Chapter VIII
Poverty reduction programmes

As poverty levels remained stagnant or increased despite economic growth, it became clear that growth by itself does not reduce poverty, and macroeconomic recovery does not necessarily translate into significant social improvement. This has forced Governments and multilateral lending institutions to create or support programmes for combating poverty.

A menu of poverty reduction programmes can now be found in most developing countries. They include such instruments as conditional cash transfers, microfinance and rural employment guarantee schemes catering to workers outside the formal economy. The present chapter assesses some currently popular programmes aimed ostensibly at poverty reduction.

Microfinance

Developing countries are generally marked by low levels of financial intermediation. The fact that, as a rule, commercial banks find it unprofitable to operate in remote rural areas has resulted in absence of a formal market for lending and borrowing. Even where there are commercial banks, people living in poverty are disadvantaged owing to their lack of assets needed for collateral and good credit histories. Therefore, the poor and those living in remote areas are forced to borrow from moneylenders who charge usurious interest rates. The microcredit movement has sought to address the credit needs of people living in poverty.[1]

The 2006 Global Microcredit Summit (Halifax, Nova Scotia) pledged to provide microfinance to 175 million poor households by 2015. Governments and development agencies support the expansion of microfinance institutions which often specifically target women, who account for the vast majority of clients. Traditional networks and peer reviews ensure creditworthiness and loans are secured through joint liability. There are a range of models for microfinance institutions including non-governmental organizations, credit unions, cooperatives, banks and non-bank financial institutions and Government organizations. In some cases, the institutional forms are hard to distinguish from government banks operating microfinance services in collaboration with non-governmental organizations or credit cooperatives.

There is a growing body of literature on microfinance and its impact on poverty (see Chowdhury, 2009, for a brief survey). However, there are con-

1 The terms “microfinance” and “microcredit” are used interchangeably here. However, in the literature, the term “microfinance” is employed in a broader sense to cover other financial services such as microsavings services and micro-insurance.

siderable difficulties in generalizing from the findings of these studies owing to the different methodologies used, problems in disentangling the effects of microfinance from other effects on incomes, and the variety of institutional structures involved. A recent survey (Center for Global Development, 2007) summarized these difficulties as follows:

> There are many stories of the transformative effect of microfinance on individual borrowers but until *recently*, there has been surprisingly little *rigorous* research that attempts to isolate the impact of microfinance from other factors, or to identify how different approaches to microfinance change outcomes (italics added).

In terms of poverty reduction, two key questions have been raised: first, to what extent has microfinance made a lasting difference in bringing households out of poverty on a permanent basis? second, to what extent do microfinance programmes reach the "core poor" and not just the better off among the poor?

The most cited sources on the impact of microfinance on poverty are the studies edited by Hulme and Mosley (1996). They found that poor households do not benefit from microfinance: it is only non-poor borrowers who do well with microfinance and enjoy significant positive impacts. More troubling is the finding that a vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting microloans, compared with a control group whose members did not obtain such loans. Another study (Khandker, 2005)—sponsored by the World Bank—involving 1,800 households in Bangladesh, found only very marginal improvements for microcredit borrowers. For example, the incomes of women who had received microcredit increased by only 8 taka for each 100 borrowed. Commenting on this finding, Roodman and Qureshi (2006, p. 38) noted: "Thus a $250 one-year loan would raise a borrower's income by $12.50-per-year, or about $0.03-per-day. For someone living on $2-per-day, that is a 1.5 per cent increase. This does not live up to the microfinance hype."[2]

Credit is only one factor involved in opening and operating a business. Other complementary factors—most importantly a recipient's entrepreneurial skills—are crucial for making credit more productive. Most poor people do not have the basic education or experience to understand and conduct even low-level business activities. They are mostly risk-averse, often fearful of losing what little they have.[3]

Critics note as well that for microenterprises to be successful they also need other complementary services, such as access to decent roads and affordable means for moving their products to markets as well as marketing support in order to reach customers (see Pollin, 2007). Finally, there is the nagging

2 Roughly 81 per cent of the population of Bangladesh live below the $2-a-day poverty line. The corresponding shares in Pakistan and Sri Lanka are about 70 and 40 per cent.

3 This does not mean, however, that they do not want to better themselves.

issue of very high interest rates charged by most microcredit institutions; for example, it was found that 350 leading microfinance institutions charged between 20 and 40 per cent per year, after taking inflation into account (Morduch, 2008).

Seasoned advocates of microfinance agree that microfinance alone cannot eradicate poverty. For example, the Director of the Microcredit Summit Campaign has written:

> Microfinance is not the solution to global poverty, but neither is health, or education, or economic growth. There is no one single solution to global poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerful tool (Daley-Harris, Pollin and Montgomery, 2007, p. 1).

In the words of microcredit pioneer and Nobel Laureate Professor Mohammed Yunus (2003, p. 171):

> Microcredit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. *Combined with other innovative programmes* that unleash people's potential, microcredit is an essential tool in our search for a poverty-free world (italics added).

Thus, there is broad agreement about the need to complement microfinance in order to reduce poverty. Some microfinance institutions and non-governmental organizations are therefore also offering training designed to build management and entrepreneurial skills. Non-governmental organizations such as BRAC in Bangladesh provide basic education in rural areas using innovative methods. These are all potentially positive developments for poverty reduction efforts.

Finally, microcredit-financed enterprises can best prosper in an expanding economy. The potential for increased productivity will remain mostly unrealized in the absence of demand-side factors. In other words, without a supportive macroeconomic, trade and industry policy framework, microenterprises will remain very small, with few backward or forward linkages or employment-creation possibilities.

There is, however, a growing consensus that microfinance can help people living in poverty maintain their consumption level over periods of cyclical downturns or unexpected crises. This positive role of microfinance should not be dismissed altogether. If consumption or expenditure smoothing means that parents can send their children to school, or buy essential medications, and maintain the nutritional intake of their children, then microfinance is likely to have positive long-term impacts on productivity and hence on poverty.

Microfinance thus fulfils an important safety-net task, especially in countries where there is no State-sponsored social security system. During an economy-wide crisis, people living in poverty are often forced to borrow from moneylenders or the employer/landlord for whom they work. If microfinance institutions extend lending to the very poor in these circumstances then they can help break the power and hold of moneylenders and landlords. Unfortunately, however, most microfinance institutions have been found wanting when it comes to lending to the very poor. Nonetheless, it seems that microfinance has made a significant dent in the informal usurious credit markets by undermining usury and debt bondage in some agrarian societies. Thus, microfinance is having a modernizing impact, even if that impact is inadvertent, unacknowledged and unsung.

There is also the learning-by-doing effect. The borrowers learn some basic principles of business, and with luck—and perhaps some help—may be able to become more viable and even expand. Microfinance also gives the unemployed and people living in poverty some opportunities, hope and self-esteem.

In promoting microfinance, policymakers must not ignore the needs of microenterprises in the informal economy. The owner-operators of these microenterprises have already proved their entrepreneurial acumen, but face numerous constraints ranging from inability to access the formal credit market to difficulties in marketing their products. These enterprises should be supported with easy access to credit and other financial services (for example, insurance).

Recognizing this, the United Nations (2006, p. 6) has advanced the idea of "inclusive" finance as an integral part of financial sector development:

> There needs to be a continuum of financial services available to households as they increase their standards of living and for enterprises as they grow into the business mainstream. This is a critical issue for the development of financial sectors. It involves adequate financial services for small and medium-sized enterprises (SMEs) often called the "missing middle", as well as the smallest microentrepreneurs.

Small and medium-sized enterprises have been disadvantaged by financial sector reforms during the past three decades, which have promoted profitable financial institutions by eliminating specialized State-run financial institutions, which catered to the needs of small and medium-sized enterprises and the agricultural sector. As the United Nations (ibid., p. 7) notes: "Mainstream for-profit financial institutions have largely ignored the lower segment of the market. This includes SMEs, microentrepreneurs … Instead, these mainstream institutions have sought mainly high-value clients." These high-value clients usually reside in urban areas, while the majority of poor people live in rural areas in developing countries.

Conditional cash transfers

Conditional cash transfers (CCTs) have recently become a widely used means of addressing aspects of poverty in developing countries. Conditional cash transfers are cash grants provided to poor and disadvantaged people on condition that they make specific commitments, such as sending their children to school and having regular health check-ups. These transfers are therefore often designed as a mix of cash transfers and service provision, emphasizing strong linkages with the labour market and intra-household responsibilities.

In the developing world, conditional cash transfers were first introduced in a few countries in Latin America and South Asia but are now becoming increasingly widespread. An early, iconic conditional cash transfer scheme, Progresa, in Mexico, began in 1997 with 300,000 households and its successor, Oportunidades, now reaches 5 million households. In Brazil, the Bolsa Familia programme began in the mid-1990s as an experiment in two municipalities and currently covers 11 million families. In Colombia, the initial target of the Familias programme had been 400,000 families, but it had expanded to cover 1.5 million households by 2007. Smaller programmes in poorer countries such as Kenya and Bangladesh cover a few thousand families (World Bank, 2009a).

Conditional cash transfers account for varying proportions of mean household consumption, ranging from 20 per cent in Mexico to 4 per cent in Honduras (World Bank, 2009a). Evaluations also show that conditional cash transfers improve outcomes related to health, nutrition and education. The impact of Progresa on education enrolment in Mexico has been significant (de Brauw and Hoddinott, 2008). Even the short-lived Red de Protección Social (RPS) in Nicaragua, in operation between 2000 and 2006, directed funds to female household heads, significantly improving school enrolment and other education indicators, and reduced stunting by an impressive five percentage points in programme communities (Maluccio and Flores, 2005). Evaluations of the cash-for-relief programme in Ethiopia, used to address crop failures, found cash grants were used to pay off debts, restore land productivity and help regenerate livelihoods (Standing, 2007).

As many evaluations have shown that conditional cash transfers increase school enrolment, the issue of whether they also reduce child labour is highly pertinent. This would be expected and, indeed, the experience of several programmes supports such an assumption. For example, Brazil's Child Labour Eradication Programme (PETI), which targets working children and insists that a child stop working in order for the household to receive benefits, has successfully achieved its objectives. In contrast, the incentive provided by a cash transfer from Paraguay's Tekoporã programme was not sufficient to reduce child labour and could even have stimulated it indirectly (Vera Soares, Perez Ribas and Hirata, 2008). A possible reason for this seemingly paradoxical result is that when household income (in this case, the mother's income) increases, children may opt out of school to take on paid work. Household utility may be further enhanced by the fact that children take on paid work.[4]

4 Some recent evaluations of conditional cash transfers (for example, that of Teixera (2008) on Brazil's conditional cash transfer programme Bolsa Familia) have examined their

Should cash transfers be conditional?

A contentious issue relating to conditional cash transfers is that of the desirability of imposing conditions. Conditioning transfers is supposed to induce desirable changes in behaviour. Conditioning can also work to overcome information asymmetries. For instance, Governments may need to better understand the benefits of immunization, and a conditional cash transfer programme that conditions immunization can overcome this information asymmetry. Besides enhancing the public interest, conditionalities may also strengthen the bargaining position of women, whose preferences may be better aligned with the Government's, but who may lack bargaining power within the household. Conditions also help make the transfers more acceptable to the average taxpayer (de Brauw and Hoddinott, 2008).

However, there is a significant cost in monitoring behaviour and many developing countries lack the administrative capacity to monitor adequately. Conditionality can also create opportunities for corruption, as individuals responsible for certifying that conditions have been met could demand bribes for doing so. Furthermore, some poor families may find it difficult to meet conditions owing to the lack of easily accessible health services or schools and may suffer serious consumption losses if excluded from conditional cash transfer programmes. Conditional cash transfers generally target only households with school-age children, which means that all impoverished households without school-age children will be excluded.

Progresa in Mexico was apparently quite effective in reaching very poor households in very poor areas, but less effective in reaching the "moderately poor" (Skoufias, 2001). In both Nicaragua and Mexico, about 20 per cent of beneficiaries were not poor (Coady, Grosh and Hoddinnott, 2004). In Bangladesh, where targeting has been much weaker, about 40 per cent of beneficiaries were found to be not poor (Standing, 2008b). Another study found that covering all rural children, rather than targeting all identifiably poor children, would have had a greater poverty reduction impact with only a marginal increase in expenditure (Kakwani, Soares and Son, 2005).

More importantly, conditioning transfers is often based on the assumption that illiteracy, child labour or poor health outcomes are the result of irrational behaviour engaged in by the poor or of their incapacity to understand their

incentive effects on labour supply, and found that cash transfers induced a reduction in labour hours supplied. One problem with this kind of study is that it ignores the price effects of transfers. Cash transfers essentially reduce the cost of obtaining services, and thus should lead to higher demand (for example, for children's education) or usage of social services (for example, health-care centres). Therefore, the net effect of cash transfers should depend on the relative size of the price and income effects. More importantly, such findings of adverse incentive effects (or negative income effects) on labour supply imply that the poor are poor either because they are "lazy" (in other words, they prefer more leisure), or because their expectations are "low" (in other words, they work for a low minimum target income).

own best interests—a moot assumption which can be challenged on many grounds. This becomes tantamount to blaming the victims for their condition, is demeaning to the poor, and hence is likely to be resented (Standing, 2007).

In the context of the ideology on which such an assumption is based, poverty becomes rooted in individual pathologies, rather than posited as having structural causes. The responsibility for poverty is thus placed squarely on the shoulders of the person who is poor (Handa and Davis, 2006; Schubert and Slater, 2006). Blaming the victim allows the potential role of the State in poverty alleviation to be reduced. Within this ideology, social assistance schemes should be well targeted in order to reduce social security expenditure (Quinn and Magill, 1994). In contrast, universal social protection programs seek to support individuals positively with significant State financial commitments (Organization for Economic Cooperation and Development, 2003).

Conditional cash transfers or job creation?

Would resources allocated to conditional cash transfers have a greater impact on poverty if used for job creation programmes? While there is insufficient empirical evidence to conclusively settle this question, several points are noteworthy. First, the effects of job creation programmes and conditional cash transfers often vary with location. In rural areas, where families tend to have a larger number of children, conditional cash transfers could be more effective in increasing household incomes. By contrast, in urban areas, where vulnerable groups such as new migrants cannot find secure employment, job creation projects may have sustained effects on poverty reduction. A simulation study for Kenya (Zepeda, 2007)—which compared the potential poverty reducing effects of conditional cash transfers with those of job creation programmes—found that the latter would have a greater impact on the poorest income deciles in urban areas. Second, rural work is also often seasonal and unstable, and stable job creation programmes could be important in poverty reduction. In India, under the National Rural Employment Guarantee Act, the Government guarantees at least 100 days of employment per year to poor rural workers. Finally, in both rural and urban areas, if job creation programmes are tied to improving economic and social infrastructure such as building schools and hospitals, they could have strong multiplier effects on poverty reduction.[5]

Unconditional and universal transfers

Given some of the problems associated with conditionality and targeting, the question whether direct cash grants to people living in poverty should be universal and/or unconditional has been raised. Unconditional cash grants

5 For a comprehensive evaluation of various job guarantee schemes in developing countries, see Wray (2007).

are increasingly being offered to limit acute poverty and hardship in emergency situations. These programmes are typically implemented together with material-based (in kind) aid, such as food aid, but go beyond the immediate consumption goals of commodity transfers to aim at enhancing livelihoods and longer-term incomes. The cash-for-relief programme in Ethiopia, in response to insufficient rainfall in 2002 and 2003, provided small cash grants over a period of three to six months directly to the most vulnerable households. Evaluations of this project found that the cash grants were successful in regenerating the livelihoods of people living in affected communities; the grants had been used not only for consumption, but also for reducing debts and improving land productivity. The programme also restored basic infrastructure, thereby ensuring the sustainability of the affected communities (Brandstetter, 2004). Similarly, the emergency cash relief programme implemented in north-eastern Somalia in 2003-2004 ensured rapid economic recovery for vulnerable households (Standing, 2007). Another successful example is the pilot Kalomo social cash transfer scheme initiated in two districts by the Government of Zambia. The programme provided an unconditional and regular cash transfer, enabling beneficiaries to develop a sense of autonomy in respect of how to spend the money.

In case of emergency, it is possible to institute universal cash transfer schemes such as a basic income grant with no conditions. Critics of such programmes argue that a basic income grant reduces total employment in an economy by reducing labour supply and the willingness to work by raising the acceptable wage floor. However, in developing countries, the availability of basic income grants may increase productivity and help smooth consumption. For example, income grants reduce the need for workers to send remittances to their families, thus increasing the wage available for their own consumption, or for skills upgrading. This, in turn, could increase productivity through better health and human resources outcomes. Higher productivity will increase overall output and labour demand. If a basic income grant is successful in boosting long-term growth, the fiscal burden of the transfer would be reduced. The issue of whether a basic income grant can serve as a key intervention for poverty reduction has been debated in the case of South Africa.

Supporters of targeted anti-poverty policies criticize calls for universal programmes, which they view as expensive and politically unrealistic. According to them, taxpayers will oppose financing universal programmes. They also argue that universal programmes provide the most benefits or services to the middle class or those with low incomes who are best prepared to improve themselves.

However, if the taxpayers are not willing to pay for universal social security programmes, then why should people just above the poverty line, struggling without benefit of health coverage, childcare or adequate unemployment insurance, pay for programmes that go exclusively to people below the poverty line? As a matter of fact, in developing countries, a large number of people—either on or just above the poverty line—remain highly vulnerable to shocks to the economy or to changes in personal circumstances. Some estimates identify as much as 80 per cent of the population as being vulnerable.

Within the framework of universal programmes, less privileged people can receive extra benefits without stigma—as "targeting within universalism". While targeted programmes can generate forces that undo their aims, social policies that deliver benefits across different social groups and income classes can generate broad political coalitions that sustain and protect those social policies.

Employment guarantee schemes

Public works programmes have developed into major policy instruments for employment creation in situations of high or chronic unemployment or in times of crises. These programmes aim to help people living in poverty by providing them with paid employment in rebuilding affected areas after a disaster or in creating needed infrastructure, which, in turn, enhances their welfare. The majority of these programmes are temporary, but a few offer employment guarantee schemes that secure some minimum employment on an ongoing basis. Some developing countries, including Argentina, China, Indonesia and the Republic of Korea, are devising public works programmes in response to the current crisis.[6]

These programmes have enhanced the incomes of participants, while maintaining, improving or creating valuable infrastructure. For instance, a study of the most famous scheme, the Maharashtra Employment Guarantee Scheme in India, found that participants earned four times their forgone income (Datt and Ravallion, 1994). However, few of the programmes provide sustainable employment opportunities. They often treat unemployment as a transient problem and are merely effective for the short term, following an emergency or an economic shock, but rarely stimulate job creation in the private sector or offer long-term solutions to unemployment or underemployment.

There is also little evidence of targeting the poorest. Often, the programmes are not located in regions with the highest rates of poverty or unemployment. An assessment of seven public works programmes in South Africa, for instance, found that some districts with very high poverty and unemployment had no labour-intensive public works projects, while other districts with low poverty rates had four or more projects (Adato and Haddad, 2001). This was not the result of political capture by powerful districts: in the example of South Africa, the allocation of projects was determined using presumably objective criteria; however, local authorities in richer communities had better means of, and more assistance in, preparing their applications.

Even the much talked about Maharashtra Scheme failed to attract those most in need (United Nations, 2007a). Some argue that these programmes

6 According to the World Bank (2009g), only one quarter of vulnerable developing countries are in a position to undertake significant counter-cyclical spending.

should set wages below the market wage rate, or even below the minimum wage, to ensure self-selection by the poorest (Subbarao, 2003). In practice, recruiting workers for programmes offering remuneration below the market wage has been challenging. In many cases, wages are raised during implementation of the programme through workers' collective bargaining (Adato and Haddad, 2001; Subbarao, 2003). Moreover, paying less than the minimum wage does not solve the problem of poverty, but simply swells the ranks of the working poor.

However, research at the International Labour Organization (ILO) (Wray, 2007) has shown that more universal and permanent employment guarantee schemes can be so designed as to sidestep the problems that beset existing temporary and targeted programmes. For example, a universal employment guarantee scheme can provide full-time work (and part-time work if desired) with no time limits and pay a uniform wage to all workers.[7] A minimum wage becomes effective only in combination with a job guarantee. Therefore, the wage paid by employment guarantee schemes can become the effective minimum or social wage. Further, the package of benefits offered sets a standard, which would normally be matched by other employers; this could include health care, childcare, sick leave, vacations and social security contributions.

Finally, such programmes could be added to existing social protection provisions to give workers who have lost their jobs more choices. Since formal sector white-collar workers are unlikely to benefit from employment guarantee schemes targeted for people living in poverty, especially in rural areas, State-owned enterprises can offer them temporary employment at a socially acceptable minimum wage. By joining the programme, these workers can maintain their self-esteem and skills, and avoid joining the ranks of the long-term unemployed. Thus, when the economy recovers, their access to better jobs becomes easier and the private sector has a pool of skilled workers ready for employment, without having to pay for retraining. The public sector benefits too, as workers bring in skills and experience from their earlier private sector jobs. This kind of programme for formal sector workers can be funded by levies (like unemployment insurance contributions) payable during boom times.[8]

Poverty reduction through property rights

There are strong links between poverty and lack of property, as people living in poverty not only lack income, but are also without the assets needed to generate income. Land is a critical asset, particularly for the rural poor, as it provides a means of livelihood, and the landless are often among the world's poorest.

7 According to the World Bank (2009g), only one quarter of vulnerable developing countries are in a position to undertake significant counter-cyclical spending.

8 Hyman Minsky (1965; 1966; 1986) articulated such a proposal in the mid-1960s and the mid-1980s.

In India, for example, over 30 per cent of the landless and near landless live in poverty, while in Bangladesh, they make up two thirds of people living in poverty (Meinzen-Dick, Kameri-Mbote and Markelova, 2007). There are also indications that landownership increases investment in the education of children and hence can help reduce intergenerational poverty.

In rural communities, landownership and land rights are associated with social standing in the community. The intra-household distribution of property rights is also important, as it typically discriminates against women. In many cases, women gain access to land only through the male members of the household, and they are vulnerable to eviction or loss of land in case of the man's death, divorce or disinheritance. Landownership by women, on the other hand, has contributed to their empowerment and to a decline in domestic violence (Panda and Agarwal, 2005; Bhatla, Chakraborty and Duvvury, 2006).

The links between poverty and lack of property often prompt calls for land reforms, with transfers from large landlords to the landless. Such land reform, however, requires commitment by the State to withstand resistance from powerful landed owners.

Land can also be used as collateral for loans for investment, or sold to raise capital for investment in an income generating activity. This has led to campaigns—popularized by Hernando de Soto—to grant a title to land to urban slum-dwellers who live on land not owned by them. According to de Soto, the world's poor are sitting on a huge amount of potential capital, but are hindered by bureaucracies. For example, in Haiti, individuals must take 176 bureaucratic steps over an average of 19 years to own land legally. Thus, de Soto (2000) has argued that assigning property rights would give people living in poverty access to credit, thereby ending the "capitalist apartheid" allegedly so prevalent in the developing world. A number of countries in Latin America and Africa have attempted, strongly aided by donors, to formalize land titles following de Soto's argument, despite the fact that de Soto has offered little real evidence that formalizing property titles actually leads to greater credit access and thus to poverty reduction in the developing world.

In Peru, where the Government and the Commission for Formalizing Informal Property, which de Soto helped create in 1996, formalized the property of millions of rural and urban people, poverty levels have actually increased over the past few years (Bourbeau, 2001). According to legal advocate Murtaza Jaffer (quoted in Bourbeau, 2001, pp. 78-79): "Efforts to convey individual titles to the poor in planned settlements have overestimated the ability of these 'owners' to find economic livelihood in the absence of additional support beyond allocation of land. The poor soon sell their interests, returning once more to unplanned settlements and despair."

In short, formalizing land titles suffers from impediments similar to those experienced along the microfinance route to poverty reduction. In the absence of an expanding economy, new landowners will not be able to expand their capabilities. They often lack the education and entrepreneurial skills needed to undertake business activities with borrowed money. They are risk-averse and more worried about failing and hence losing their asset (land) used as collateral. Poverty itself is a barrier to risk-taking and enterprise.

Furthermore, the campaign for formalizing land titles ignores the role of culture and tradition, and assumes that with the same rights to property, everyone will behave similarly in order to maximize utility or profit. However, not everyone shares the same belief system, as has now become clear from findings in the new field of behavioural economics. Many traditional societies regard savings as a virtue, and borrowing as a manifestation of distress to be avoided. In many Muslim countries, interest-based financing is being replaced by financing based on profit-loss sharing. In such a system, there is no need for collateral, as the financier becomes a co-owner of the business.

In many societies, there are other means of conferring property rights on people living in poverty involving a mixture of legal systems, including statutory law and customary mechanisms. In Africa, for example, over 90 per cent of the rural population access land through customary mechanisms. In addition to customary law, property rights are influenced by a range of other legal, cultural and normative frameworks, including religious laws and practices, international treaties, and development project regulations. Which of these frameworks are accepted and enforced depends on power and social relations among different claimants. These complexities have not always been recognized in programmes aimed at legally empowering the poor with land titles.

Statutory legal reforms should also take into account the secondary property rights held by various claimants, such as the right to collect water, firewood, fish or medicinal plants or grazing rights for their livestock. Loss of these rights could seriously erode livelihoods, especially those of the poorest (Frias, 2005; Wily, 2006). Many formal systems focus only on landownership, thus excluding these secondary claims. Accordingly, the poor and marginalized often depend more on customary or religious justifications for claiming their rights to resources. Well-intentioned programmes designed to formally clarify land rights for poor people may hurt their overall interests and thereby fail to reduce poverty.

Governance reforms and poverty reduction

Since the late 1990s, attention has also been given to governance reforms as a precondition for poverty reduction (see Van Arkadie, 2005, for a review thereof). This followed some influential research, especially in the World Bank, on the alleged link between corruption and economic performance. The governance reform agenda received added impetus following the Asian financial crisis, in whose creation, it was claimed, especially in the West, that "cronyism" had played a major role. The governance reform agenda has also promoted ostensibly "good"—understood mainly as market-friendly—policies to achieve its goal of ensuring aid effectiveness. Thus, the dominant "good governance" paradigm identifies a series of capabilities necessary for a market-friendly State. These include capabilities to protect stable property rights, enforce the rule of law, effectively implement anti-corruption policies and achieve government accountability. Many of these capabilities are clearly desirable as ends in themselves; but in the good governance framework, these capabilities are identified as preconditions for sustained growth, as they are supposed to ensure that markets will be efficient and less subject to market failures. It is therefore argued that good governance is a precondition for poverty reduction by ensuring sustained growth. Additionally, "pro-poor" good governance reforms are supposed to enhance the scale and efficiency of service delivery to people living in poverty.

However, neither theory nor evidence strongly supports the plausibility of the view that governance reform significantly reduces poverty (Khan, 2009). The stabilization of property rights, the rule of law and the significant reduction of corruption—that is, the achievement of good governance goals—require fiscal capabilities not available in most developing countries. As structural and fiscal constraints prevent significant improvements in governance capabilities, market failures are likely to remain significant, and are unlikely to be significantly reduced by governance reforms. Developing countries therefore need to focus on alternative governance capabilities, which can enable them to directly address key market failures. Khan describes this as a growth-enhancing governance agenda which focuses on developing governance capabilities appropriate for directly addressing a few key market failures.

Van Arkadie (2005) observes that the governance discourse is also concerned with political agendas/objectives, entailing the incorporation of visions of desirable political models. Good governance practice is sometimes justified for the economic benefits it will generate, and at other times as a political end. This creates no problems when arguments drawing on either of these perspectives work in the same direction to generate sustained growth and poverty reduction. However, the discussion becomes problematic when the evidence suggests that politically desirable concepts of good governance are not a necessary condition for fast economic growth or poverty reduction and may even be inconsistent with them. In such cases, a choice may have to be made among governance, growth and poverty reduction objectives. As pointed out by Van Arkadie (2005, p. 222): "The fundamental difficulty … is to come to terms with political and social realities as they exist, and to judge what is appropriate and what is possible given those realities, rather than promoting images of society largely based on an idealized interpretation (typically not very deep) of OECD experience".

Concluding remarks

Microfinance acts as an important safety net instrument and the microfinance movement seems to have reduced the influence of informal moneylenders. Microfinance has also had wider social impacts, ranging from the empowerment of women to the improvement in self-esteem of the poor and unemployed. However, its overall poverty reduction effects remain doubtful in the absence of other complementary factors, such as entrepreneurial skills and the growth of overall demand in the economy.

The programme of formalizing land titles for urban slum-dwellers is a simplistic poverty reduction tool for whose significant and lasting poverty reduction effect there is little evidence. As with microcredit programmes, the overall effects of slum land titling on poverty reduction remain dubious without the inclusion of appropriate complementary factors. If appropriate land titling programmes are part of redistributive land reforms aimed at reducing inequality, especially in rural areas, they may be far more effective in poverty reduction, as was the case for the agrarian reforms of East Asia in the 1950s.

Both microfinance and land titling focus on capital market imperfections, while ignoring other market imperfections. They assume that people living in poverty are all potential entrepreneurs, constrained only by their inability to access credit. However, if most people are potentially entrepreneurial risk-takers, when and where property rights are well guaranteed, then they will not be constrained by lack of access to credit; one would then expect to find a lack of people willing to work, as most people would want to start their own businesses. In reality, close to 75 per cent of the working-age population in developed countries are employees, not employers (entrepreneurs). The creation of stable and decent jobs through appropriate policies and institutional support is far more likely to contribute to poverty reduction, as recognized by the Millennium Development Goals.

Policymakers in the colonial past attributed poverty in part to behavioural problems and cultural deficiencies that they hoped would be corrected by special training and community action programmes for people living in poverty. The welfare reform consensus of the mid-1980s converged on the notion that mandated work and job training could best alleviate poverty. Neoliberals are keen on making welfare contingent on work, and want to discipline welfare clients, while liberal welfare reformers want to deliver more training, health care and childcare to the underprivileged. However, almost everyone seems to think that the best way to proceed is with programmes targeted at the poor. Thus, there has been a proliferation of conditional cash transfer programmes aimed at improving the education and health of the poor as well as temporary employment guarantee schemes, especially for the rural poor.

Research, on the other hand, shows that universal social protection systems are much more effective in reducing vulnerability, and it is possible to implement such systems in most developing countries with a modest increase of budgetary resources. Within the universal social protection framework, employment guarantee schemes can be extended to cover other vulnerable people in society, not just the poor and unemployed in rural areas. This is consistent with the objective of full employment and decent work for all. By acting as a buffer and as part of an active labour-market programme, State-owned enterprises can help maintain full employment at a decent social wage.

While good governance can be an end in itself, the link between good governance and poverty reduction is much more complex, and can be obscured by the intrusion of political agendas. Furthermore, many developing countries may not have fiscal and administrative capacity needed to achieve the onerous governance reform agenda imposed by aid conditions. Thus, developing countries need to be selective and aim for growth-enhancing and poverty-reducing governance reforms.