partnership—leveraging the extraordinary accomplishments and learning of the Millennium Development Goals campaign—can get the job done. Ultimately, it is local actors that will matter most in driving outcomes.

Accountability and ownership together help create a world in which developing country stakeholders have the tools to make smart decisions about their own development priorities and the power to implement those decisions. Country-led development that is transparent and accountable to all stakeholders must guide USAID’s work. To ensure sustainability, our efforts need to focus on the priorities that partner countries and their citizens have identified, and help to build local implementation capacity in partner countries from the outset. The concept of partnering is crucial to how we see our own contribution.

Partnership is not just a buzzword for USAID. Our mission statement places a commitment to partnership up front—a recognition that achieving our ambitions requires collective action. For USAID Missions, this means championing local ownership, recognizing the complex and iterative nature of the development process, working with our host country partners in government and civil society—including the extreme poor as key actors—and maximizing the use of local systems. Across all our work, it means leveraging private investment to multiply our impact; harnessing scientific and technological advances to spur innovation and seek transformative change; demanding results and accountability from ourselves and our partners; and learning from both our successes and failures (see Box 15 for our operational principles).

This “New Model of Development” reflects the widely accepted principles for development effectiveness that stem from recent international conferences and agreements, including the Busan Partnership for Effective Development Cooperation.

Effective development also demands that we assess, understand and analyze the opportunities and constraints unique to each context; seek out and apply the best and latest evidence to inform our thinking; design programs that recognize system dynamics and permit adaptations needed to promote policy reform; form lasting partnerships with host country governments and civil society actors; and leverage our comparative advantages to optimize our impact. Such analytic rigor must likewise flow through each stage of the Program Cycle, USAID’s framework for sequencing and integrating its programming, from policy and strategic planning to project design and implementation to monitoring, evaluation and learning.

Transparency and accountability to all stakeholders must guide USAID’s work.

BOX 15:

## USAID'S OPERATIONAL PRINCIPLES

USAID has been fundamentally reforming and improving the way we work. Renewed international leadership, forward looking reforms, and evidence based policies and strategies have energized who we are as an Agency and elevated our role in the development community. We will continue applying and refining the operational principles integral to USAID's "New Model" as articulated in the USAID Policy Framework:

- Promote gender equality
- Apply science, technology and innovation
- Partner strategically
- Apply integrated approaches
- Build in sustainability from the start
- Apply selectivity and focus
- Measure and evaluate impact

BOX 16:

## USAID'S LOCAL SYSTEMS APPROACH

Sustainability refers to the ability of a local system to produce desired outcomes over time. Sustainability starts with looking at the local system, and this requires us to respond to the needs of the people we are trying to help and the systems they live in.<sup>138</sup> This imperative calls for us to create the time and space for field staff to develop relationships to figure out the key players and how to effect change within the system. Only specialized local knowledge developed over time can lead to this type of deep contextual understanding.

To advance our work through better partnerships and better analysis we also need to ensure that USAID's overseas programs are fully staffed with a sufficient number of well-qualified individuals. This requires a staff of development professionals skilled in analyzing local contexts and the relationships among critical actors, engaging in policy dialogue, engaging with the local private sector and civil society, facilitating alliances among diverse actors, strengthening organizational performance, and negotiating programmatic and financial agreements.

USAID is already working to deepen the integration of the extreme poverty component of our mission into policy and planning. Ongoing efforts include developing and refining analytical tools for understanding the complexity of extreme poverty and tracking its trends, conducting case studies to situate extreme poverty in context, hosting the 2014 Frontiers in Development forum and a subsequent evidence and experience summit on ending extreme poverty, and incorporating an emphasis on extreme poverty into selected Country Development Cooperation Strategies (CDCS). USAID will continue to build on this momentum along four key lines of effort:

- **issuing operational guidance** on integrating extreme poverty into the Program Cycle;
- **tailoring our analytic tools to Mission needs** to embed a greater focus on extreme poverty;
- rigorously **measuring and evaluating the effects of our extreme poverty-reducing programs**; and
- planning strategically to **create flexibility and focus resources** where extreme poverty persists.

## INTEGRATING FOR IMPACT

USAID will issue operational guidance to clarify how to better integrate extreme poverty into the Program Cycle. One aspect of this guidance will be an applicability test for strategic planning at the start of each CDCS. Through this process, the Mission and Washington will jointly determine the extent to which each Mission will consider extreme poverty as a strategic priority based on the country's extreme poverty profile and on existing programmatic priorities and budget flexibilities. This ensures a strong, focused and clear commitment to the global goal—but only where it makes sense and recognizing existing short-term budget limitations. The extreme poverty criteria for applicability will reflect our multidimensional definition—i.e., emphasizing consumption poverty rates alongside other deprivations.

Given the multifaceted nature of extreme poverty, we will also strive to integrate our programs to more systemically address the root causes of extreme poverty—by including, for example, the DRG Strategy's principles of participation, inclusion, transparency and accountability across our sectoral programming.<sup>139</sup>



PHOTO: DEBORAH ESPINOSA

We will support interventions that help close gaps and address barriers related to marginalization, exclusion and vulnerability. For instance, USAID's recent Resilience Policy commits us to integrate, layer and sequence our humanitarian relief and development assistance through mutually informed project design to reduce vulnerability and lay the foundation for longer-term development.<sup>140</sup> Finally, appreciating complexity and thinking systemically to understand the stakeholders, incentives, dynamics and other forces at play where we work will be critical to achieving sustainable outcomes.<sup>141</sup>

## APPLYING RIGOROUS ANALYSIS

We will strive to enhance our programmatic effectiveness by strengthening our capability to identify the key barriers to extreme poverty reduction. Our evidence-based theory of change provides a framework for applied research and analysis at the country level as well as for mapping the efforts of host governments and other key partners. USAID/Washington's focus will be on providing user-friendly tools and constructive support to the strategic-planning and program-design processes rather than imposing additional policy mandates or new reporting requirements.

In particular, strengthening the application of existing tools to extreme poverty will improve USAID's strategic planning and project design, e.g., using sex-disaggregated, gender-sensitive poverty statistics in a gender analysis, conducting a disaggregated growth diagnostic to examine sectors of the economy that are particularly important for the extreme poor, or examining distributional impacts within a rigorous cost-benefit analysis.

Improved analysis, planning and design also includes better understanding our own biases as development professionals and adopting the perspective of the extreme poor to identify where our assumptions may be misguided.<sup>142</sup> It entails a deep understanding of the microeconomic environments and behavioral responses of the extreme poor<sup>143</sup> and a thorough diagnosis of binding constraints and opportunities across program sectors.

## LEARNING FROM OUR WORK

USAID will develop approaches to research and learning based on this vision paper's conceptual framework and multidimensional definition. In doing so, we will more closely align results-monitoring with this agenda. This could include, for instance, a dashboard of topline indicators for tracking the dimensions and dynamics of extreme poverty. More generally, we will articulate how broad-based development progress—reflected in the eight core development objectives of our overarching policy framework<sup>144</sup>—is the only way to end extreme poverty on a sustainable basis.

In order to enhance learning from our current approaches and partnerships, USAID will strive to more rigorously and systematically evaluate our programs' effects on extreme poverty—going beyond monitoring outputs to strengthen the ways in which we learn from our experience and the wider development record.<sup>145</sup> Development is a slow, complicated process and doing development well requires understanding, patience, adaptability and a commitment to learning from both successes and failures. We must look past proof of concept toward external validity and evidence of replicability and transferability—including quality assurance at scale, incentives for adoption, and long-term sustainability. Commitment to solving a problem—rather than commitment to a solution—allows for agility in decision-making and innovation.

## PLANNING STRATEGICALLY

USAID will determine how, as an agency, we can better align ourselves to partner to end extreme poverty, while also recognizing our budget limitations and other constraints. In the short term, we will exploit opportunities to enhance the impact of existing resources and programming in reducing extreme poverty while continually experimenting, evaluating, learning and adapting. One excellent example is the DRC Country Development Cooperation Strategy, which directly addresses what it will take to end extreme poverty in that difficult context. Over the longer term, our efforts should focus even further on countries where extreme poverty is likely to persist and on challenges where we are most likely to be able to make an impact.

This does not necessarily mean, however, that we should limit our engagement to a small set of very poor countries or that we should seek out and only target “pockets” of extreme poverty. In some cases, the most critical constraints to poverty reduction may be policy inefficiencies requiring national-level reforms, regional investment, or multilateral engagement. In others, the biggest gap may be in public goods such as a need for lifesaving vaccinations, limited access to agricultural technologies, or deficient property rights.

A measured and, ultimately, more effective strategy must recognize that simply channeling resources to the extreme poor is not necessarily of the greatest potential benefit to the extreme poor. Feed the Future in Ethiopia recognizes this and works directly with the extreme poor to build their capacity to participate in the economy, while simultaneously promoting agricultural growth in high-potential areas to increase smallholder production and create demand for additional wage labor.

Above all, we should prioritize investments that address the most severe deprivations across the dimensions of extreme poverty, that seek to resolve the most binding constraints to poverty-reduction, and that exploit our comparative advantage and build on our experience and expertise. This means looking for synergies and economies of scale, leveraging our assistance to multiply impact, and working with local actors and institutions to build capacity in line with country priorities. This may require greater budget and programmatic flexibility for some Missions that demonstrate results through sound analysis, planning, design and implementation, particularly in the most difficult operating environments such as fragile states.

## A MOMENT OF OPPORTUNITY

While this vision paper sets a strategic direction for the Agency, it does not provide all of the answers. With a common definition of extreme poverty and a conceptual framework to test our assumptions against, we can improve our analysis, refine our planning and project design, and direct our learning agenda. By recognizing how all of our core development objectives contribute to this goal—while also acknowledging where we could be better aligned—we can better understand how our programs work collectively to contribute to the Sustainable Development Goals and help to end extreme poverty.

By viewing the problem of extreme poverty through the lens of the Program Cycle, we can integrate our work more coherently and concertedly between Washington and the field, across sectors, and with our partners. Together with our partners, we can move forward with a new clarity of vision in this unique moment of opportunity as we partner to achieve the 2030 Agenda for Sustainable Development.

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- <sup>108</sup> Estimates in this section are by USAID staff and refer to consumption poverty based on the \$1.82-a-day international poverty line using 2011 PPPs at international prices. This is the equivalent of the \$1.25-a-day line in international purchasing power terms, but using the new 2011 PPPs. Note that the World Bank has not yet determined the new international extreme poverty line, which may differ from \$1.82. See Sillers, Don (2015, July) “Is \$1.82 the new \$1.25? Choosing the Next International Extreme Poverty Line” *USAID Economics Brief*.
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tional line of \$1.82 that is equivalent to \$1.25 in real terms. There would be some reordering of countries in Figure 5 if we reverted to \$1.25 and the 2005 PPPs, but the countries in the Figure would be unchanged with the exception of Indonesia, which would disappear due to its lower head counts at the 2005 PPPs, and Bangladesh, which would qualify as number five in 2015 using the 2005 PPPs. The projected share of sub-Saharan Africa and South Asia in global poverty would be 87 percent in 2015 if we used the 2005 PPPs rather than the 75 percent mentioned in the text.

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