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CAN'T GET AHEAD FOR FALLING BEHIND: NEW DIRECTIONS FOR DEVELOPMENT POLICY TO ESCAPE RELIEF AND POVERTY TRAPS

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Can't get ahead for falling behind! The entrapment and powerlessness this phrase evokes applies as much to development policy caught in a vicious circle of vulnerability, crisis and reactive aid as it does to the lives of the people aid policies are designed to benefit. To stimulate new directions in development assistance policy, we explore the trap of reactive aid, which recent research suggests is costly, of limited effectiveness, and commonly crowds out efforts to address underlying structures that create and perpetuate vulnerability. We then consider the related micro-level poverty traps emerging analysis attributes largely to dysfunctional factor markets compounded by social exclusion. Both traps can be escaped only through a simultaneous effort to firm up factor markets and crowd-in investment. Foreign aid must be properly targeted toward remedying market deficiencies that set vulnerability traps both for the poorest *and* for development assistance.

THE RELIEF TRAP

Aid to low-income countries declined sharply over the past 10 years. Adjusted for inflation, aid flows, including debt forgiveness, grew more than 20% during the 1980s, but those increases disappeared in the 1990s (figure 1). The many reasons for this decline—from the end of Cold War security aims to widespread "aid fatigue"—lie beyond the scope of this brief. The end result, though, is the penury of development agencies.

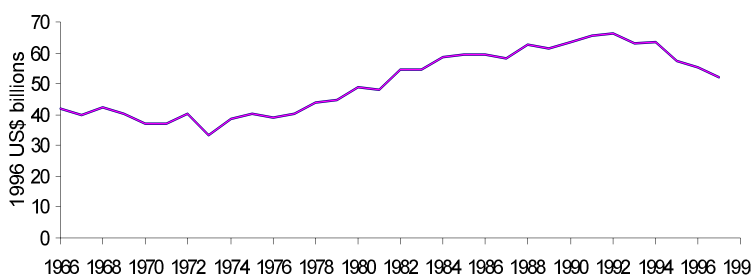
Aid to low-income countries declined sharply over the past 10 years

An increasing proportion of private and public foreign assistance is directed toward emergencies brought on by natural disasters and civil strife. Emer-

An increasing proportion of assistance is directed toward emergencies

gency relief efforts absorb the lion's share of donor resources in establishing refugee camps, emergency feeding programs, and the like. This is perhaps most true of food aid, the bulk of which now goes to emergencies, which 25 years ago absorbed less than 20% (figure 2). Emergency assistance also accounts for a large and growing share of economic activity in low-income countries. In 1995-96, net aid flows accounted for more than 25% of GNP in 18 countries and for more than 15% in 50 countries. The former group of countries had an average per capita GNP of $400 and were almost all in the midst of or recovering from severe civil unrest. With foreign aid increasingly tied to donor country exports or to macroeconomic policy reforms, that share of sharply reduced global aid budgets that is devoted to relieving structural impediments to the poor's escape from chronic vulnerability fell precipitously in the 1990s.

Figure 1: Real global aid flows (including debt forgiveness) (data source: OECD)



The pattern of emergency, response, and attempted recovery is a cycle in which vulnerability begets reactive relief efforts that often further undermine fragile market and social institutions, leaving populations more vulnerable to the next adverse shock than they were to the first. Meanwhile, funding dwindles for necessary development expenditures on agricultural and health research, education, health and asset redistribution, and buttressing market and social institutions.

Extraordinary efforts must be made to break out of this vicious cycle of vulnerability and reactive aid. There is a direct connection with the United States' Board on Natural Disasters' recent policy recommendations for coping with frequent and expensive natural disasters: emphasis must be moved from *ex post* reaction and recovery to *ex ante* mitigation.[1]

Donors have tried to respond to emergency demands on reduced aid budgets by developing strategies to link relief and development. While the principle is laudable there is little evidence that these efforts are successful. The task is daunting, for effectiveness of aid depends in part on a sound policy and institutional environment;[2] yet policy and institutional vacuums are the norm in complex emergencies.

Recovery through emergency assistance also depends on effectively targeting the recipients in need of relief.

If emerging evidence on food aid targeting is any indication, there is little if any correlation between need and receipt. At the macro level of nation states, food aid remains uncorrelated with changes in underlying non-concessional food availability;[3] at the micro level, food aid receipts are as likely for relatively wealthy households as for the poorest.[4] Indeed, food aid can actually aggravate the vulnerability of the poor where, for example, its spatial distribution induces localized range degradation through overstocking of livestock by poor agropastoralists.[5]

The problem extends beyond policy and institutional vacuums and poor targeting to the modalities of aid distribution. Much attention has been given labor-based assistance, such as food for work programs that employ able-bodied recipients in public works initiatives. The theory of these programs is attractive—self-targeting relief that provides both income insurance and labor-intensive investment in public goods, such as roads—but the record in practice remains quite mixed.[6] Too often, complementary inputs (e.g., tools, cement, transport) are unavailable, so productivity is low or the asset created proves unsustainable (e.g., roads not maintained). Preliminary evidence from Ethiopia suggests that when rural labor markets fail (when they are quantity-rationed rather than wage-rationed) the self-targeting of food for work programs breaks down and wealthy households benefit as much as the poor from these programs.[7]

More creative uses of aid to address rural markets failures are possible and may more directly address the mechanisms by which poverty and vulnerability are reproduced in low-income communities. For example, among East Africa's pastoral communities, the region's poorest, estimated livestock wealth losses exceed pastoralists' incomes.[8] Investments to convert a fraction of livestock mortality to marketed offtake, through developing basic rural financial, communications, transport, and animal health systems could dramatically reduce vulnerability among these peoples. Innovative, small-scale initiatives have been launched with some success, such as subsidized transport for livestock traders during drought in northern Kenya, food aid based training of transhumant paravets, and food for talk initiatives to resolve resource use conflicts peacefully. Yet there needs to be considerably more

There may be little correlation between need and receipt

Figure 2: PL480 Food Aid Flows

effort in tailoring emergency assistance to the structural sources of vulnerability traps among target populations.

Poverty Traps

In contrast to the sometimes arcane discussion about the definition and measurement of poverty as a shortfall in household expenditures, the voices of the poor recorded through participatory poverty assessments define poverty in terms of human insecurity—i.e., shared livelihood strategies and a common vulnerability to disaster—rather than in terms of current income levels.[9] Individual life histories of poor people bespeak a cycle of shocks and disasters that compromises the future for the sake of present survival. While it is often recognized that poverty breeds insecurity, the reverse is also true. Insecurity breeds poverty by suppressing and distorting strategies of accumulation by the poor. We must identify the constraints that compromise the ability of the persistently poor to achieve viable strategies of accumulation that would break the dynamic cycle of poverty and open the way out of the relief trap that has captured policy.

While poverty breeds insecurity, the reverse is also true

This view of poverty generalizes Sen's "entitlement approach." Sen's work usefully directs our attention not just to the incomes people have received but also to the bundles of assets or endowments held by the poor, the claims attached to those assets, and the nature and the vulnerability of particular claims systems. This entitlement approach describes the *relationship* of people to the resources they have and the commodities they need in order to meet basic sustenance requirements.

As Carter and May[10] have explored, dysfunctional or imperfect factor markets (e.g., credit markets in which access to capital is wealth-biased) fundamentally influence or distort the nature of entitlements and poverty. In the economist's imaginary world of full and complete markets, households that lack needed resources simply rent or purchase them on the market. But when markets are dysfunctional, some assets and opportunities can be effectively utilized only when they are matched by holdings of complementary endowments. Land can be used effectively only when matched by own-capital and insurance mechanisms. In this more realistic world of dysfunctional markets, poverty is a matter not only of weak endowments and entitlements but also of factor market constraints to the effective use of those endowments.

While this augmented entitlements perspective begins to move us beyond an epidemiological perspective on poverty towards a structural perspective, it also (incorrectly) seems to suggest that time should be the fundamental ally of poor people. It would seem that time would permit the poor to build up the complementary assets they need to fully and productively utilize the assets and opportunities they have. Yet, as the informants recorded in the aforementioned participatory poverty assessment testify, poverty for many families is a chronic condition that time does not heal. Households without adequate sanitation, drinking water or social support networks may be exposed to greater risks and suffer more frequent income shocks that ultimately preclude them from accumulating the skills and assets needed to escape from a dynamic poverty trap. In short, the fact that their basic human needs are not met may preclude them from *ever* realizing their full potential—certainly as economic agents, and, most likely, as human beings. Similarly, participatory risk mapping exercises[11] among pastoralists in Ethiopia and Kenya reveal that poor communities face more serious risks (e.g., of violence and cattle raiding) than do wealthy groups. With differential protection of geography and the state, the poor are more vulnerable and less able to accumulate wealth.

Matching this insight, Michael Lipton describes the "ultra poor" as those who fall below a "Micawber Threshold" (named after a Dickens character in *David Copperfield*), meaning they are so poor they are unable to accumulate assets (human capital, land, etc.) that might permit them to escape poverty in the future.[12] As recent theoretical work explores, these traps result from dysfunctional factor markets. This new work shows that Micawber thresholds appear when missing capital and insurance markets make time an enemy, not ally, of the poor.[13]

Child labor offers a vivid example of a poverty trap's links to factor market failures. When families are struck by crisis and have insufficient access to credit or insurance, or when adult unemployment is high or wages low, children are typically withdrawn from school and put to work full-time.[14] Because there is an inverse relation between child full-time labor and the child's productivity later in life, mediated by significantly lower educational attainment among working children, the adult labor market and credit market failures that induce vulnerable households to depend on child labor transmit that vulnerability across the generations.

Time can be an enemy, not ally, of the poor

At a policy level, it is important to distinguish between those who appear poor at any point and time and those trapped beneath a Micawber Threshold. A society in which poverty is primarily a transitory phenomenon is very different from a society in which large numbers of the poor are caught in the structural circumstance of accumulation failure. In the latter circumstance, time brings no relief, and the future appears as a sequence in which one "can't get ahead for falling behind." Policy implications clearly differ between the two circumstances. In one, time is an ally that eliminates chronic poverty; in the other, time merely oversees the chronic reproduction of a poverty class.

The KwaZulu-Natal Income Dynamics Study (KIDS), an ongoing BASIS CRSP-sponsored research project on poverty dynamics in South Africa, attempts to distinguish among these various sorts of poverty by collecting and analyzing longitudinal data on a sample of some 1200 households interviewed in 1993 and again in 1998. The table[15] below presents a mobility or transition matrix. The rows classify households by 1993 livelihood levels (livelihood is a per-capita household expenditure measure appropriately scaled for household demographic characteristics). The columns classify households by 1998 livelihood levels. The northeast cell shows households that were below a poverty line in 1993 but above it in 1998. The southwest cell shows households that went from non-poor to poor, while the remaining two cells show households that did not change status.

Decomposing poverty transitions in South Africa
(% surveyed households)

		1998	
		Poor	Non-poor
1993	Poor	**23% chronically poor, of which:** •14% dual entitlement failures •~86% in poverty trap	**11% got ahead, of which:** •46% transitorily poor in 1993 •~54% structurally poor in 1993
	Non-poor	**18% fell behind, of which:** •~47% chronic poor, but fortunate in 1993 •44% transitorily poor in 1998 •9% new structurally poor	**46% never poor, of which:** •19% dual positive shocks & vulnerable •~81% structurally non-poor

Of households in the KIDS longitudinal sample, 23% were observed to be poor in both time periods. Another 11% got ahead, while 18% fell behind. Some of this mobility, and immobility, reflects transitory phenomenon rather than structural factors. In an effort to distinguish between the two and identify the severity of chronic, structural poverty, each cell in the table offers a further breakdown of the households. Of households classified as poor in both time periods, about 14% appeared to have suffered double entitlement failures and hence could be classified as transitorily poor. The remainder (86% of households poor in both time periods) are likely caught in a poverty trap.

The 11% of households that were poor in 1993 and non-poor in 1998 appear to be evenly split between those who were transitorily poor in 1993 (and who had recovered to an expected living standard that was above the poverty threshold) and those who were structurally poor in 1993 but who apparently were accumulation successes and able to use time and the economy to improve their material well-being.

About 44% of the new poor (the 18% of households above the poverty line in 1993 but below it in 1998), appear to have been transitorily poor, having experienced a 1998 entitlement failure. Another 47% of these households were probably transitorily non-poor in 1993 and by 1998 had regressed to their sub-poverty line expected living standard. Finally, another smaller group (perhaps 9% of the new poor) appear to have experienced entitlement losses that explain the deterioration in their economic position.

Combining these last two groups with the group of chronically poor, accumulation failures suggest that maybe 27% of households in the panel are chronically poor for structural reasons. This group amounts to over half the total households in poverty. Passage of additional time may lead to further reduction in the size of this group. However, for this group the end of apartheid has so far meant only one kind of freedom.

Redirecting Assistance

As we begin to better understand the structural features of chronic poverty, it is important that we redirect development assistance away from reactive aid toward policies designed to firm up the factor markets that underlie both the production and the chronic reproduction of poverty. Stocks of financial, natural, manmade and social capital empower individuals to manage risk so as to prevent vulnerability. Vulnerability goes hand in hand with asset poverty. Yet asset ownership is only a necessary condition against vulnerability. The poor can't eat currency or soil or the goodwill of neighbors or governments. They must have access to markets and technologies that enable conversion of assets into a sustainable stream of income sufficient to provide for a healthful, joyful life. International investment in improved agriculture, health, education and transport technologies for low-income communities and in basic market infrastructure has fallen sharply over the past decade as aid budgets have dwindled and been increasingly absorbed in emergency relief, tied to exports, and macroeconomic policy conditionality. This trend must be reversed.

The past generation's emphasis on extricating government from markets, while often appropriate, has not been matched by an equally necessary emphasis on fostering state support for efficient and fair markets in which the poor can fully participate, particularly factor markets for labor, land, and finance, on which the poor depend heavily.[16] Food for work programs are insufficient. Aid must focus more on crisis mitigation through improved factor markets in order to replace crisis response and incomplete recovery. Otherwise, the more than one billion people living in extreme poverty, on less than one dollar per day, will not escape the vulnerability traps in which many are currently caught, and aid programs will remain ensnared in related relief traps.

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