
6 / The Design of Pro-poor Policies

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1. Introduction

According to recent World Bank estimates, the key Millennium Development Goal of halving extreme poverty, defined as the number of people worldwide living on less than \$1.25 per day (at 2005 prices), was already attained in 2010. Closer inspection of the data, however, reveals that if China is excluded, the global picture is actually quite different. Indeed, the number of people worldwide (excluding China) earning less than \$1.25 per day (at 2005 prices) fell only marginally between 1990 and 2008, from 1.23 billion to 1.12 billion (World Bank, 2012).

The picture is even bleaker when one considers the number of people living on less than \$2 per day (at 2005 prices). Once China is excluded, that number has actually risen from 1.53 billion in 1990 to 1.82 billion in 2008.¹ The bulk of the really poor live in South Asia (specifically India) and Sub-Saharan Africa.

Given the amount of official aid that has been disbursed, why are there still so many people living in poverty worldwide? At a time of austerity in the aftermath of the 2008 global financial crisis, this matter is a key policy concern in the UK, especially in view of the commitment, supported by all major political parties, to increase aid as a percentage of GDP to 0.7% in 2013-14, from an estimated 0.56% of GDP in 2011.

But how does aid impact on poverty alleviation, and what determines its effectiveness? And equally important, how should projects supported by aid be designed to maximise its efficacy? Such evidence as there is on the impact of aid on poverty alleviation paints a mixed picture. Macro-level studies (Burnside and Dollar, 2000; Collier and Dollar, 2002; Rajan and Subramanian, 2008) which have examined the impact of aid on growth (and presumably, on poverty alleviation via growth) suggest that aid (to be precise, official development assistance) has had little or no impact on growth. Although there are other studies (Arndt et al., 2009) which point to a different conclusion – that aid has a positive impact on growth – it is fair to say that even a cursory reading of the literature suggests the evidence is, at best, mixed on this matter.

In contrast, micro-level studies convey a different image. For example, the evaluation of World Bank-funded projects by the Independent Evaluation Group (IEG) of the World Bank shows that those funded by official development assistance have had a positive impact on poverty alleviation. Mosley (1987) was among the first to draw attention to the differences in micro- and macro-level analysis of the impact of aid on poverty alleviation.

How should development practitioners (whether academics, third-sector professionals or policymakers) react to the mixed and contradictory nature of the evidence on the impact of aid on poverty alleviation? First, some of the estimation techniques used in studies which establish that aid has had little or no effect on

¹ This calculation was made using publicly available data from the World Bank (<http://iresearch.worldbank.org/PovcalNet/>). The figure used was \$61 per month (at 2005 prices), which works out at just above \$2 per day.

growth are not robust – see, for example, Arndt et al. (2009), who discuss a number of papers making this point. Second, perhaps more interestingly, aid impacts on poverty alleviation via a variety of different micro- and macro-level channels, and these work in opposite directions. Hence, it could be entirely consistent that a specific aid-funded project works at the micro level, but that aid has a negligible impact on growth at the macro level because fiscal resources freed up as a result of aid are appropriated by rent-seeking decision-makers in privately beneficial, but socially unproductive, activities. Mosley (1987) examines this point in greater detail.

In this chapter, the issue of aid-funded projects is re-examined from a different angle. The focus is on the micro-level impact of aid-funded projects and how the design of such projects can maximise their impact on poverty alleviation.

In much of the existing work on the micro-level impact of aid, the starting point is the assumption that the primary channel through which aid affects poverty is by relaxing an external resource constraint. Such a view is wedded to the classical view of poverty traps being caused by external resource constraints. A different strand of research (e.g. Appadurai, 2004), however, suggests that poverty traps could also be driven by constraints internal to the individual (e.g. lack of hope and/or self-confidence, a sense of shame, aspirations failure etc).² Addressing these concerns requires a new analysis of the origins of self-reinforcing mechanisms, or “poverty traps”, which cause poverty to persist.

This chapter focuses on research that goes beyond conventional accounts of deprivation and disadvantage at both a conceptual and a theoretical level. The analysis formalises the notion of an aspirations failure as an explanation of a poverty trap (Dalton et al., 2012). The research focuses on how aspirations adapt to the external circumstances of an individual and become an internal constraint with a bigger impact on poor individuals than on wealthier individuals. Evidence for such an effect is presented and then critically analysed.

The key implication for the design of pro-poor policies is that they need to address simultaneously the sources of external disadvantage, while also attempting to alter the internal constraints (such as aspirations failure) of poor, marginalised individuals in order to maximise their impact on poverty alleviation. Results from ongoing field work are included to provide evidence about the impact of raising aspirations on a marginalised, stigmatised community of sex workers in Kolkata, India.

2. Poverty traps: going beyond external constraints

2.1 Poverty traps and internal constraints

In contrast to transient poverty, chronic poverty is not just a snapshot of those who are poor now, but a condition which implies an understanding of multi-dimensional processes that make people poor and keep them poor. Chronic poverty, as defined by the incapability to fulfil basic needs during a period of more than five years, is one of the longest-standing problems faced by humanity.³ More than 300 million people worldwide lived in chronic poverty in the late 1990s (*Chronic Poverty Report 2004-05*). The report estimates that 40% of the poverty in Sub-Saharan Africa is chronic (see Table 1).

² Where relevant, this point is discussed in greater detail below.

³ For evidence of chronic poverty, see Jalan and Ravallion (1998); Fouarge and Layte (2003); Biewen (2003); Duncan et al. (1993), among others.

Table 1: Documenting chronic poverty

Approximate probabilities of staying poor over a 5-year period in selected countries		Average proportion of poor who are chronically poor over a 5-year period	
	Probability of staying poor	Sub-Saharan	40%
India	35%	East Asia and Pacific	27%
China	25%	South Asia	35%
Bangladesh	35%	Rest of the world	32%
Ethiopia	40%		
Pakistan	35%		
Indonesia	30%		
Vietnam	50%		
Philippines	40%		

Source: *Chronic Poverty Report 2004-05*.

The economics literature itself offers a significant amount of research which studies the origins of self-reinforcing mechanisms or “poverty traps” that cause poverty to persist.⁴ It is widely argued that poverty traps are caused by people’s external constraints, such as market imperfections, coordination problems or institutional failures, or by other factors such as neighbourhood effects (Durlauf, 2003), fertility decisions (Nelson, 1956) or malnutrition (Dasgupta and Ray, 1986). Some scholars argue that poverty traps are the result of credit or insurance market imperfections (Loury, 1981; Galor and Zeira, 1993; Banerjee and Newman, 1991, 1993; Torvik, 1993). Others claim that coordination problems or other mechanisms which reinforce the status quo are mainly responsible for preventing economies from adopting modern production technologies (see Da Rin and Hellman, 2002; Kremer, 1993, among others). “Bad institutions” are also thought to be a source of a bad equilibrium persistence. One of the more salient examples of this type of “institution failure” is government corruption (see, for instance, Bardhan, 1997).

Although empirical evidence has not shifted the balance decisively in favour of any of these specific arguments,⁵ it is not the purpose of this chapter to explore the methodological problems that may have arisen when testing each model. Empirical problems aside, all of these models, with some exceptions, look for the causes of persistent poverty on people’s external constraints: market or institutional failure. As a result, they disregard the endogenous psycho-social constraints that are inherent in the condition of chronic poverty. Inner problems, such as lack of self-confidence and lack of aspiration, are particularly well documented in the literature of psychology, sociology and anthropology. Disregarding these psycho-social endogenous constraints does not just imply the existence of a theoretical gap in the economic literature, but also a “real world” problem when it comes to developing anti-poverty policies.

4 See, for example, Azariadis and Stachurski (2004) or Azariadis (2004) for a literature review on poverty traps.

5 As Azariadis and Stachurski (2004, p.43) make clear, “poverty traps models tend to be lacking in testable quantitative implications”. The empirical study by Bloom et al. (2003), for example, supports the existence of poverty traps, although as Azariadis and Stachurski (2004) point out, the evidence “gives no indication as to their source, or to the appropriate framework for formulating them as models”. Graham and Temple (2006) test for a particular inertial self-reinforcement model, in which there is a traditional agricultural sector characterised by decreasing returns in production and a modern sector with increasing social returns owing to technological externalities. Although they can explain some income differences between poor, low middle income and agrarian economies, they cannot account for the huge differences between the very poorest nations and the rich industrialised countries.

Poverty, together with social exclusion, leads to detrimental self-reinforcing effects on self-perception, self-confidence and lack of aspirations. As Robert Walker (1997) argues: “When poverty predominantly occurs in long spells [...] the poor have virtually no chance of escaping from poverty and, therefore, little allegiance to the wider community ... In such a scenario the experience of poverty comes very close to that of social exclusion.” (Cited in Atkinson, 1998). Mookherjee (2003) adds that “long-run poverty is fundamentally self-perpetuating [and] the entrapment goes hand in hand with [...] lack of hope”. This link between social exclusion and “lack of hope or aspirations” is also highlighted by Atkinson (1998). He argues that social exclusion is, first, a relative concept – people are excluded from a particular society at a given place and time; second, an issue of agency – people are excluded or exclude themselves; and, third, related not only to present exclusion, but also to future hopes and expectations. People are excluded not just because they are currently without a job or income, but because they have few prospects for the future.

Atkinson’s argument is also shared by the anthropologist Arjun Appadurai (2004), who argues that the poor may lack the capacity to aspire to “contest and alter the conditions of their own poverty”. For Appadurai, the “capacity to aspire” is a navigational capacity, not only an ability to set goals, but also knowing how to achieve goals. Therefore, the “capacity to aspire” combines goal-setting with a navigational capability. Empowerment is interpreted here as consisting of both opportunity and the “capacity to aspire”.

In the words of Bandura (1991): “People’s beliefs in their efficacy influence the choices they make, their aspirations, how much effort they mobilise in a given endeavour, how long they persevere in the face of difficulties and setbacks ...” Appadurai (2004) notes that poor people may lack the capacity to aspire “to contest and alter the conditions of their own poverty”.

However, unlike with external constraints, it is not clear whether such internal constraints are the cause of poverty – or its consequence. Do the poor remain deprived because they lack hope, motivation and aspirations or, as Bernard et al. (2011) claim, is it that “the poor may exhibit the same basic weaknesses and biases as do people from other walks of life, except that in poverty ... the same behaviours ... lead to worse outcomes”?

2.2 Internal constraints, aspirations and disadvantage

Chronic poverty generally comes together with social exclusion, and this combination leads to detrimental self-reinforcing effects on self-perception, self-confidence and lack of aspirations.

Likewise, Stern et al. (2005) refer to this issue, arguing that individuals “can be constrained by their aspirations and perceptions of their role, so that development depends on relaxing these constraints”. They then add: “To understand [the] path out of poverty, we have to focus not only on the growth of opportunity but also on [...] internal constraint[s] on aspirations and behaviour [...] that limit poor people’s ability to participate.”

Ray (2003) argues that poverty and failure of aspirations may be reciprocally linked in a self-sustaining trap. Indeed, “poverty stifles dreams, or at least the process of attaining dreams”. He also combines a discussion about the way aspirations may be formed and the way they may affect behaviour. Moreover, by providing a story in which individuals choose a level of effort to minimise their aspirations gap, Ray intuitively suggests that individual investment efforts should be minimal for both high and low aspiration gaps.

The work of the renowned sociologist William Julius Wilson offers clear evidence of the “social exclusion-lack of aspirations-poverty” link that was first observed in urban ghettos in the United States in 1970. Wilson (1987) makes the case that the increasing “social isolation” of the poor, especially the black poor, has greatly contributed to their poverty. “Out of sight, out of mind” allowed most of the non-poor either to deny or forget the conditions in the ghetto. Moreover, Wilson argues that causality can also go in the other direction: poverty also implies exclusion. He claims that a concentration of poverty results in the isolation of the poor from the middle class and its corresponding role models, resources and job networks. In effect, he concludes that being poor in a mixed-income neighbourhood is less damaging than being poor in a high-poverty neighbourhood.

Moreira (2003) argues that this lack of hope, together with low self-esteem, is also a common characteristic observed in the personality of Brazilians living in the north-east of the country. “As the poor lose their values, they no longer believe in themselves. They go through a process of Nihilism [denial of hope].” She claims that the greatest part of the poor population has these nihilistic characteristics, and they submit themselves to the destiny that is given by God.

The lack of confidence and hope suggests that there is a problem with the use of subjective wellbeing data as a measure of deprivation and disadvantage. In general, there is considerable evidence that there might be a “*satisfaction paradox*” (Sen, 1999), i.e. self-reported, subjective wellbeing among the poor may be no different from the population as a whole. This point is made forcefully by Rojas (2004). He reports results from a survey that was conducted in five states of central and southern Mexico as well as in the Federal District (Mexico City) during October and November 2001.⁶ Almost 90% of respondents in the survey declared that they were either happy or very happy with their lives. This finding, together with the fact that more than 50% of the people in the survey could be considered poor according to their household income, suggests that the relationship between income (a conventional indicator of poverty) and subjective wellbeing (an indicator of human wellbeing) is not strong.

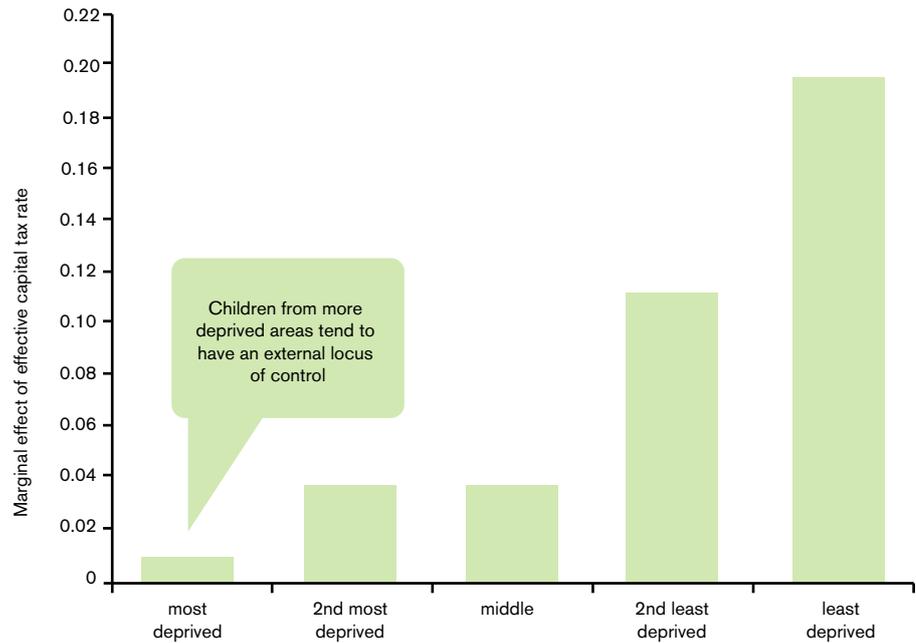
2.3 Patterns of persistent poverty and evidence of aspirations failure

If hard work is an important ingredient for success, an individual’s beliefs about the role of hard work (versus luck or other external circumstances) in influencing life outcomes is an important factor that will shape his or her efforts, goals and outcomes. A poor person’s belief on this matter may be quite different from that of a richer person. Figure 1, for instance, reflects such differences based on data from the Longitudinal Study of Young People in England (LSYPE 2006).

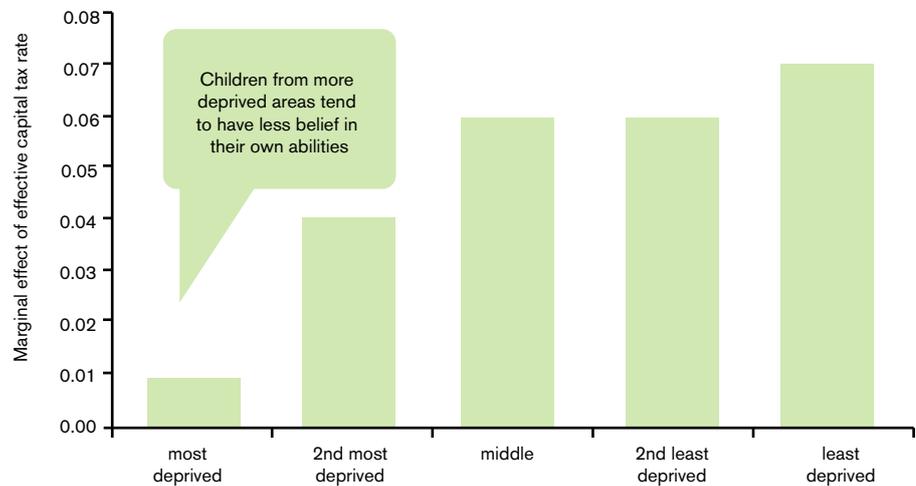
It shows that young people from deprived backgrounds believe that external factors have a bigger role to play in their life outcomes than their own efforts. This is consistent with other evidence, which shows that lower socio-economic status is typically associated with putting greater weight on the role of external circumstances in determining life outcomes (Schultz and Schultz, 2004).

6 A stratified-random survey was designed to collect information from a sample of persons. The survey was controlled by household income, gender and urban-rural areas. Rojas (2004) points out that the sample size was acceptable for inference in central Mexico; 1,540 questionnaires were properly completed.

Figure 1: Locus of control, belief in own ability and deprivation



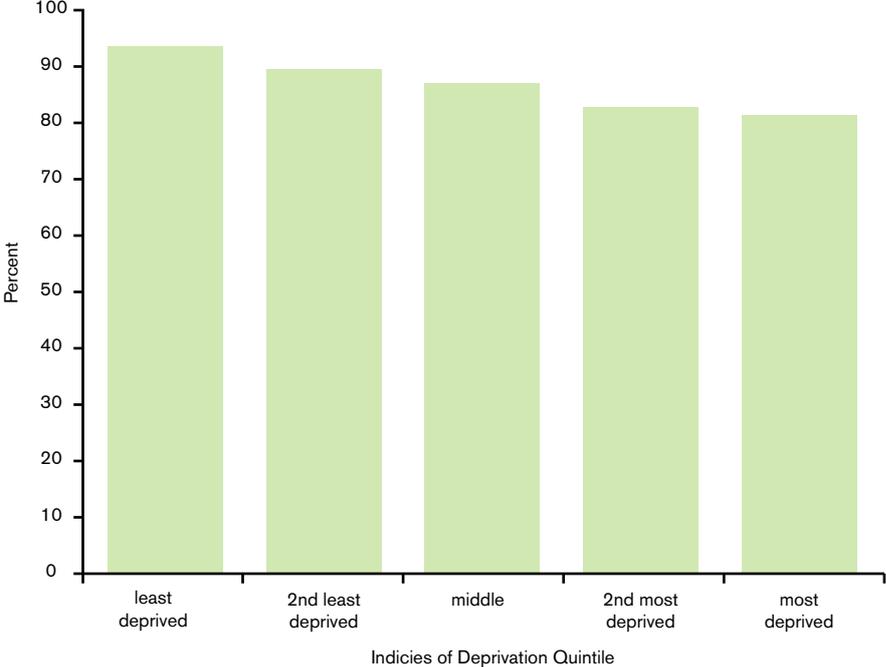
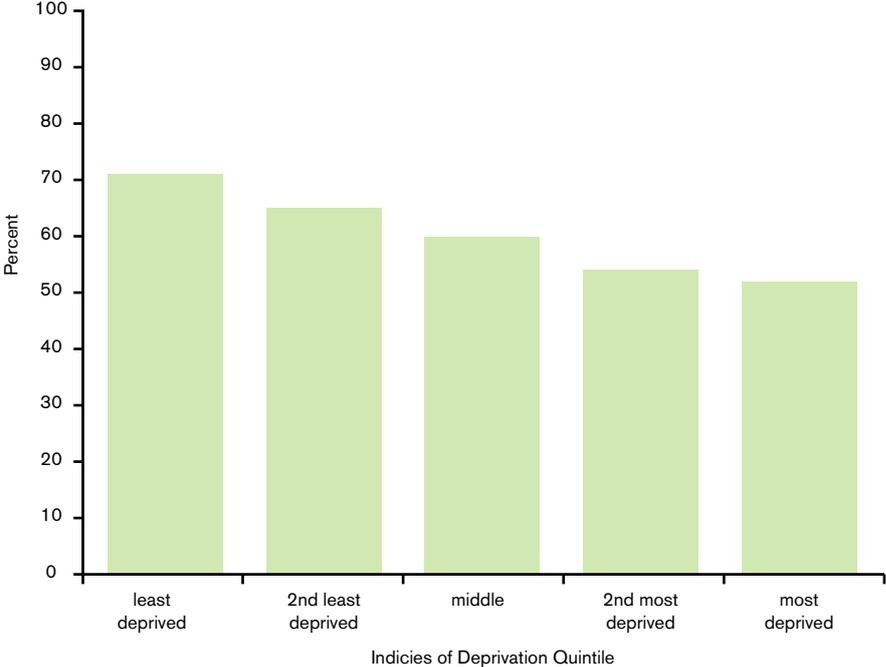
LOCUS OF CONTROL:
 Young people's beliefs about whether outcomes are determined by oneself or external forces.
 Locus of control scale measured at ages 8 / 14
ALSPAC by indices of multiple deprivation



BELIEF IN ABILITIES:
 Young people's beliefs about how clever, and how good at school work.
 Abilities belief scale measured at ages 8 / 13
Avon longitudinal study of parents and children by indices of multiple deprivation

Source: Longitudinal Study of Young People in England (LSYPE 2006).

Figure 2: Education and deprivation



Source: Longitudinal Study of Young People in England (LSYPE 2006).

Youth in the LSYPE also demonstrate less faith in their own academic abilities or overall intelligence. As Figure 2 reveals, deprived youth in the LSYPE study had the lowest academic aspirations across all income quintiles. It is plausible that these beliefs and the low aspirations associated with them arise from the reality that people see in their own lives and in the lives of those around them. No doubt, the process of aspiration formation is very much influenced by a person's social environment. In this sense, poverty and deprivation cause people to develop lower aspirations owing to an *informational* disadvantage: they witness too few success stories in their social milieu to learn what matters for success.

However, there is considerable evidence to show that external constraints also create internal responses that *compound the negative impact of adverse external factors*. For instance, the work on "stereotype threat" by the social psychologist Claude Steele (2010) and others provides experimental evidence that invoking racial/gender identity results in weaker performances in higher education among African-Americans and women respectively.

To take another case, the Dunedin Longitudinal Study in New Zealand showed that pessimistic expectations significantly increased the likelihood of frequent smoking and less frequent exercise (Clark et al., 2003) – suggesting a *feedback effect from low aspirations to low effort*, even in matters such as health, where individual motivations need not be driven by market returns alone.⁷

On the flip side, there is evidence available which points to the effects of higher "reference points" (or goals) on performance outcomes. Laboratory experimental work by Falk et al. (2011) shows that when subjects have higher reference points for earnings, they persevere longer at the experimental task. In as much as aspirations may be regarded as "reference points for life goals", this evidence underscores how higher goals can affect people's life outcomes.

In real life, such reference points emerge from the social setting that people inhabit. One important issue here is to separate two distinct effects of a poor person's social milieu on his or her choices and outcomes. One is the *information* transmission effects of a person's social milieu; the other is the set of values, beliefs and preferences that affect his or her aspirations.

Two recent papers by Jensen (2010) and Jensen and Oster (2009) provide some suggestive evidence that addresses this issue. Jensen (2010) reports the results of a field experiment in the Dominican Republic, where students were informed about the actual return differential between primary and secondary/tertiary education, which they had previously underestimated. There was a substantial increase in *perceived* returns from education – *but almost no discernible effect on the actual rates of completing secondary schooling*. This suggests, at best, a modest effect of the *informational* role of the social environment on a person's aspirations, especially among the poor.

In contrast, Jensen and Oster (2009) report substantial changes in beliefs and attitudes on a variety of gender-related issues in India as a result of being exposed to cable television programmes with inspiring female protagonists. For example, women in villages with cable television reported a lower tolerance of domestic violence and weaker preference for sons, as well as increases in autonomy and declines in fertility. The authors also find an increase in school enrolment for girls in villages where cable television arrived earlier.

7 Pessimistic expectations were themselves inversely correlated with wealth levels, broadly defined to include liquid assets, but also non-pecuniary wealth, such as family and social cohesion, health, and social status.

The contrast between the modest effects of information in the Dominican Republic and the significant effects of characters in a soap opera on gender-related beliefs and outcomes in India is striking. It suggests that a woman's social environment has a distinct *aspirational* effect on her beliefs and goals, independent of the information transmitted through the life experiences of others.

3. Behavioural poverty traps: a theoretical framework

The theoretical framework,⁸ which examines the link between internal constraints and poverty traps, is developed by Dalton et al. (2012). To understand the psychology of poverty and low aspirations, a key behavioural bias (or "internal constraint") that individuals suffer from in setting life goals or aspirations is explicitly modelled. In other words, individuals underestimate how their aspirations evolve over their lifetime as a consequence of their effort.⁹

Both the rich and the poor suffer from this bias. However, poverty imposes an additional constraint on the poor: they face much greater downside risk in their lives.¹⁰ Such risk greatly exacerbates the adverse effects of the behavioural bias in setting aspirations. By affecting the effort choices of the poor, it makes them more susceptible to an aspirations failure, i.e. a failure to aspire to, and achieve, their own best possible outcome.

Typically, in the ladder of their life's aspirations, most people are able to visualise only one rung above at a time – and not the entire pathway of how far they can travel. This bias does not operate very differently among the poor, at their own level. However, greater downside risk lowers their expected benefit of investing effort into any goal: when you are worried about whether you will get a good crop in order to have enough to eat or your child is performing at a mediocre level in school, it makes you think twice about whether it is worth hiring a remedial teacher. Lower effort increases the odds of low performance and feeds into lower aspiration and achievement in the long run.

As Banerjee and Duflo (2011) put it, referring to the reasons for poor education outcomes in developing countries: "... the teacher ignores the children who have fallen behind and the parent stops taking interest in their education. But this behaviour creates a poverty trap even where none exists in the first place. If they give up, they will never find out that perhaps the child could have made it. And in contrast, families that assume that their children can make it, or families that don't want to accept that a child of theirs will remain uneducated, which tend to be, for historical reasons, more elite families, end up confirmed in their 'high' hopes."

The theoretical formulation rests on the premise that a person's aspirations level is a reference point:¹¹ other things being equal, a (higher) aspirations level (adversely) affects the satisfaction a person receives from a particular

8 Ray (2003) provides a non-mathematical exposition of how socially determined aspirations contribute to poverty persistence. Closely related papers on aspirations include Bogliacino and Ortoleva (2011), Genicot and Ray (2011) and Stark (2006), all of which have a more macro focus. Banerjee and Mullainathan (2010) provide a model to understand how poverty may persist owing to different behavioural constraints – a lack of self-control in the consumption of certain goods.

9 Survey evidence: people underestimate how preferences evolve as their income changes over their lifetime (Easterlin, 2001); migrants underestimate how their preferences adapt with their location – ending up less happy than rural and urban non-migrants (Knight and Gunatilaka, 2008).

10 As Banerjee and Duflo (2011) put it: "Risk is a central fact of life for the poor, who often run small business or farms or work as casual laborers, with no assurance of regular employment. In such lives, a bad break can have disastrous consequences."

11 This idea dates back to Simon (1955), and more recently Selten (1998).

Table 2: Actions, aspirations and payoffs

	Low aspirations	High Aspirations
Perpetuate status quo	0+0	0-2
Change status quo	(1-c)+1	(1-c)+0

outcome.¹² Conversely, higher aspirations also spur greater effort (see Section 4 for systematic evidence of this).

The burden of greater downside risk that the poor face makes them more susceptible to an aspirations failure. The intuition underlying this result is as follows: take two individuals, one rich and the other poor, who have the same initial aspiration level. At this given aspiration level, the poor person would optimally choose a lower effort level than the rich one, owing to a lower expected marginal benefit from effort driven by risk. However, the feedback from effort to aspiration implies that the lower effort of the poor person will cause his aspiration level to diverge from that of the rich person. Therefore, the poor person has two reasons to put in a low effort: not only are the expected net benefits lower, but aspiration levels – the reference point which determines a marginal benefit of effort – are endogenously lower as well.

Two types of poverty traps emerge: standard traps that are driven by external (resource) constraints, and behavioural ones characterised by low effort, low aspirations and pessimistic beliefs. While external constraints imposed by poverty are a trigger for internal constraints, the latter can become an independent source of disadvantage in behavioural poverty traps. Therefore, policy approaches that influence beliefs and aspirations among the poor are essential to break this latter kind of trap.

It is possible to illustrate how a behavioural poverty trap works by using the following example. Consider a poor individual whose decision-making problem involves choosing between low effort that maintains the status quo and high effort that changes the status quo (working harder at school or undertaking additional training, embarking on a new project, changing the neighbourhood etc.) at an extra cost $c > 0$. The individual can have “high aspirations” or “low aspirations”. Table 2 provides a quick summary of the decision problem.

In this example, the payoffs are an additive function of two components: (a) an action-based payoff, and (b) a psychological state-based payoff which reflects gains and losses relative to a reference point defined by the aspiration level of the individual. The first component in the payoff table above refers to the action-based payoff, while the second component refers to the psychological state-based payoff. For simplicity's sake, it is assumed that (a) choosing the action “perpetuate status quo” results in the individual being stuck in the status quo, caught in a poverty trap with certainty, while (b) choosing the action “change status quo” results in the individual exiting the poverty trap with certainty.¹³ Moreover, it is assumed that “low aspirations” goes with the agent being stuck in the status quo, and “high aspirations” goes with the agent exiting the poverty trap.

The action-based payoff of “perpetuating the status quo” (i.e. being stuck in a poverty trap) is normalised to 0 (0 benefit + 0 effort cost); the action “change the

12 See, for instance, Medvec et al. (1995), who study the expectations and emotions of Olympic athletes and find that bronze medal winners tend to have a higher level of satisfaction than silver medal winners.

13 Alternatively one could assume the agent exits with a high probability when he chooses the action “change status quo”: this would alter the precise computations reported here, but yield qualitatively similar results.

status quo” results in an action-based payoff of $1-c$, where 1 is the payoff gain from exiting the poverty trap and c is the effort cost involved. Perpetuating the status quo when the reference point is “low aspirations” generates a psychological payoff of 0 (no loss or gain relative to the reference point); changing the status quo when the reference point is “low aspirations” generates a psychological payoff of 1 (a gain relative to the reference point).

Perpetuating the status quo when the reference point is “high aspirations” generates a psychological loss of -2 (that the psychological loss is greater than the psychological gain reflects loss aversion when aspirations act as a reference point); changing the status quo when the reference point is already “high aspirations” is psychologically neutral (no payoff loss or gain).

The agent mistakenly does not internalise the fact that there is a feedback from actions to aspirations. Consequently, the behavioural agent with “low aspirations” will perpetuate the status quo whenever $2-c < 0$ (equivalent to $2 < c$) and ends up stuck in a poverty trap. However, if the initial aspirations of the behavioural agent could, by a suitable intervention (discussed in Section 4 below), be altered to “high aspirations”, then the behavioural agent will choose to change the status quo as long as $-2 < 1-c$ (equivalent to $c < 3$). Therefore, whenever $2 < c < 3$, the behavioural agent is stuck in a behavioural poverty trap. Clearly, the way out of such a trap is to raise the aspirations of the individual.

4. Behavioural poverty traps: fieldwork in Kolkata, India

If aspirations failure could emerge endogenously as an adaptive response to extrinsic disadvantage and, over time, become an additional source of disadvantage for poor individuals, it is instructive to examine what empirical evidence there is for this. Recent empirical work (Miguel and Kremer, 2004; Duflo, 2003; Jensen, 2010; Cole et al., 2009) has shown that enhancing the opportunity sets of individuals and the availability of payoff-relevant information on their own may have limited impact.¹⁴ Could other constraints, such as those internal to an individual or a community caught in a poverty trap, have a role to play? Based on available evidence, there is a paucity of empirical studies using a randomised control trial methodology that aim to examine the impact of directly raising aspirations and mitigating internal constraints on decision-making and economic outcomes.

In ongoing research,¹⁵ a new micro-level empirical analysis in Kolkata, India is being carried out. The main focus of the investigation is on whether a programme that aims to raise the aspirations of a marginalised group in society, sex workers, can have a positive impact on aspirations and self-perception (as measured by self-efficacy and locus of control) and, in turn, on actions (e.g. savings behaviour) to improve their own wellbeing.

14 For example, Miguel and Kremer (2004) report that only 57% of a sample of villagers in Kenya picked up free deworming pills, which were shown to greatly improve children’s health and performance. Cole et al. (2009) report that financial literacy training had a negligible impact on the actual likelihood of opening a bank account.

15 This section reports data collected in the course of a pilot study carried out by Sanchari Roy, Anandi Mani and Sayantan Ghosal (all CAGE researchers) in collaboration with Dr Smarajit Jana (of Durbar). The pilot study has been scaled up to 600 participants, and at the time of completing this chapter data collection was in its second phase. The pilot project has been completed and the full-scale study is due to be concluded in May 2013.

The training programme, called “Dream Building”, will be carried out in collaboration with the Durbar Foundation, a non-governmental organisation working with sex workers in Kolkata. It will consist of eight sessions, during which experienced trainers associated with Durbar will attempt to lift the aspirations of the participating sex workers through novel methods of discussion and engagement. Given the social stigma attached to the sex trade, particularly in India, many workers in this profession suffer from a loss of hope and a sense of defeat.

The programme aims to give sex workers a renewed sense that they are entitled to have hopes and aspirations (just like any other person in mainstream society), to teach them how to work towards realising these aspirations and to develop a positive, pro-active outlook regarding their future. It is also interesting to note that some of the trainers in this programme are themselves former sex workers who have now successfully reinvented their lives and careers and can thus serve as role models for the participants to make the programme even more effective.

Between February and July 2011 data were collected in a small-scale pilot study. A sample of 34 sex workers was randomly selected for the study in the localities of Khidirpore (18) and Kalighat (16). Baseline interviews were carried out with these women in February-March 2011, weekly “dream-building” workshops were held during April-May, and an end-line interview took place in July. In addition to the original group of 34, a further eight women (four in each locality) were interviewed (only once) as part of a control group in June 2011, i.e. they were not exposed to the dream-building workshops. For the purposes of the pilot scheme, the set of outcome variables the researchers focused on related mostly to behavioural and psychological measures, including opinion about oneself, sense of shame (due to the association with sex work as a profession), feeling of discrimination, locus of control, decision-making, mobility, etc.

(i) Pre- versus post-analysis

Two sets of analyses have been conducted. First, a simple pre-post analysis was carried out of the 34 women who constituted the original sample, all of whom were exposed to the dream-building workshops. The regression equation is as follows:

$$Y_{ilt} = a_0 + \beta \cdot kali_i + \gamma \cdot post_t + \delta \cdot kali_i * post_t + X_{it} + \varepsilon_{it} \quad (1)$$

Where Y_{ilt} denotes the relevant outcome variable for individual i in location l at time t , $kali_i$ captures if the individual lived in Kalighat or Khidirpore (fixed effect for Kalighat), $post_t$ denotes post-intervention period and X_{it} denotes individual level controls.¹⁶ The coefficient of interest is γ . It should be reiterated here that the “dream building” intervention was rolled out in both localities, so γ essentially estimates the difference between pre-intervention and post-intervention outcomes for the treatment group alone, but the interaction term with Kalighat is thrown in to check if there were any differential effects based on locality.

As previously mentioned, the relevant outcome variables are opinion about oneself, sense of shame (due to the association with sex work as a profession), feeling of discrimination, self-confidence, locus of control, decision-making and mobility. Each is constructed to be a binary variable based on a series of questions that were asked in surveys relating to the issue in question. For example, regarding

¹⁶ The constant term a_0 captures the level of the relevant outcome variable in Khidirpore pre-intervention, while the coefficient β on $kali_i$ captures the differential effect in Kalighat, also pre-intervention.

Table 3: Pre- versus post-analysis of “Dream Building” intervention on outcomes

	Opinion about self	Shame	Discrimination	Self-confidence	Locus of control	Decision-making	Mobility
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Kali	-0.24	0.17	0.13	0.14	0.34***	-0.01	-0.21*
	(0.16)	(0.14)	(0.13)	(0.16)	(0.12)	(0.09)	(0.12)
Post-intervention	0.29**	-0.29**	0.28**	0.39**	0.83***	0.06	0.22**
	(0.14)	(0.14)	(0.12)	(0.15)	(0.11)	(0.09)	(0.11)
Kali*post-intervention	0.28	0.08	-0.16	-0.05	-0.30*	-0.24*	0.21
	(0.21)	(0.20)	(0.18)	(0.22)	(0.17)	(0.13)	(0.16)
Constant	0.60***	0.29***	0.00	0.39***	0.06	0.94***	0.78***
	(0.10)	(0.10)	(0.09)	(0.11)	(0.08)	(0.07)	(0.08)
Adj. R-sq	0.20	0.11	0.05	0.12	0.54	0.07	0.19
No. of observations	60	66	67	67	67	68	66

Note: “***” (1%), “**” (5%), and “*” (10%) statistical significance.

opinion about oneself, the question asked was: “What is your opinion about yourself?”, and the answer options were: “I am a bad woman”, “I am a fallen woman”, “I have no future”, “I am somehow living my life”, “I am committing a crime”, “I am committing a sin”, “I have no opinion”, “I am a service provider/entertainment worker” and “I do it to feed myself and there is nothing wrong with it”. For the last two answers, the corresponding binary variable “opinself” is assigned the value 1, and 0 otherwise.¹⁷

Table 3 presents the results of this analysis. Being exposed to the dream-building workshop improves the sense of self-worth in treated women – they are 0.29 percentage points more likely to think of themselves as being no different from any other informal sector worker in India, and less likely to think of themselves as being a fallen woman or a sinner (column 1). They are also 0.29 percentage points less likely to feel ashamed of their occupation (column 2). Column 3 indicates that post-intervention, these women are also 0.28 percentage points more likely to feel discriminated against, which might be reflective of their heightened sense of self-worth that is consistent with the result in column 1. There does not appear to be any differential impact of the treatment across the two localities for these three outcomes.

Being exposed to the aspiration-developing workshops also improved the self-confidence of these women (column 4) and strengthened their belief that their life was under their control (column 5). Self-confidence is measured using a binary variable based on a series of seven questions, including whether the respondent is comfortable about speaking out and being seen in public, interacting with outsiders such as police officers, discussing her profession with her children, neighbours etc. The binary variable takes the value 1 if a respondent answered yes to four out of these seven questions, and 0 otherwise. Post-intervention, women in the sample were 0.39 percentage points more likely to be self-confident. Again, no differential impact of the treatment is observed for the women living in Kalighat.

Locus of control, on the other hand, is measured using a series of eight questions, including whether the respondent feels she can resolve problems with the police, landlord, local people, goons, pimps and clients, as well as handle

¹⁷ More details on the survey questionnaire are available on request.

sudden crises in her life. The measure takes value 1 if the respondent answered yes to five out of these eight questions (taken to denote crudely an “internal” locus of control) and 0 otherwise. Post-intervention, women in the sample were 0.83 percentage points more likely to display internal locus of control (column 5). However, among the group of sample women in Kalighat, 0.30 percentage points were less likely than their Khidirpore counterparts to do so, although the coefficient is only marginally significant.

Column 6 indicates that the intervention is found to have no significant effect on their decision-making measured in the context of financial matters, the future of their children, personal purchases, health, condom usage, etc. This should perhaps not be too surprising, given that even before this intervention was carried out, a very high proportion of sample women were already making a majority of their decisions on their own, as indicated by the constant term whose magnitude is 0.94, which is highly significant. Finally, there appears to be a positive and significant impact of the intervention on the mobility of these women (column 7). Post-treatment, these women were 0.22 percentage points more likely to attend social functions, travel alone, etc.

(ii) *Treatment- versus control-analysis*

In a treatment-control analysis, the outcomes between the treatment group of 34 women who were exposed to the intervention and a control group of eight women who were not, but who were interviewed after the completion of the intervention, can be compared. The regression equation is as follows:

$$Y_{it} = a'_0 + \beta' \cdot kali_i + \gamma' \cdot treat_i + \delta' \cdot kali_i * treat_i + X_{it} + \varepsilon_{it} \quad (2)$$

Where the variables depict the same as in equation 1 above, and $treat_i$ denotes if the woman was assigned to the treatment group or not.¹⁸ Table 4 presents the results. The impact on self-worth, self-confidence, locus of control, decision-making and mobility is qualitatively similar to the results obtained in the pre-post analysis of Table 3. In the case of shame, the coefficient is very similar and insignificant. In the case of discrimination, the treated women are less likely to feel discriminated against, but the coefficient is also insignificant. The other point to note is that in this treatment-control analysis it was found that for some of the outcome variables, such as self-worth, decision-making and mobility, women in Kalighat benefited less from participating in the dream-building workshops than those in Khidirpore.

18 In this regression equation, the constant term a'_0 denotes the level of the relevant outcome variable in the control group of women in Khidirpore, while the coefficient β' on $kali_i$ denotes the same for those in Kalighat.

Table 4: Treatment-versus-control analysis of “Dream Building” intervention on outcomes

	Opinion about self	Shame	Discrimination	Self-confidence	Locus of control	Decision-making	Mobility
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Kali	0.67***	0.25	-0.03	0.50*	0.42	0.25	0.75***
	(0.23)	(0.25)	(0.16)	(0.29)	(0.26)	(0.22)	(0.10)
Treatment	0.89***	-0.25	-0.72	0.53**	0.56**	0.25	1.00***
	(0.17)	(0.20)	(0.47)	(0.23)	(0.21)	(0.17)	(0.08)
Kali*Treatment	-0.62**	0.00	(dropped)	-0.40	-0.37	-0.50**	-0.75***
	(0.25)	(0.28)		(0.32)	(0.28)	(0.25)	(0.11)
Constant	-0.00	0.25	1.00***	0.25	0.33*	0.75***	0.00
	(0.15)	(0.18)	(0.45)	(0.20)	(0.19)	(0.16)	(0.07)
Adj. R-sq	0.43	0.12	0.02	0.10	0.13	0.08	0.82
No. of observations	41	42	35	42	41	42	42

Note: "****" (1%), "***" (5%), and "**" (10%) statistical significance.

5. Designing pro-poor interventions

Taken together, the theoretical and empirical analysis of behavioural poverty traps implies that anti-poverty initiatives aiming to tackle persistent poverty need to be mindful of two important issues:

- i. the need to reshape beliefs among the poor, in addition to providing resources; and
- ii. the importance the poor attach to similarity in forming their beliefs.

As Bandura (2009) puts it: “Failure to address the psychosocial determinants of human behaviour is often the weakest link in social policy initiatives. Simply providing ready access to resources does not mean that people will take advantage of them.”¹⁹

Pro-poor policy interventions need to alter internal constraints (such as aspirations), in addition to relaxing external constraints. Changing beliefs is important to break aspiration failure driven by poverty traps. This could be achieved by changing the initial aspirations of parents.

Bandura cites the case of a national literacy programme in Mexico, in which people who were skilled at reading were urged to organise small self-study groups to teach others how to read. Although it was a good idea, there were few takers. Upon conducting a survey, Bandura’s team identified three beliefs among poor illiterate persons that impeded their participation: that reading is learnable only when one is young, that they lacked the ability to master such a complex skill, and that an educated person would not be interested in devoting his or her time to them. In collaboration with the Population Media Centre (PMC), Bandura developed a soap opera that worked to allay these specific misbeliefs,²⁰ which resulted in a dramatic increase in the take-up rates for the programme.

19 This quote and the material below are based on a lecture by Alberto Bandura to the British Psychological Society. An edited version was published in *The Psychologist* (2009).

20 In the drama, a popular star played the role of the literate person to whom various illiterate characters voice their self-doubts, and the instructor corrects their misbeliefs and persuades them that they have the ability to succeed.

Soap operas have thus been created to tackle beliefs and social issues among the poor in a number of developing countries such as Sudan (forced marriage, genital mutilation), Kenya (property rights for women), India (gender inequality in child-rearing, education for girls) and Tanzania (family planning, HIV/AIDS). These soap operas emphasise the similarity between their target audience and the life experiences of the soap opera characters. Bandura argues that it is this kind of similarity that has allowed the target audience to identify with the drama characters over the course of the series, resulting in a significant change in aspirations and effort.

6. Policy conclusions

- A key policy concern in emerging-market economies is the appropriate design of pro-poor policy interventions to maximise their impact on alleviating poverty. Addressing such policy concerns requires analysing the origins of self-reinforcing mechanisms, or “poverty traps”, that cause poverty to persist. Within economics, a significant strand of research focuses on the role of external constraints, such as market imperfections, coordination problems or institutional failures in perpetuating poverty traps. Policy organisations such as the UK Department for International Development (DFID), the World Bank and numerous non-governmental organisations working in developing countries tend to focus mainly on relaxing external constraints instead of focusing on altering internal constraints.
- However, there is a growing and increasingly influential body of work that emphasises the role of endogenous internal constraints (e.g. learned helplessness, pessimistic beliefs and an external locus of control) which adapt to the condition of chronic poverty and become, over time, an independent source of disadvantage for poor individuals in their own right.
- Pro-poor policies that take into account the need to alter internal constraints (e.g. raise aspirations) among the poor will have a greater impact on poverty alleviation than policies that address external constraints alone. For example, ongoing CAGE fieldwork documents the impact of “dream-building” sessions (pioneered by the Durbar Foundation) to empower and alter the behaviour of a marginalised, stigmatised community of sex workers in Kolkata. Results from initial, small-scale work provide suggestive evidence of the potential impact of interventions that raise aspirations (usually internal constraints) on the psychological constraints.

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