The graduation approach to poverty reduction

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Why do people stay poor?

- The purpose and the design of social assistance programs depends on what keeps people in poverty
-

why do people stay poor?

equal opportunity view

- they have different traits
- less productive, less talented, less motivated ..

poverty trap view

- they have the same traits
- but face constraints to access good jobs

the answer is key for policy

- In the equal opportunity world people with the same productivity will reach the same standard of living→ climb out of poverty no matter how low they start

- anti-poverty policies support consumption for those who are unable to support themselves

- In the poverty trap, wealth at birth determines the standard of living→ in this world there is no way out without a big push

- in this world, anti-poverty policies support production

What is the goal of social assistance?

equal opportunity view

- support *consumption* for those who are unable to support themselves
- equality

poverty trap view

- enable *employment* for those who have the ability but not the means to support themselves
- equality and efficiency

Ultra-poor graduation

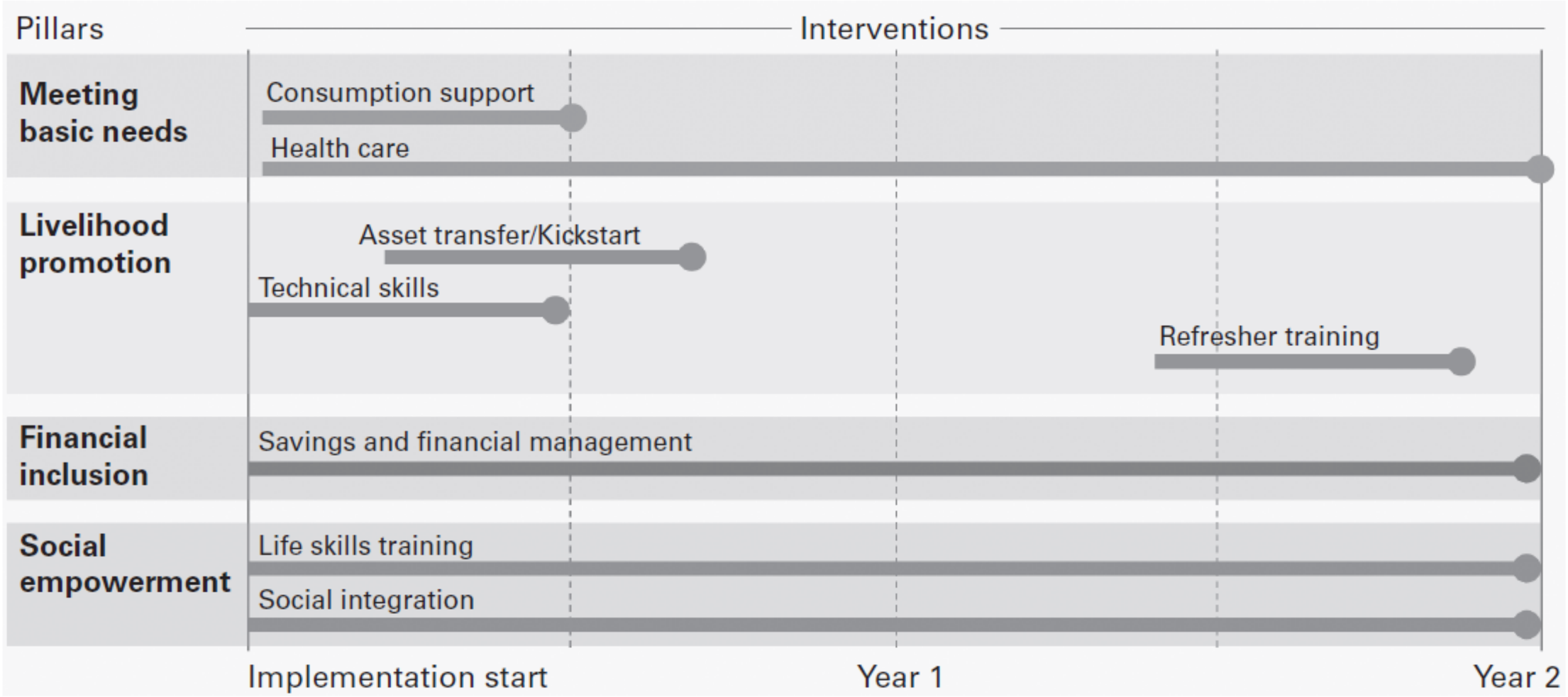
In 2007 the Bangladeshi NGO BRAC launched the Ultra Poor Graduation approach

A multi-faceted intervention aimed at the poorest women in the poorest villages

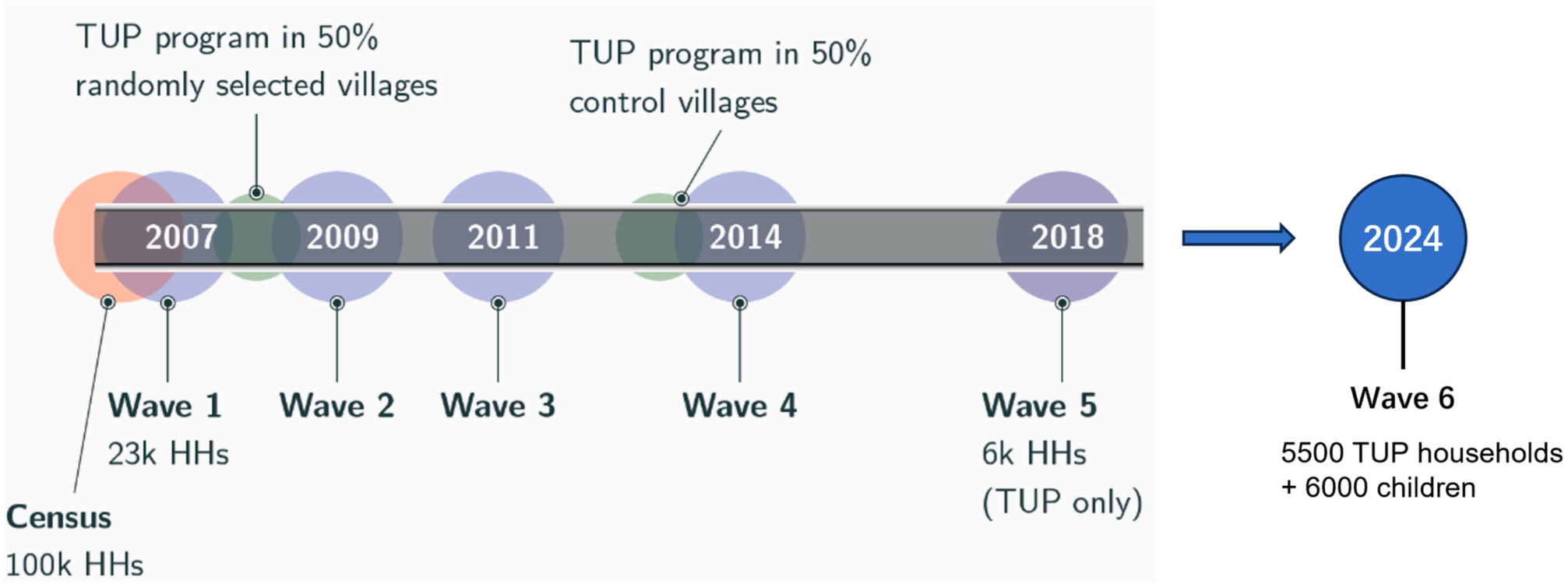
We worked with them to evaluate the effects

Randomised roll out across 1300 villages in 20 subdistricts

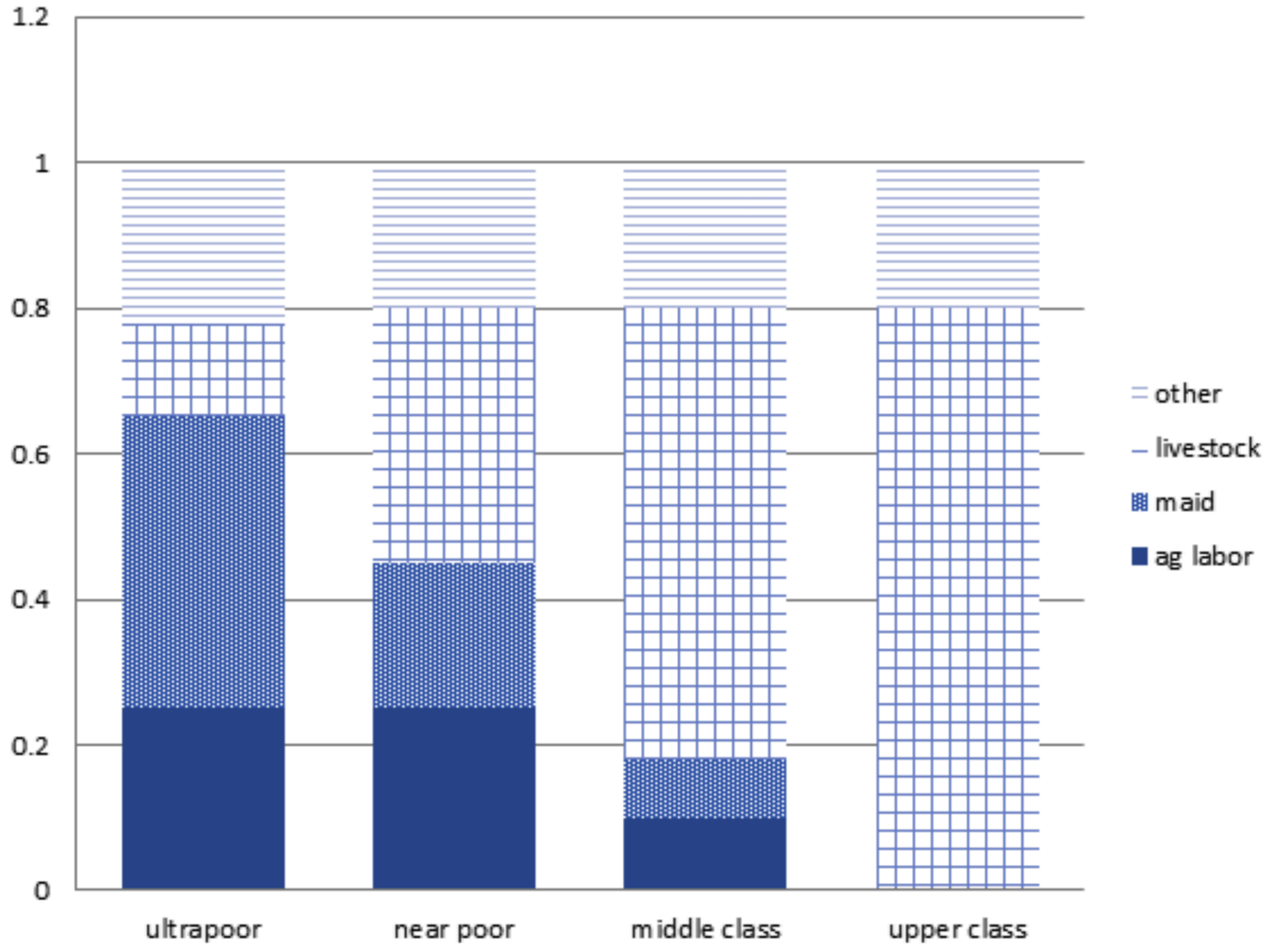
Graduation model



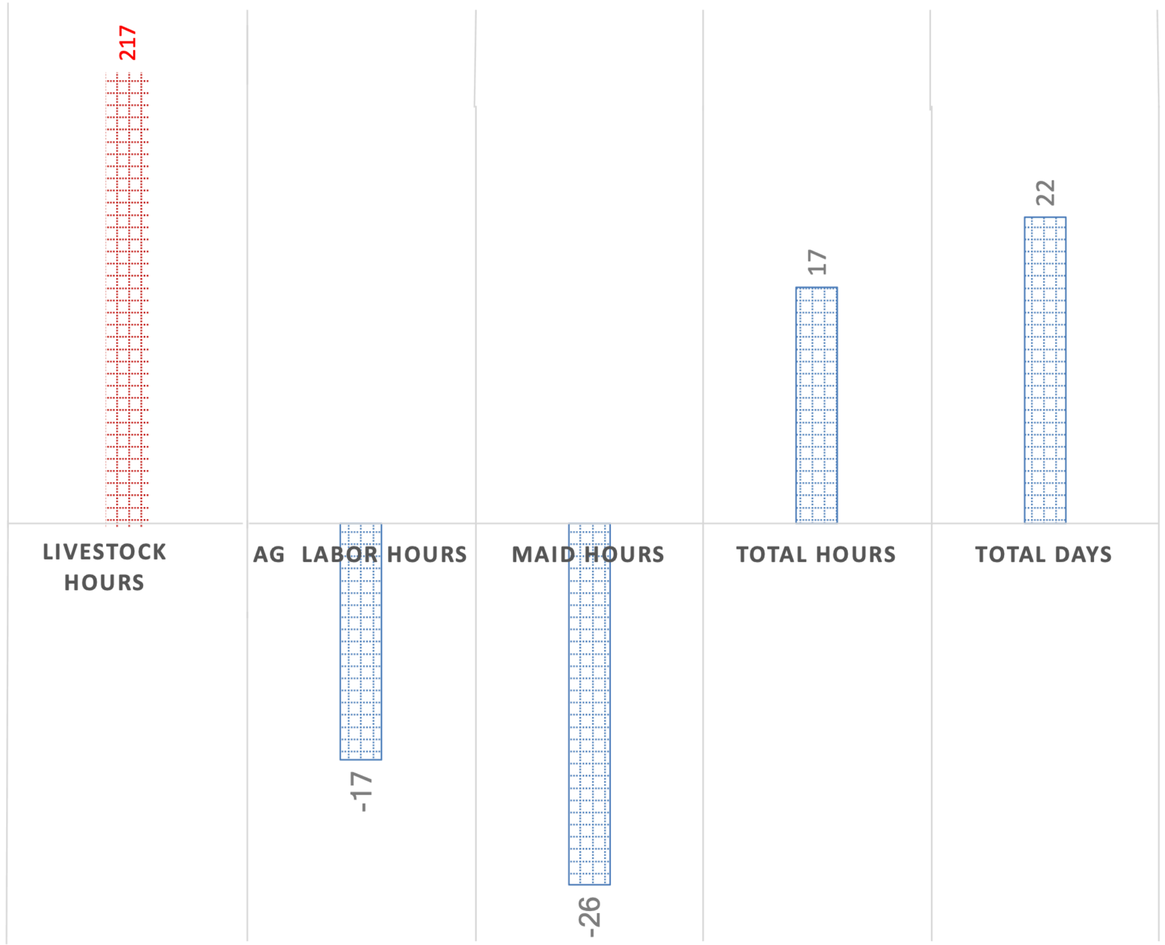
Graduation in BGD: timeline



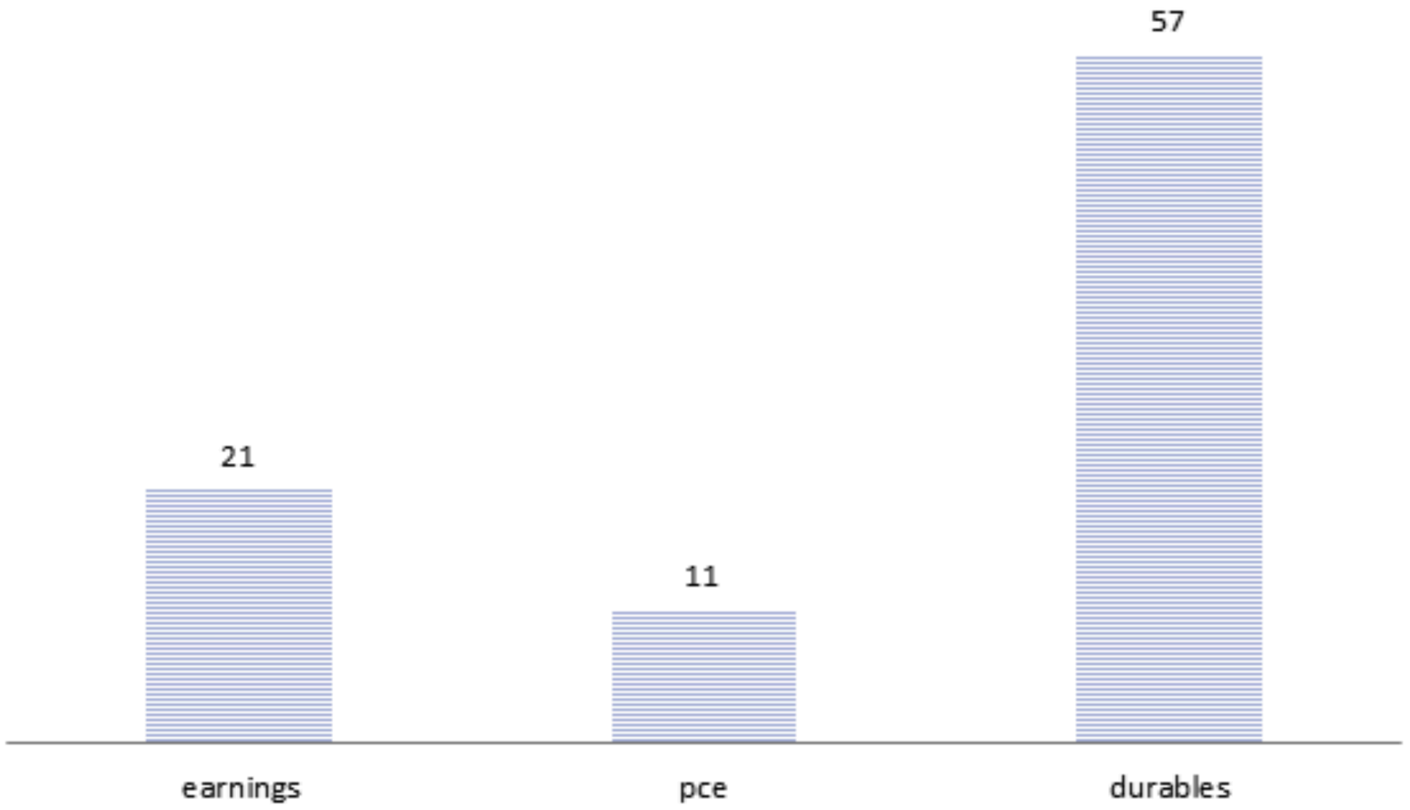
Most women only did three occupations



Four year effect on hours and days worked (%)

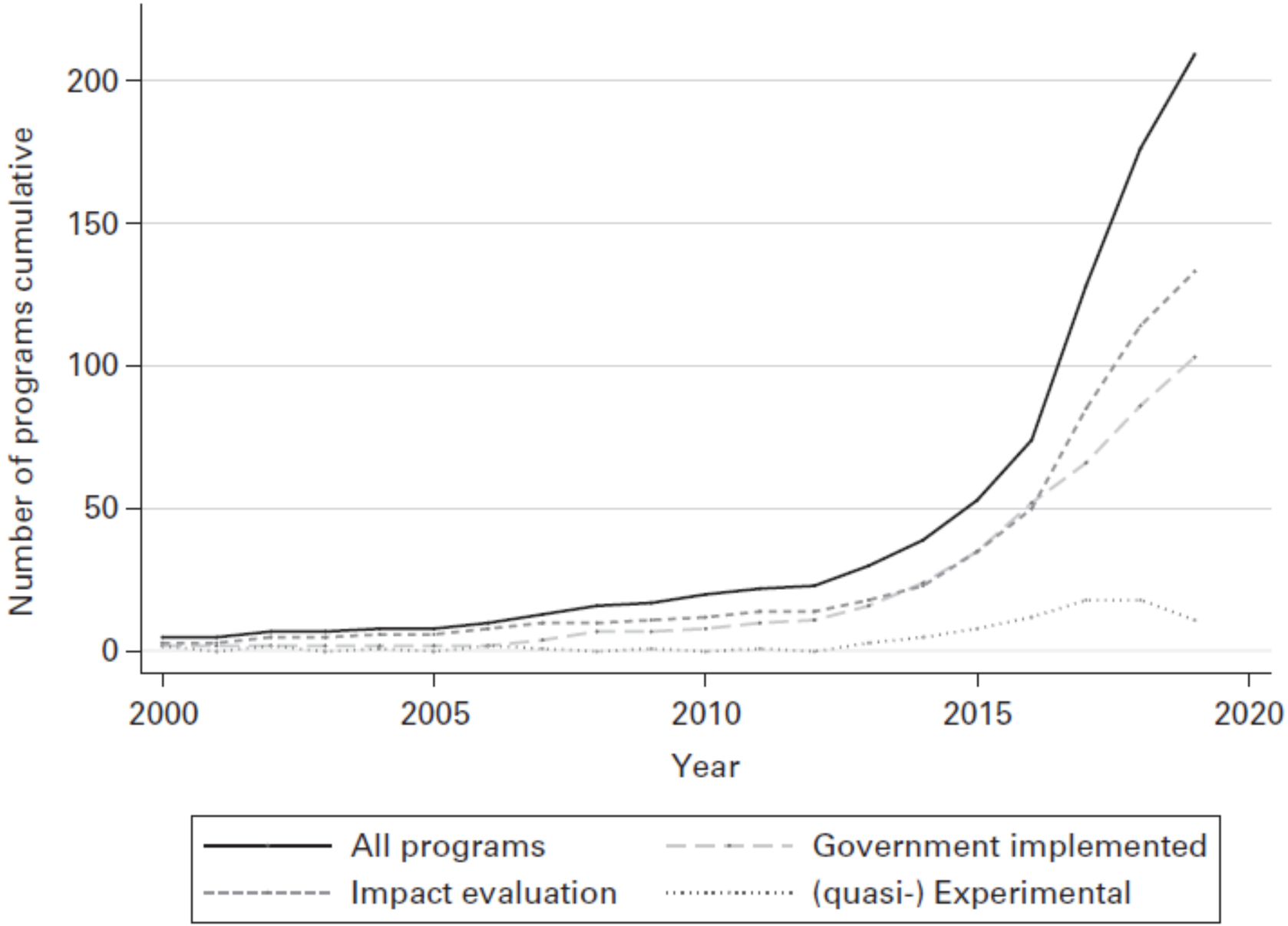


4 year effect on earnings and expenditure (%)



The model has been successfully replicated in many settings

Recently announced to be the core of India's social protection strategy



Average benefit/cost ratio at the mean=5.4

Panel A. External parameters						
cost per HH at Y0	1121.34		social discount rate		0.05	
cost per HH discounted at Y4	1363.00					
Panel B.Estimated Consumption Benefits	*mean*	*q10*	*q25*	*q50*	*q75*	*q9*
Change in household consumption expenditure Y1	61	-3	30	44	107	19
Change in household consumption expenditure Y2	106	-5	51	76	184	33
Change in household consumption expenditure Y3	237	62	126	157	312	54
Change in household consumption expenditure Y4	345	123	188	223	410	69
NPV Change in household consumption expenditure Y5 and beyond-forever	6572	2346	3767	4457	8200	1387
Change in household assets Y4	40	14	11	20	47	8
Total benefits (1+2+3+4+5+6)	7360	2537	4174	4977	9260	1571
Benefits/cost ratio	5.40	1.86	3.06	3.65	6.79	11.5
if benefits last 5 years from transfer date	*0.82*	*0.23*	*0.43*	*0.54*	*1.06*	*1.8*
IRR	0.22	0.06	0.12	0.15	0.26	0.4
if wage jobs available all year at $.34 per hour	0.16	-0.03	0.05	0.08	0.21	0.3

a very good investment

general principles

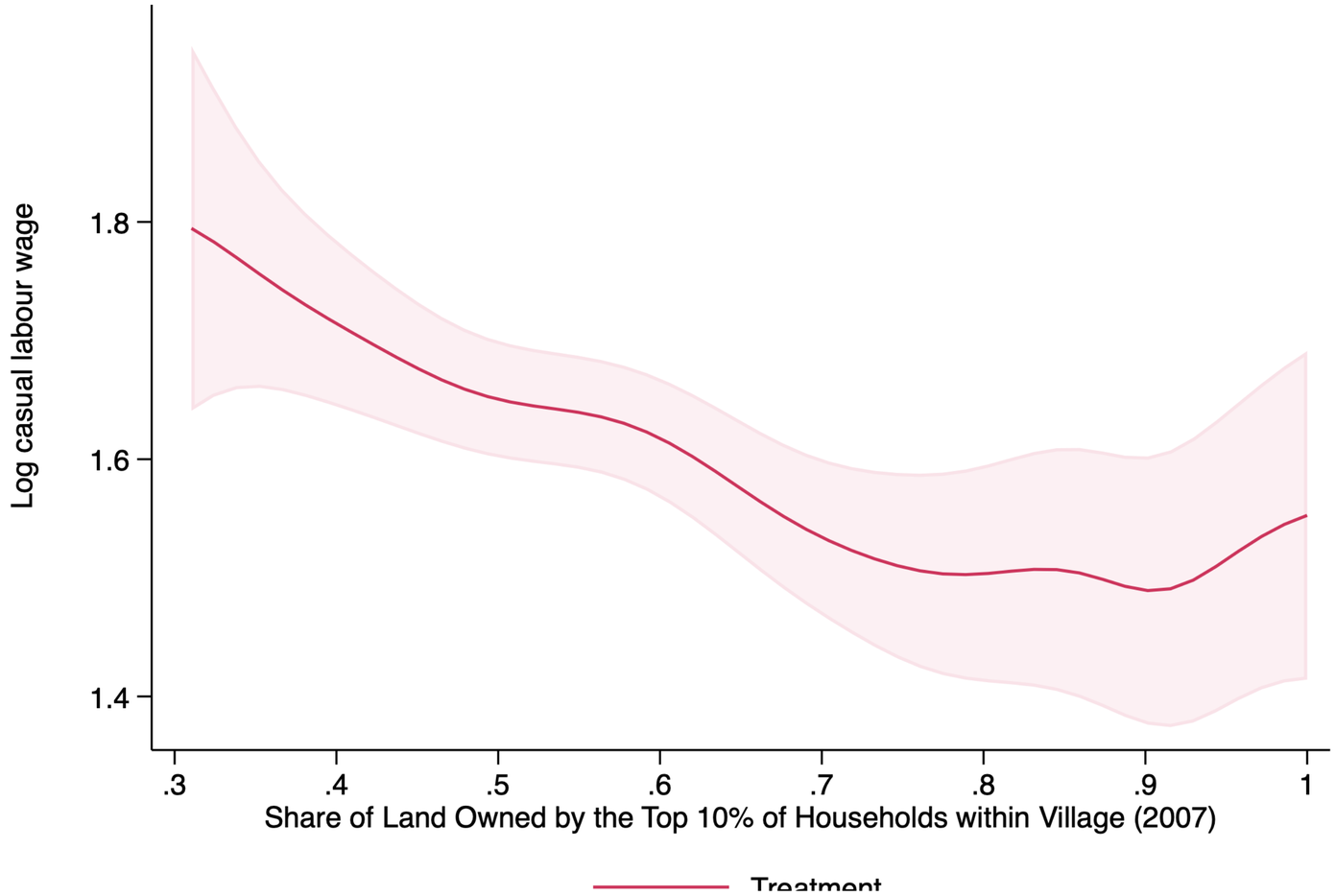
Program facilitates occupational change AND increases outside options

Land and capital are concentrated in the hands of a few —> monopsony

Wages are pushed down to subsistence and workers bear the brunt of negative shocks without benefitting from positive ones

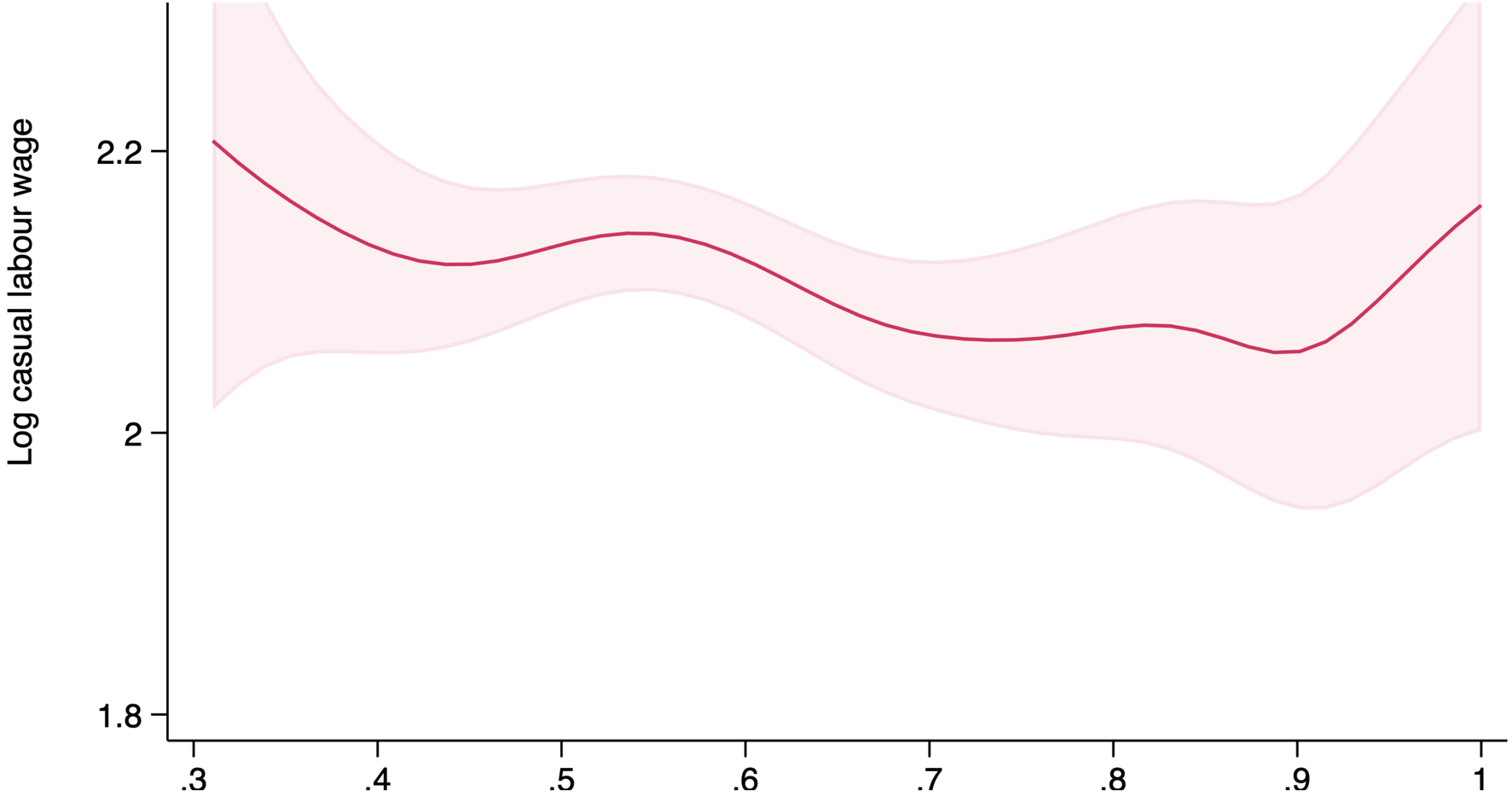
Workers are unable to save and invest in skills or assets

UPG gives them an outside option -> More bargaining power —> higher wages and lower pass through for all workers

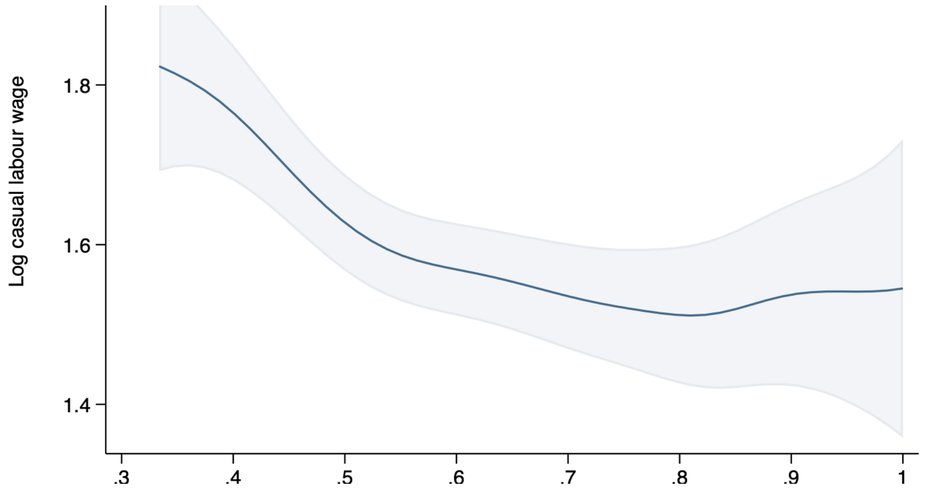


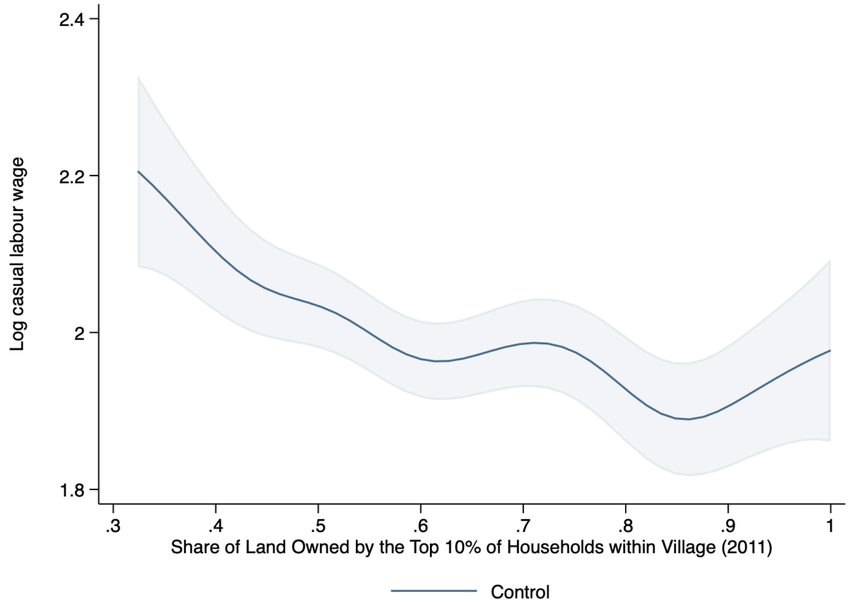
In villages with fewer employers wages are lower

(Sample: 700ca treatment villages from UPG evaluation -Bandiera et al 2017)



UPG increases wages & shuts down monopsony power

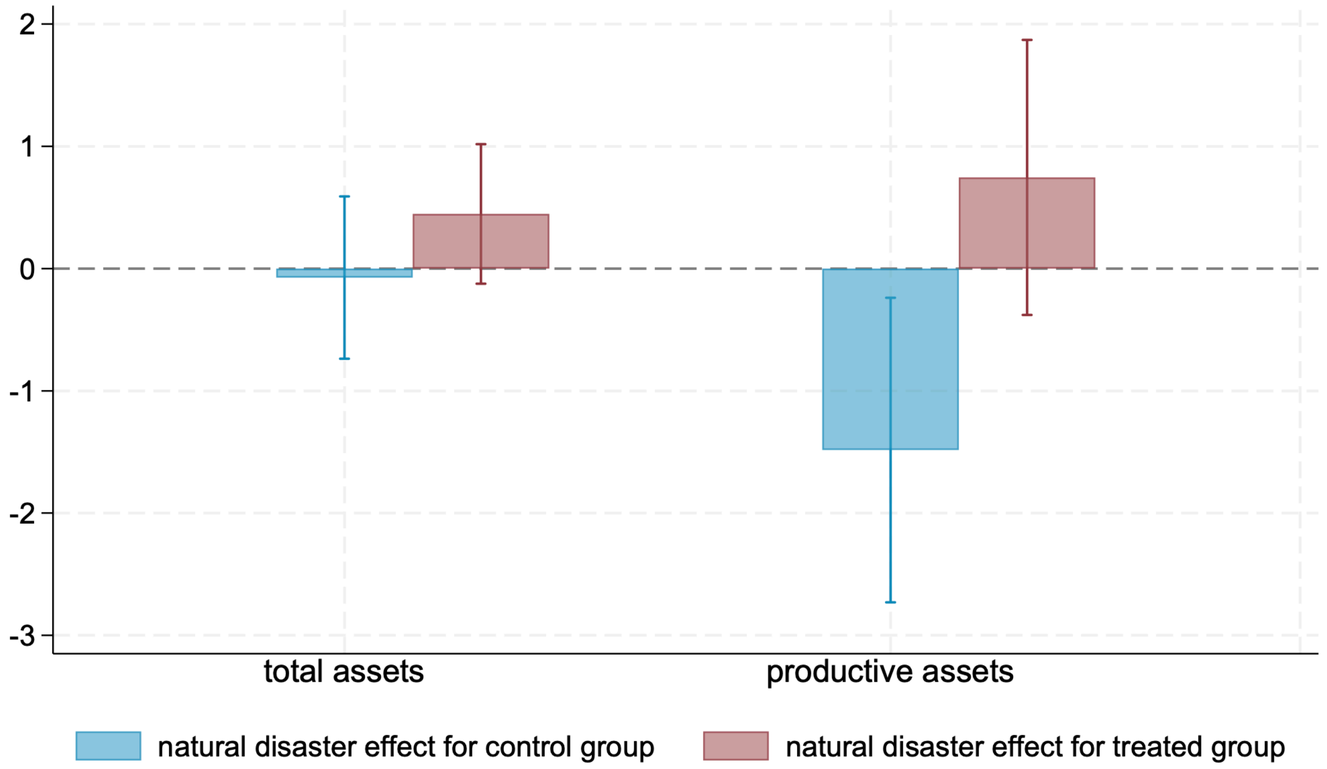




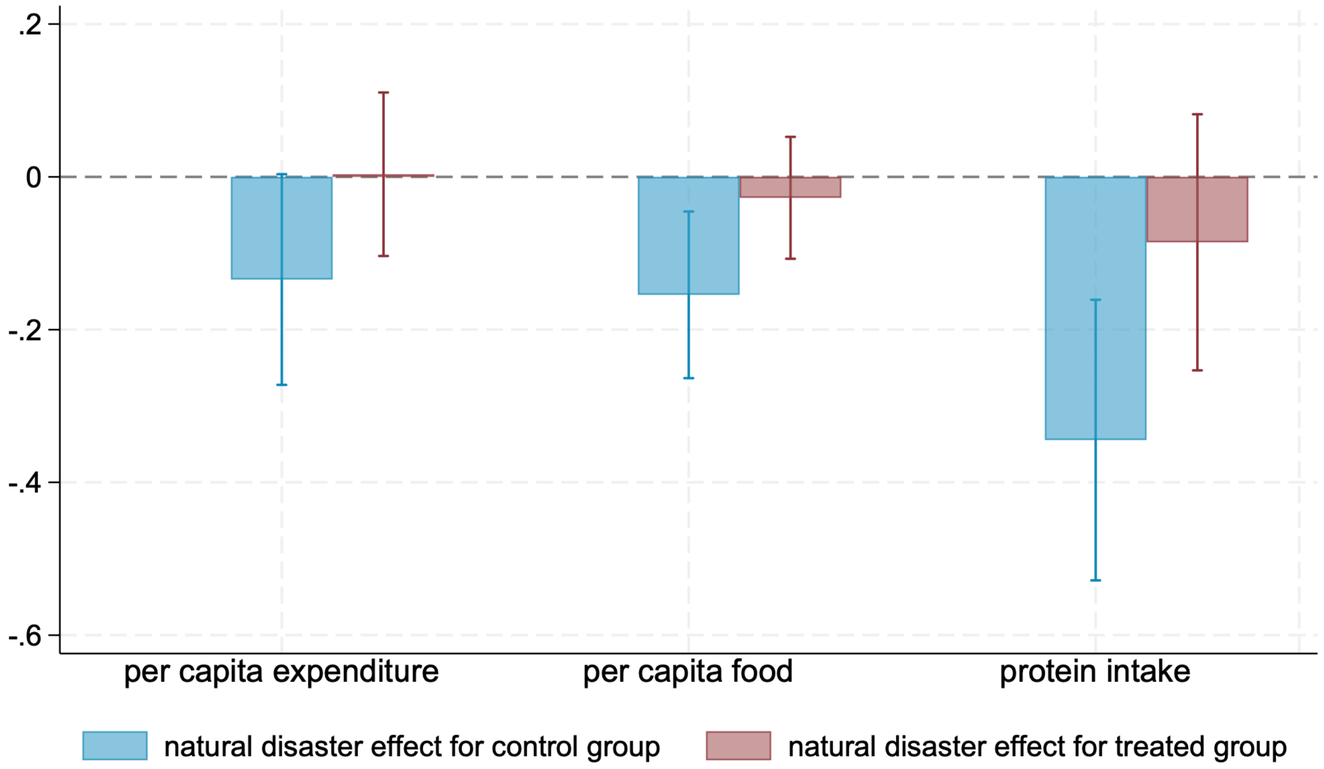
In control villages nothing changes

UPG reduces vulnerability to climate shocks

Assets results



Household welfare results



Top 10% land share

	Below Median	*Above Median*
	(2)	(3)
Unpredictable Shock (γ^U)	-0.000	-0.526***
	(0.270)	(0.159)
Treated × Unpredictable Shock (δ^U)	-0.114	0.562***
	(0.181)	(0.110)
Baseline Risk (γ^B)	0.079	-0.311***
	(0.183)	(0.097)
Treated × Baseline Risk (δ^B)	0.148	0.488***
	(0.172)	(0.092)
Treated (β)	0.110***	0.161***
	(0.035)	(0.052)
Mean Baseline Control	13671.1	16821.8
Number of obs.	443	444
Adjusted R-square	0.251	0.169

Monopsonistic employers pass through weather shocks to workers in villages where these have no alternative source of employment

Top 10% land share

	Below Median	*Above Median*	*Below Median*	*Above Median*
	(2)	(3)	(4)	(5)
Unpredictable Shock (γ^U)	-0.000	-0.526***		
	(0.270)	(0.159)		
Treated × Unpredictable Shock (δ^U)	-0.114	0.562***		
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Monopsonistic employers *do not* pass through weather shocks to workers in villages where UPG enables self employment as an alternative

In conclusion

Enabling poor people to reach their potential is both equitable and efficient

Two key mechanisms:

- direct (skills, placement etc)
- indirect through outside option

The indirect mechanism is harder to detect but potentially very powerful