

Fighting poverty: what have we learned?

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TRANSLATING RESEARCH INTO ACTION

Lesson 1: Information deficits

- The poor lack critical pieces of information
- They believe things that are not true
- They make poor decisions

⇒ a simple piece of information makes a big difference

But:

- To be useful, information should not be general
 - Should be attractive and simple
 - Should come from a credible source

Lesson 2: Poor bear too much responsibility

- Nobody makes decisions for them
 - No piped water
 - No automatic way to save (retirement plan, social security, ...)
 - It is difficult to decide all the time
 - They have to struggle with procrastination
 - They have no security
- ⇒ We should facilitate their lives
- Nudges, default choices,...

Lesson 3: Some markets are missing for the poor

- They get a negative interest rate from their savings accounts
- They pay exorbitant rates on their loans
- No market for health insurance

⇒ Microcredit is an important tool

⇒ Governments must support the market

- to give things out for free (this is not always bad!)
- Or even to reward people
- it helps people to learn new behaviors and is often cheaper

Lesson 4: Poor countries are not doomed to stay poor

- This situation is not due to a grand conspiracy
 - But the consequences of
 - ineffective policies
 - the "I's": Ignorance, Ideology and Inertia
- => There is always some space to improve public policies

Lesson 5: We can change things

- Our beliefs about what people are able to do or not do, often end up turning into self-fulfilling prophecies
 - Changing expectations is not easy, but not impossible
 - When a situation starts to improve, the improvement itself affects beliefs and behavior
- => To start a virtuous circle is one way to get out of the poverty trap

Lesson 6 :The poor own their enterprise

- In Peru, 69 % of the urban households who live with less than \$2 per day, have a non-agricultural activity
- In Indonesia, in Pakistan and in Nicaragua, the percentage goes from 47% to 52 %
- Most of the rural poor own their own farm
- Additionally, many of them also own a non-agricultural enterprise: 7 % in Udaipur (India) and 36 % in Panama
- Within the OECD countries, 12% of the people own their enterprise...

But would prefer not to!

- The poor's businesses are very small: no employees, no assets, little specialization
- A huge difference between the poor and the middle class of developed countries:
 - not that the middle class tends to be more entrepreneurial
 - not that they invest more in their businesses
 - but when they don't own their business, they have a steady job!

Conclusion

- Microfinance is a great innovation, we should support it and continue to develop new products to improve access for everyone
- Microfinance cannot replace the traditional means of fighting poverty