

## **“The Millennium Development Goals and the Struggle against Poverty Traps”**

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### 1. Introduction.

The agreement of the MDGs has been justly hailed as an important milestone. Not only the UN but all its associated organizations including the World Bank, member states, and a broad swath of civil society actors have rallied around them. The MDGs are probably the most important UN goals ever promulgated. We are not far off track from achieving the target of halving \$1 per day poverty at the global, aggregate level, though some commentators have noted that this MDG target was too modest, not representing a real acceleration over historical trends. In fact where the strongest progress has been achieved, the MDGs themselves have played relatively little role. Private sector led growth abetted by government has been the engine in Asia, lifting many of the poor with the benefits of steady employment. Where progress is most needed, in Africa and other low income regions, mobilization to achieve the MDGs has so far seemed to have modest impact.

One challenge in identifying progress in eradicating poverty and hunger lies in the way some of the goals have been defined. The target of \$1 per day focuses attention on those nearest the poverty line, who face the least difficulties getting past it. Plausibly, an extra penny for someone making 50 cents a day is worth five times as much as an extra penny to someone making 90 cents, and this indeed is the logic of the widely used FGT squared poverty gap measure of poverty depth. Although \$1 PPP is extreme poverty by any reckoning, contrary to appearances and public perception the targets are thereby not addressed to the poorest of the poor, the 300-400 million people living in chronic, ultra-poverty. Halving global poverty could be achieved along with most of the other MDG targets without any improvement in the lives of our most deprived global citizens. On the other hand, the chronically poor are making progress in some unexpected places in the world such as Northwest Bangladesh and Southwest Uganda, but the gains of those who have not crossed the \$1 a day line are not counted towards achieving the goals.

Even so, in all too many cases, the chronically extreme poor are not making progress or even face deterioration in their natural environment, their health, and opportunities to earn income. A family living on under a dollar a day per person is often in chronic poverty, afflicted by one or more family poverty traps. Poverty traps are sometimes invoked at the national level to describe problems with igniting and sustaining economic growth. While it is disputed whether many national economies are in poverty traps per se it is clear that many individuals, families, villages, and local regions are caught in poverty traps and are in need of some outside intervention to help to break these traps. To make meaningful progress on the MDG targets, in their spirit as well as their letter, in many parts of the world we will have to correctly diagnose and address local poverty traps.

## 2. Poverty traps and the MDGs.

MDG 1 addresses hunger: If an undernourished person is too weak to work productively, her income is too small to pay for sufficient food, so she continues to work with low productivity for low income - an undernutrition trap. Some 800 million people still live in chronic hunger. MDG 1 also addresses extreme income poverty. The poorest tend to be rural. Although specialization can be the key to increasing productivity the poor often remain in subsistence agriculture, or something close to it, because of poverty traps. For example, if everyone in your region is practicing subsistence agriculture, there is no one to sell to, and you have to remain producing for subsistence with perhaps a little trading on the side. The alternative is to produce for more distant markets. But to do so, you must first know of them, must somehow get your product to these markets, and indeed must convince distant buyers of its quality. Middlemen play a role by vouching for the quality of the products they sell. They are able to do this because they get to know the farmers and artisans they buy from and they specialize in the product. It is difficult to be an expert in the quality of many products, so there needs to be a sufficient number of concentrated producers with whom a middleman can effectively work. But without available middlemen that the farmers can sell to, they will have little incentive to specialize in the first place. An underdevelopment trap can result in which a region remains stuck in subsistence agriculture. By providing access to existing markets and building missing markets we help to achieve the MDGs. [References on the various forms of poverty traps and other data and perspectives described here are found in *Ending Global Poverty, A Guide to What Works.*]

MDG 2 addresses universal schooling: In family child labor traps, if parents are too unhealthy and unskilled to support their family, the children have to work. But if children work, they may not get the education they need--so when they grow up, they have to send their own children to work, a key mechanism in the intergenerational transmission of poverty. Moreover, if most children work, the supply of unskilled labor is high, so wages are low; and parents cannot afford to take their children out of the workforce. Almost 100 million primary age children are still not in school. In a dozen or more African countries a child is more likely to die before age five than attend secondary school. Moreover, international support for achieving not just primary but secondary education for both girls and boys can help break other poverty traps. Poverty reduction is held back by the lack of investment in low income areas that could help to provide regular employment that is so often the decisive step out of poverty, as seen in China. If there is no employer in the region who is seeking skilled workers for, as an example, basic manufacturing jobs, then there is no visible incentive for individuals to invest in attaining these skills such as secondary education. But if there is no workforce available with these skills, outside investors are not likely to invest in the region. Why do so, when you can go to other developing regions where these skills are readily available? Governments can help with training and incentives for firms if they have resources--but when they lack resources, this may be difficult or impossible to resolve from within the trapped economy. Outside support for internally run education still needs to be increased.

MDG 3 addresses gender equality and the empowerment of women. The condition of powerlessness is a trap. In parts of the world where it is said “marry for labor not for love,” where women have no influence on financial or major decisions, where early and forced marriage into polygyny is tolerated, where girls’ education is not valued, the first and most binding poverty trap is found within the home. Empowerment can also help address mental health poverty traps. Depression and anxiety are widespread among poor women in developing countries--not surprisingly, they are in part the consequence of poverty and its associated powerlessness and emotional stress. Many poor people are deeply ashamed of their poverty. They commonly have to endure daily humiliation for their circumstances. The inability to provide adequately for their children creates chronic feelings of hopelessness and anguish. Compounding this, poor women face domestic violence and abuse, along with a lack of personal identity, factors contributing to the much higher incidence of depression in women than men in countries such as India. Then, a poor person can become listless, exhausted, and unable to take initiative. In a real sense, depression and anxiety are inflicted on the poor deliberately, for the powerful sometimes abuse and terrorize the poor to keep them from gaining bargaining power. Of course, empowerment cannot stop at the front door. As Nobel Laureate Mohammad Yunus has said, “The poor remain in poverty not because they want to, but because of the many barriers deliberately built around them by those who benefit from their poverty.” An effective way out of these traps is women’s empowerment, the broader meaning of MDG 3.

MDG 4 is to reduce child mortality. The MDGs are interconnected because poverty traps tend to be interlocking. The evidence is clear that empowering and educating mothers leads to better health for their children. Getting children into school is associated with lower child mortality. Breaking health traps in which parents’ poor health leads to low incomes and low ability to purchase medicines and health care can also help prevent their children’s deaths. Poverty in Africa remains an emergency. In some countries (such as Angola, Congo, Liberia, Mali, Niger, and Sierra Leone), more than one-fifth of all children die before age 5 from preventable causes. The average under-5 mortality rate for low income countries as a group is about 120 per 1000 births.

MDG 5 addresses improvements in maternal health. A quarter million African women die each year from complications of pregnancy and childbirth. A lower birth rate could reduce maternal deaths, partly because it would provide more resources for prenatal care. But high fertility is itself a trap. If everyone around you is having many children, and there are few decent jobs to go around, then you too must have many children, or face the likelihood that no one--no child of yours--will have the means and the willingness to take care of you when you are too old to work. If all could have lower fertility, all might be better off. But reducing fertility norms is a collective action problem. Availability of affordable contraceptives also remains an important problem for the poor.

MDG 6 is to combat HIV/AIDS, malaria and other diseases. A vicious cycle can keep malaria-stricken and other chronically ill (but treatable) people in poverty: productivity is too low to pay for medicines that can raise productivity. Africa suffers from poor health including TB and parasites. Millions of children are struggling with daily hunger, living

in squalor, and drinking unsafe water, making progress against disease difficult. Part of the problem is environmental poverty traps.

MDG 7 addresses environmental sustainability, which requires working at three levels. Rich countries will need to face up to global warming and other global problems such as the destruction of ocean ecosystems. The science says global warming is likely to most affect sub-Saharan Africa and South Asia. The anecdotes seem to foreshadow this. I'm sure many here have shared my harrowing experience of having villagers tell you, simply and without trying to make a political point, "the seasons seem to be changing." Besides droughts, the rains are more often "coming at the wrong times," we hear. Environmental collapse threatens to undermine the progress that has been made against extreme poverty. National governments in developing countries need to do their part. But at a local level, poverty traps associated with environmental degradation need to be addressed directly. In farm erosion traps, the poor are so desperate for food that they have to overuse their land even though they know the results will be reduced soil fertility and productivity in the future. In the end, any gains in productivity from learning new techniques are undermined by the poorer quality of soil. Lowered environmental risks would allow poor farmers to take "favorable bet" business risks that could help pull them out of poverty; rainfall insurance, for example, might help farmers to appropriately specialize. In common property mismanagement traps, lakes are overfished, forests are not managed sustainably, land is overgrazed. Part of the problem is that community management of common resources has often broken down. Once broken down, responsible use of shared resources is difficult to restore, though many NGOs and CBOs have made remarkable progress in assisting villages to regain control over and effectively to regulate the use of their vital natural resources. These programs need continued outside support. Restoring the environment is a long-term effort that cannot be achieved with short-term funding.

MDG 8 addresses partnership. True partnerships are in it for the long term, not a short funding cycle. As environmental collapse is looming as the biggest obstacle to ending global poverty, partnership on environmental protection must receive the highest priority. Of almost equal importance is commitment to good governance. The economics literature on good institutions stresses property rights but also features almost as prominently broad equality of access to opportunities as well as constraints on elites particularly executives. Global partnership can help address national and subregional poverty traps with provision of better infrastructure in least developed countries with special needs such as subsistence traps, overcoming debt traps with more timely cancellation, addressing criminality traps with investments to expand decent and productive work for youth, and addressing health with improved access to more affordable essential drugs. Poverty traps can be attacked by cutting the official debt while increasing the level of well-targeted aid, and by cutting the barriers to African and other LIC exports, including not only tariffs and nontariff barriers to exports but also pernicious distorting subsidies that undercut the livelihoods of the poor, such as US support for domestic sugar and cotton production.

### 3. Standing on Three Legs of the Stool: A Platform for Achieving the MDGs.

Successful development and poverty reduction rest on a three legged stool: government, private sector, and civil society. Government is needed to supply public goods, provide the institutional framework and balance competing interests as a representative of all citizens. The private sector is vital in providing private goods and services and lowering costs, and can help reduce poverty through bottom-up market development. Growth of markets and provision of social services and public goods including advocacy for the poor and the MDGs is facilitated by a vibrant citizen sector. A successful big push doesn't have to be a purely statist enterprise. Rather, it can involve providing resources and incentives for public, private, and citizen sectors to develop and work in complement with each other. [References and examples on the comparative advantages of NGOs and civil society more broadly in relation to public and private sectors can be found in *NGOs and the Millennium Development Goals: Citizen Action to Reduce Poverty*, J. Brinkerhoff, S. Smith and H. Teegen, co-editors.]

There appears to have been a shift in rhetoric and funding towards development support for government rather than civil society. [Generally, governments do have increased capacity, and are now less corrupt, more democratic, and more competent, than their predecessors. And as stressed by the Africa Commission, creating separate agencies to absorb funds from donors who don't trust the main government departments has had destructive effects, by luring away the best officials, diverting the time of top officials, and creating an ever more cumbersome bureaucracy. But this argument can also be taken too far. Progress in government capacity has not been even.] One of the major reasons for the trend toward direct government budget support is probably that it is easier and more convenient for donors to give a lot of money to a government that can absorb it than to small projects, regardless of whether the government is spending in a way to make the biggest impact on the MDGs. Support for the citizen sector and other local initiatives can be effective primarily through training, capacity building, and technical assistance.

Whatever the growth environment, the very poor benefit from basic capabilities and assets: health, nutrition, education, access to markets, technology, credit, a stable local ecology, and personal and community empowerment. The front line of the battle to end extreme poverty is to build capabilities and assets of impoverished people, even as we help improve their opportunities to use them. Aid could have more impact on extreme poverty if it incorporated the perspective that helping people and local communities helps their countries to get stronger and their economies to grow. The aid strategy of helping governments and the private sector alone and hoping the result will be to help the poor is indirect and uncertain.

The citizen sector is well suited for addressing poverty traps. Neither government nor private sectors have adequately reached those caught in poverty traps in which vicious cycles reinforce conditions of poverty. NGOs can provide escape routes from poverty traps by utilizing organizational comparative advantage in innovation, program flexibility, specialized knowledge, targeted public goods, common property management, trust and credibility, and advocacy. They have demonstrated this through innovative and effective

strategies and programs in Africa and other low-income areas. Some common features of innovative citizen sector programs are: they make the voices of poor and excluded ring louder, involve large numbers of paraprofessionals, leverage overlooked assets of the poor, identify niche products, find and attack local constraints that prevent children from staying healthy and going to school, and evaluate their programs boldly – with one benefit being that innovations emerge in absorbing lessons.

The best developing-country based NGO programs like those of BRAC in Bangladesh work in villages for the long term. But we regularly hear from NGOs and CBOs doing effective work that they were just beginning to make substantial progress when their funding was cut off. Sustainable forestry and reforestation programs, for example, may require 15 years or more before the payoff is realized. To cease the program after 3 to 5 years on the grounds that it is or ought by now prove to be sustainable makes no sense. NGOs are under enormous pressure from USAID and most other international funders to demonstrate that their programs are “financially sustainable.” If they cannot demonstrate this, they may not get more funding. The pressure is to declare programs sustainable, so they can be gotten off the books and thereby miraculously found to have been sustainable. The incentives are wrong and the short term funding limitations and financial sustainability fetishism ensures that money will be wasted rather than saved. More broadly, social programs do not necessarily become sustainable quickly any more than African governments were going to be able to repay their foreign debt burdens if they just tacked on enough “user fees” on needed services like education and health. [For example see Michael Kremer and Edward Miguel, “The Illusion of Sustainability.”]

This does not mean throwing money at community organizations that have involvement by the poor; sometimes money for organizations will attract the rich to take them over. [See Mary Kay Gugerty and Michael Kremer, “The Rockefeller Effect.”] Rather it means training for organizations of the poor and providing grants to specific programs run by these or other organizations that pass reasonable criteria, including ongoing work for the empowerment of the poor.

Most of the program examples in *Ending Global Poverty* are run by NGOs, but there are also many effective programs run in the public sector. One of the most important examples helpful in achieving several of the poverty goals in an integrated manner are conditional cash transfer programs. The poor are given cash grants to alleviate short run poverty conditional on behaviors that help end long term poverty, particularly taking their children to health clinics, providing them with nutrition supplements, and ensuring that they attend school regularly. [I profiled the Mexican program Progreso/Oportunidades in the book. But they have been implemented successfully in many Latin American countries.] The apparent successes of these programs in Latin America make it likely that they would be effective in sub-Saharan Africa. But the resources available to these countries are not nearly as great as those available in Latin America. Assistance with introducing and expanding such programs in a growing number of sub-Saharan countries would be an obvious, constructive way to build on the MDG partnerships, where governments can adapt them in ways that will make them more feasible. For example, disbursements can be made at health clinics and schools in the areas where the poor live

in regions where bank outlets are less available for disbursing payments [this idea was suggested by Shahe Emran]. This strategy could make getting the funds more widely accessible and less intimidating, and reinforce the conditionality of the payments on the education and health actions. The message of disbursing the funds where the action is supposed to take place would be unmistakable. The clinics and schools have better records concerning whether the conditions have been met. And the connections between the several poverty, health, and education targets are underlined. (This approach could be helpful in some poorer rural regions of Latin America as well.) Facilitating the spread from middle income countries to low income countries of conditional cash transfer programs (and other effective programs used in middle income countries), is one way to use the lessons of what works for poverty alleviation to help meet the MDGs.

To provide broader opportunities for the poor, we also need to focus on the national framework for sustainable growth and development. Successful sustained growth and development usually involves a unique, local response to local constraints that outsiders are not in a good position to understand. Local development strategies can be worked out with foreign advice--but they must be locally owned in fact as well as in name, and carried out on local terms. To benefit those living in extremely poor countries the old approach of seeking to influence elites to follow the currently popular theories of the moment will have to be discarded in favor of strategies for helping to provide the keys to capability at the community level, and assisting, not insisting, on particular policies.

Ending poverty is a fundamentally “bottom-up” process but it does greatly benefit from a “top-down” framework to get the most out of our local investments. Indeed, much can be done at the local level to reduce extreme poverty even when good institutions and macro conditions are not in place. But local empowerment and investments in capabilities and assets of the poor can gain leverage from a policy (“top-down”) framework that provides better opportunities for the poor to take advantage of freedom from local poverty traps. The approach of improving government and market performance and providing needed public goods is very important for facilitating growth that can eventually lift the poor, but much can be done at the local level even when these conditions are not in place.

4. Concluding Comments. There has been encouraging progress in Africa. Growth has returned. School enrolments are up and child mortality is down in countries such as Ethiopia, Mozambique, Madagascar, Mali, Malawi, Niger and Nigeria. River blindness has been virtually halted in West Africa; Guinea worm has been largely brought under control [See Ruth Levine, “Millions Saved: Proven Successes in Global Health.”]. A growing number of African countries are eligible for 100% debt cancellation under the G8 initiative. Since 2000 growth has turned positive after two decades of declines. Export growth in clothing, vegetables and cut flowers show that Africa can successfully diversify. Unheralded, democracy is spreading in Africa, with more than two-thirds having multi-party elections in recent years. The number of conflicts is declining. The investment climate is improving and investment inflows are increasing. The New Partnership for Africa’s Development program of peer review of the quality of policies and governance is a unique and promising initiative. The constructive reconciliation and development in Rwanda is impressive. In Uganda and elsewhere in Africa, the pioneering

Bangladeshi NGO BRAC is now working to transfer its successful model. It is a very promising venture. Provided that we can diagnose poverty traps and respond with effective actions, there have never been greater reasons for optimism that we can end global poverty.