

WP 2005-21
August 2005



Working Paper

Department of Applied Economics and Management
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A FRAMEWORK FOR SCALING UP POVERTY REDUCTION, WITH ILLUSTRATIONS FROM SOUTH ASIA

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A Framework for Scaling Up Poverty Reduction, With Illustrations from South Asia *

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August 2005

Abstract

This paper develops a framework for thinking about the policy challenge of scaling up small scale interventions, governmental and non-governmental, that address poverty reduction successfully. The framework sees scaling up as addressing different components of market failure, government failure and civil society failure. Viewed in this way, constraints to scaling up can be analyzed using a supply and demand framework on the one hand, a political economy framework on the other. The main conclusions are: (i) in scaling up the provision of basic social services, it is crucial to understand whether the binding constraint is on the supply side or the demand side, and (ii) successful expansion of successful civil society organizations has to manage in different ways constraints imposed by the market and by the government.

Contents

1. Introduction
 2. The Framework in Outline
 3. Illustrations of the Framework
 4. Conclusion
- Appendix: List of Case Studies in the Volume

* Overview contribution to an edited volume prepared by the South Asia Region of the World Bank, from case studies commissioned for the Shanghai Conference on Scaling Up Poverty Reduction, May 2004. The case studies in this volume are listed at the end of this paper.

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1. Introduction

Poor people are poor because markets fail them, and governments fail them. Market failures such as those in capital markets prevent poor people from getting adequate education, for example. When government steps in to “correct” these market failures, it often introduces its own problems, such as the capture of public resources by the non-poor, or the inability to monitor service providers, which leave the poor still poor.

To be sure, there are many excellent examples of government interventions that have helped the poor in different ways. And civil society has mobilized non-governmental projects and activities that have improved the lives of the affected population. But these cases point to a basic paradox in the discourse on poverty reduction. Despite well-known examples of government and non-governmental projects that reduced poverty, poverty at the aggregate level persists, or decreases only slowly. And attempts to replicate small-scale successes many fold do not necessarily succeed.

This paradox naturally raises the question of whether and how small interventions that work well for the poor locally can be “scaled up”. This is the sense in which we will use the term “scaling up poverty reduction” in this paper. There is a second sense in which this term is used in the discourse and that is simply in the sense of “more poverty reduction”. Scaling up in the first sense contributes to scaling up in the second sense, but in this paper our focus will be not on poverty reduction in general, but on the potential for poverty reduction in expanding interventions that are known to work well at the small scale.

There are two possible approaches to studying the issue of scaling up, so defined. One is to examine real-life cases of interventions, especially where an attempt has been made to scale up successful small activities, and make an assessment of the conditions of success. Another is to take a more conceptual approach, asking what might be needed for success, or might explain failure, in a range of circumstances. More than 100 case studies were prepared for the Shanghai Conference on Scaling Up Poverty Reduction held in May 2004 (<http://www.worldbank.org/wbi/reducingpoverty/>). These case studies contribute greatly to building up knowledge based on specific experiences. This paper is a companion piece to a selection of a dozen case studies from South Asia (India, Pakistan and Bangladesh) that are being published in this volume. It takes the complementary approach by developing a framework for thinking about scaling up. The framework derives from the understandings that emerge from the case studies, but in turn serves to better understand the findings of the case studies, individually and collectively. Although based on the South Asia case studies published in this volume (listed at the end of this paper), we believe the framework has broad applicability.

The plan of this paper is as follows. Section 2 sets out the framework in outline form. Section 3 illustrates and fleshes out the framework with the case studies in this volume. Section 4 looks ahead and discusses policy recommendations, for governments and for donors, for successful scaling up. Section 5 concludes with a discussion of outstanding issues on which more research and policy debate will be useful.

2. The Framework in Outline

The key building blocks of the framework we propose are three concepts—market failure, government failure, and civil society failure. The first two are well known, the third perhaps needs some elaboration. We propose to use these concepts to identify the gaps that scaling up must fill, and in this way to also identify the constraints that scaling up will face.

When markets work well, the economic system generates outcomes that are efficient but not necessarily equitable. When markets do not work well, the economic system generates outcomes that are not efficient, nor need they be equitable. A market system that does not work well can therefore be improved upon in theory to generate both “a bigger pie” and a better distribution of that pie. This is “market failure”. If the interventions that are needed in theory can be implemented by a benevolent, informed and competent government, market failure can be easily overcome. Of course in reality, governments are not fully benevolent, informed, or competent. Attempts to correct for market failure by such governments sometimes lead to the opposite of what is intended, with outcomes that lead to more inefficiency and more inequity. This is government failure.

In the lives of poor people, market failure and government failure are both present. If we take basic aspects of poor people’s standard of living like education, health and insurance against vulnerability, there are good reasons in theory why markets will not provide adequate levels of these valued components of the standard of living for the poor. And this is borne out in practice. A large literature documents inadequate levels of education and health, and excessive levels of vulnerability among the poor. These are all areas dogged by the problem of imperfect information. Moreover, market failure in another area—imperfect capital and credit markets—exacerbates the market failure in education, health and insurance for the poorest.

Not surprisingly, governments have attempted to address these market failures through interventions of various types including public provision of education and health facilities, and interventions in credit and other markets. These interventions have had a mixed record. While there are undoubted successes, there are many instances of government failure as well, as documented by the case studies in this volume and in the many case studies done for the Shanghai conference. For example, despite a notional commitment to universal primary education, many children do not attend primary schools, and many countries remain some distance from the goal of universal literacy. Similarly, on health, water and sanitation, government provision lags behind ideal goals in terms of access and quality of provision.

Just because there is some market failure does not mean that all markets fail all the time. Just because there is some government failure does not mean that all government fails all of the time. Moreover, even when markets and government both fail, perhaps especially when they both fail, sometimes civil society organizations step in and provide services and activities that fill the gap. The case studies for the Shanghai conference give plenty of examples of such gap filling. However, the gap is not filled completely, by a considerable margin—otherwise the record on poverty reduction would be stronger and more

widespread. This is civil society failure. One answer to this failure might be to encourage the expansion of civil society activities in providing basic services to the poor. But, as we shall see, such expansion is not without its own problems and constraints.

We are interested in implications for public policy—in other words, in advising governments in actions they can take, and international agencies in supporting the actions that governments take, in scaling up poverty reduction by confronting market failure, government failure and civil society failure. Let us start with market failure, and take as a concrete case education. It is generally accepted that levels of education in developing countries are too low, especially for girls. There are many reasons why a market may not arise naturally to provide an increase in education that is considered socially desirable. Returns to education are uncertain and, together with imperfect credit markets, may prevent adequate investment in human capital given the opportunity costs involved. Or there may be significant externalities and threshold effects associated with the returns to education, leading to low level traps where the outcome is individually rational and but socially sub-optimal. Or the interests of parents vis-à-vis their children, especially their female children, may not match social ideals.

Let us then take as given that there is too little education without government intervention, and that it is the role of government to “scale up” educational attainment. What should it do? The answer depends crucially on whether the low level of education is due to a supply constraint, a demand constraint, or both. If there is a supply constraint, meaning that at current private opportunity costs the demand for education exceeds the supply, then the government has to focus on expanding supply to scale up. If, on the other hand, there is a demand constraint (parents do not want to, or cannot afford to, send their children to school), then expanding supply (building more schools, for example), will not increase the total amount of education. Resources spent on expanding education will be wasted. For developing countries, the typical situation starts out with excess demand. At this stage, expanding supply is the right policy for scaling up. But sooner or later supply will catch up with demand. At this point, resources will have to go into expanding demand as well as expanding supply, and the two will have to proceed hand in hand. Scaling up the response to this market failure thus requires first of all a diagnosis of the nature of supply and demand in relation to each other, and then a carefully staged set of matched interventions. If this is not done, there will surely be government failure in scaling up.

Furthermore, even if expanding supply is the right thing to do, the government may not be doing enough of it, or doing it badly. Monitoring and oversight of school construction may be weak. Teachers may be paid but may not turn up to teach. Or the curriculum may be wholly inappropriate. Worse, government intervention may increase inequity as public resources are used for the well-off at the expense of the poor. There is evidence of all of these government failures in the case studies for the Shanghai conference, and in the broader literature on education.

While the above example is developed for education, it should be clear that the supply/demand way of thinking applies to a whole range of issues in public services, including health, water and sanitation. It can also apply, for example, to credit markets.

There is a broad consensus in the development literature that credit constraints are pervasive, in other words there is excess demand for credit, and that this is inefficient and inequitable. The response is then to expand supply, but the question is how to do it. One answer is to make this the task of the government, and indeed that is the route that has been followed by many countries. By and large, government interventions have not been successful. Quite apart from problems of corruption and political interference, there is the basic issue that governments have not been able to solve the information and monitoring problems that the market faces. This government failure has left a gap, which has been filled in some countries by an energetic civil society sector, the micro credit sector, providing credit to very poor households on the basis of small loans and localized monitoring and control. The same is true of micro insurance.

The market-failure gap that is left unfilled, or even widened, because of government failure is thus filled to some extent by civil society. This is true in micro credit and micro insurance but it is true of myriad other activities and sectors that are deeply important to poor people's standard of living—health, education, water, sanitation, agricultural production, etc. But civil society does something else. As well as trying to fill the gap left by the government and the market, it also highlights this gap in the public consciousness by giving voice to the voiceless. It emphasizes the consequences of market failure and demands public action. It then reveals failures of public action, covering malevolence, lack of information and incompetence. Thus, it (we are speaking here of civil society as a whole) simultaneously provides information on the gap, urges the government to fill the gap, and attempts to fill the gap itself.

The persistence of poverty demonstrates that civil society has not, up to now, managed to fill this gap. This civil society failure has many causes, and an understanding of these causes is important for making the best use of civil society in a strategy of scaling up. Members of civil society organizations are not themselves immune from malevolence, ignorance or incompetence. Policy will surely have to address these issues, especially as these organizations grow. Moreover, even well run organizations do not generally have the ear of policy makers and government bureaucrats. They cannot always get their message across to the authorities. We will surely have to think about instruments that better allow the voices of the poor, and the public generally, to be heard by those who deliver public services and make and implement public policy.

Beyond these problems, which are present in public and private organizations alike, there is a structural issue. Civil society organizations operate, by definition, in the interstices between market and state. They interact with each, of course—many organizations sell the product of the poor in markets or provide marketable services, and nearly all organizations come under one or other set of government regulations. But their size effectively insulates them from the full force of markets or government. This is fine if the sector stays small, but that is contrary to the requirement of scaling up, of expanding activities by civil society organizations so that they fill more and more of the market failure gap that they cannot get the government to fill.

As civil society organizations expand to scale up poverty reduction, they will come up against the market on the one hand and the state on the other. For example, as micro credit organizations expand, the weight of their transactions will become significant relative to the formal capital market. Well before they expand to fill the gap they set out to fill, they will come under the influence, perhaps the volatility, of financial conditions nationally and globally. To take another example, as a small micro-insurance organization expands, it will eventually come on to the radar screen of national insurance regulators, whose rules and capital requirements are set with large formal insurance companies, perhaps even with the global market, in mind. Unless these rules are modified to accommodate the expansion of smaller scale activities, these regulations, valid as they are in their own terms, will strangle the expansion and hence the scaling up of micro-insurance. A third example: as non-governmental (and non-profit) schools expand, they may challenge the national school curriculum. Such challenges may be positive, if for example they concern the tailoring of teaching methods to rural schoolchildren, or they may be negative, if for example they concern the propagation of a fundamentalist religious ideology. In either case the challenges have to be addressed and managed.

All of the tendencies noted in the analysis above are present to different degrees in reality. They are found in the broader literature, but especially in the case studies brought together in this volume. The next section takes up the task of illustrating the different facets of the framework developed in this section with actual examples from South Asia, covering topics such as: (i) market failure leading to excess supply or excess demand; (ii) government failure because of expansion of demand (supply) when the constraint was supply (demand); (iii) government failure because of malevolence, ignorance or incompetence; (iv) civil society attempts to fill the gap created by market failure and government failure; (v) market and government constraints to civil society expansion. The following section will then draw the lessons together for policy.

3. Illustrations of the Framework

Viewed through the lens of the framework outlined in the previous section, the twelve case studies in this volume highlight both the potential for, and the challenges of, scaling up poverty reduction in South Asia. Almost all the cases stem from an underlying market failure—the one exception is the Self-Help Group Program in Andhra Pradesh, which helps government fulfill its redistributive role. But some of them address the market failure squarely, while others are addressing the government failure associated with government's response to the market failure.

In the first category are the e-Choupals program, Operation Flood and to a lesser extent SEWA in India, and Bangladesh's microfinance initiatives. The e-Choupals program tackles the inefficiency created by traders of agricultural products having power over farmers because of an informational advantage. The traders have better access to information about prices and other things that give them monopsony power, while affecting the distribution of profits between trader and producer. By bringing internet-linked computers to the village, e-Choupals gave farmers access to the same information as traders, enabling them to check on the traders' prices, and rendering the market for oil seeds, inter alia, more competitive as well as more equitable. It also helped mobilize the farmers, who were not organized before, so that they could withstand efforts by the traders to maintain the status quo. Similarly, Operation Flood mobilized dairy farmers and their trading partners into cooperatives, with the power resting with the farmers. SEWA mobilized informal women workers into a collective that could bargain for better working conditions and pay. Finally, Bangladesh's microfinance initiatives attacked a fundamental capital market failure—asymmetric information between borrower and lender—by using peer-group monitoring as the means of correction.

In each of these cases, the initiative did more than just correct a market failure. It served as a way of mobilizing poor people. SEWA has gone from organizing informal women textile workers to providing various livelihood and marketing services to its membership. In Bangladesh, the weekly meetings of microcredit borrowers also served as a forum for information-sharing among women about family planning, child nutrition and health. By addressing a particular market failure, these movements helped to solve another collective-action problem, namely, the coordination of poor people's voices into a movement. This was one reason why these initiatives were able to scale up as much as they did—SEWA has over 750,000 members, Bangladesh has 14 million microfinance borrowers. But this same feature points to a potential problem for scaling up. Both India and Bangladesh are democracies, which means there are established mechanisms, such as political parties, for organizing the collective voice of the people, including poor people. As these other movements, such as SEWA and the larger microfinance institutions in Bangladesh scale up, they approach the scale of the existing political parties, creating the potential for a conflict between the two types of institutions.

We turn now to the initiatives that aim to correct government failures, most of which were triggered by the public sector's response to a market failure. The Bhoomi project addressed a common failure in the public sector's performing its duty of land

registration—bribery and corruption. Land registration is a classic function of the state, as it is part of the protection of property rights. Yet it was this same function that the state was failing to perform, because of asymmetric power relationships between farmers and bureaucrats and imperfect monitoring. The Bhoomi project attempted to tackle the problem by computerizing the land registration system. Not only did this dramatically speed up the records retrieval process, it reduced corruption and permitted the functioning of the crop insurance market, because claims could now be more easily verified. Addressing a government failure contributed to correcting a market failure (in crop insurance).

Similarly, in Tamil Nadu, the local government was not fulfilling its responsibility of providing water, sanitation and other municipal services to its citizens, even though these services were deemed a public responsibility, presumably because of scale economies in their provision. Meanwhile, with a growing economy, demand for these services was outstripping supply. Observing the excess demand, the private sector was interested in participating in these services, but found the risks, especially of over-regulation, too high. The problem was solved by a partnership between the government and the private sector, where the former guaranteed not to over-regulate, while the latter agreed to provide services even to poor neighborhoods. A market failure and government failure were solved by government and the market working together.

The Education Guarantee Scheme of Madhya Pradesh (MP) provides another example of addressing government failure. Education demand was clearly outpacing supply in MP. However, efforts to increase supply by the traditional method of the government building schools and hiring teachers was not working. Teachers were often absent, and the school buildings were in disrepair. So the government decided to use the source of demand—the parents who wanted to send their children to school—as a means of strengthening supply. For any community that requested a school, the government gave a justiciable guarantee to provide one in 90 days. In addition, the community could select the teacher, whom the government would train. The result was a partnership between the government and the community, mutually reinforcing each other, and a substantial improvement in education in Madhya Pradesh.

These three cases of overcoming government failure illustrate the importance of forming coalitions to resist the forces that created the government failure in the first place. In Tamil Nadu, the coalition was with the private sector; in MP, it was with the communities; in Bhoomi, it was with the farmers, who could now be mobilized through the introduction of electronic registration. These coalitions helped the reform champions to overcome the vested interests, who benefited from the original government failure, and who would undoubtedly try to stop the change. But they also indicate some potential dilemmas in scaling up. If a partnership with the private sector is scaled up, does the whole enterprise become a private entity? In this case, it might succumb to the original market failure that triggered the problem in the first place. Similarly, if the partnership with the community is scaled up, the community might replace the government, especially the local government, which has been entrusted with the responsibility for education.

We turn now to three cases that helped government fulfill its redistributive role, rather than its efficiency-enhancing role. The Self-Help Groups in Andhra Pradesh, the Rural Support Program in Pakistan, and the National Solidarity Program in Afghanistan. In each of these, the government used community groups to monitor and implement anti-poverty programs. The Government of Andhra Pradesh embraced the self-help groups, which had formed either spontaneously or with NGO efforts, as an instrument to deliver on its poverty reduction program. The Government of Afghanistan, knowing that subnational governments either did not exist or were subject to extreme forms of capture, decided to use community groups as a means of distributing funds for small infrastructure projects. A similar approach was taken by RSP in Pakistan, based on the success of the Aga Khan RSP. The common feature of these initiatives is that the government used a non-governmental institution to fulfill a government function, namely, redistribution. Once again, the dilemma of scaling up is whether these non-governmental institutions can approach a scale equal to the government, and not replace the government.

One final example, that focuses only on giving voice to poor people, is that of the Citizens Report Cards in Bangalore, India. The NGO here, the Public Affairs Centre, was not involved in service delivery; it was solving the collective-action problem of information generation, by providing information about the quality of public services throughout the city (and later, elsewhere in India and some other countries). The report cards played a crucial role in the helping poor people keep politicians accountable—witness the significant improvement in services in Bangalore in the past five years. In this sense, they were performing a role that is suited to an NGO. This also means that the possibility of scaling this function up is quite high.

4. Conclusion

What are the implications of this application of our framework to the twelve case studies for public policy, and for donors who are interested in supporting governments in scaling up? For governments, at least three sets of lessons emerge. First, in addressing market failures, especially those that adversely affect the poor, governments should look for opportunities that also help the poor solve collective action problems. While addressing the technical problem associated with the market failure, such as information asymmetry, look for opportunities to strengthen poor people's ability to mobilize, to build coalitions that can amplify their voice in policymaking.

Second, even in cases where there is massive government failure, there is hope. The same government that is responsible for the government failure can form coalitions with other actors to develop successful approaches to poverty reduction. The reason for the government failure is often a coordination problem within government, or a political market failure. By forging links with the private sector, or with communities, governments can overcome these failures and break out of a low-level equilibrium trap.

Third, the same reason why it was possible to overcome government failure—by building coalitions with the private sector or communities—could create difficulties for scaling up to the next level. The reason is that scaling up means these programs approach the scale of either the market or the government. Yet it was a market failure or government failure (or both) that created the need for the program in the first place. So as the scale increases, governments need to ensure that the original failure does not get reproduced in the new scaled-up program.

For donors who would like to support governments in their efforts to scale up poverty reduction, the implications are as follows. That successful poverty reduction efforts can take place by government only programs (Bhoomi), private sector only (Operation Flood), partnerships between government and NGOs (Andhra Self-Help Groups) or with the private sector (Tamil Nadu), means that there is no single institutional arrangement that works everywhere and all the time. The cliché that one size does not fit all applies with exceptional force in this context. If one arrangement works in one country, donors should contain their enthusiasm for advocating it in other countries. At the same time, if a particular government is failing badly, donors should not necessarily lose hope. These same governments may build coalitions with partners and overcome some of their own failures. Finally, donors too should be aware of the dilemmas facing countries in scaling up. The very reason why a particular innovation succeeded, say by forming a partnership with community organizations, may be the reason why it is difficult to scale up. In short, we probably need to scale up something that is in short supply in the development community, namely, patience.

Appendix: List of Case Studies in the Volume

Samuel Paul, *“Citizens Report Card: A Case Study.”*

John Blaxall, *“Case Study on the Self Employed Women’s Association (SEWA) India: Empowerment through Mobilization of Poor Women on a Large Scale.”*

V. Kurien, *“Scaling Up Poverty Reduction: Learning from India’s Operation Flood Programme.”*

Vimala Ramachandran, *“Education Guarantee Scheme, Madhya Pradesh, India.”*

Kuttayan Annamalai and Sachin Rao, *“E-Choupals.”*

Sameer Vyas, *“Addressing Urban Infrastructure Needs of the Poor: The Tamil Nadu Experience of Public Private Partnerships.”*

Subhash Bhatnagar and Rajeev Chawla, *“BHOOMI: On-line Delivery of Record of Rights, Tenancy and Crops to Farmers in Karnataka State, India.”*

Joy Deshmukh-Ranadive, *“Self-help Groups, Poverty Alleviation and Empowerment: State Initiative in Andhra Pradesh.”*

Abi Masefield, *Afghanistan: The Role of the National Solidarity Program and the National Emergency Program in National Reconstruction.”*

Stephen Rasmussen, M. Mujtaba Piracha, Rashid Bajwa, Abdul Malik, Aadil Mansoor, *“Scaling Up the Rural Support Programmes in Pakistan.”*

Hassan Zaman, *“What Can We Learn from the Growth and Impact of Micro-Finance in Bangladesh?”*

Naomi Hossain, *“Access to Education for the Poor and Girls: An Account of the Educational Achievements of Bangladesh.”*