

## Choosing Policy Instruments to Reduce Hunger and Poverty: Is It Possible to Overcome the Feasibility Dilemma?

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Regina Birner

**S**o far in this first decade of the 21st century, more than 1 billion people are subsisting on less than a dollar a day,<sup>1</sup> and more than 800 million people are suffering from hunger. Many countries, most notably in Asia, have had spectacular success in reducing their overall rates of poverty and hunger, but these countries still have regions where poverty remains widespread. And despite its high rates of poverty reduction, South Asia still has the greatest prevalence of underweight children in the world. In Africa, the number of poor people increased during the past two decades as poverty reduction failed to keep pace with population growth.

Poverty and hunger persist throughout the world, even though their eradication has held prominence on the international agenda for more than half a century. The Food and Agriculture Organization of the United Nations was one of the first global institutions created at the end of World War II because the international community recognized the need to ensure adequate food for all as a precondition for security and peace. Political declarations have continued voicing the goal of reducing poverty and hunger, most notably in the Millennium Development Declaration adopted by more than 190 nations in 2000. Given the billions of dollars invested and the commitment of the international community, why has overall progress in eradicating poverty and hunger been inadequate?

Policy instruments that could be useful in reducing poverty and hunger are not in short supply. They include public investments aimed at promoting pro-poor

growth, redistributive policies, and social safety nets. Thinking and practice on the appropriateness of various policy instruments have changed over time; some instruments have reappeared in different forms, such as community-oriented development, and new ones have been invented, such as microcredit. Choosing the appropriate mix of policy instruments to reduce poverty and hunger is at the heart of nearly every country's effort to define its development strategy. In view of trade-offs and the need for value judgments, the choice of policy instruments is inherently political, and views on the right mix of growth-promoting, redistributive, and environmentally sensitive instruments differ across the political spectrum, especially between the right and the left. The analytical techniques used to assess the combinations of policy instruments have evolved in past decades—for example, computable general equilibrium models. Yet analysts often ignore the reality that every option for reducing poverty comes with at least one of three major challenges: political feasibility, administrative feasibility, and fiscal feasibility.

The challenge of political feasibility implies that a policy instrument is politically contested and provokes political opposition. Instruments that face this challenge, such as land reform, are either not adopted at all or are implemented half-heartedly. The challenge of administrative feasibility points to the need for a well-functioning and effective public administration to implement the respective policy instruments. Policy instruments that are technically complex or create scope for corruption, such as large-scale infrastructure projects, are particularly vulnerable to this challenge. The fiscal feasibility challenge especially affects policy instruments that require a constant flow of financial resources and are difficult to maintain over time, especially after donor funding ends; agricultural advisory services fall into this category. Likewise, policy instruments that require high investments, such as large-scale infrastructure, face fiscal feasibility issues. The fiscal feasibility challenge can lead to political challenges: if the poor lack political voice, the financial resources needed to provide services or infrastructure are either not invested or not directed toward the poor.

### Types of Policy Instruments and Their Challenges

Various types of policy instruments and their associated challenges are presented in Table 39.1. Any assessment of policy instruments must consider country-specific conditions, political beliefs, and values, as mentioned previously. Thus, the table is not exhaustive but serves to illustrate what can be called a feasibility dilemma: policy instruments that are not politically contested tend to involve the challenges of fiscal feasibility, and vice versa; almost all policy instruments face the challenge of administrative feasibility; and every type of policy instrument involves at least one of these challenges.

**Table 39.1 Feasibility challenges of various types of policy instruments to reduce poverty and hunger**

Type of policy instrument (example)	Political feasibility	Administrative feasibility	Fiscal feasibility
Redistribution of assets (land reform)	Low	Low	Low/neutral
Investment in public infrastructure (roads, irrigation)	Low/high	Low	Low/neutral
Investment in public services (health, education)	High	Low	Low
Investment in technology (agricultural research, extension)	Low/neutral/high <sup>a</sup>	Low	Low/neutral/high <sup>a</sup>
Social safety nets (food-for-work or other public works, insurance schemes)	High	Low	Low
Subsidies, trade protection (regulating producer and consumer prices, input subsidies for agriculture)	High	Low	Low
Market liberalization policies (switching to targeted subsidies, trade liberalization)	Low	Low/neutral/high <sup>b</sup>	Low/neutral/high <sup>b</sup>
Pro-poor fiscal and tax policies	Low	Low	High
Affirmative action	Low	Low/neutral	Neutral

Source: Devised by the author and informed by discussions with the authors of *World Development Report 2008: Agriculture for Development* (Washington, DC: World Bank, 2007).

Notes: The table does not include an assessment of the appropriateness of the respective policy instruments with regard to reducing poverty and hunger. Policy instruments are rated "high" on political feasibility if they are not confronted with major political opposition. However, it may be difficult to create sufficient political support for the respective instruments.

<sup>a</sup>Depending on the type of technology.

<sup>b</sup>Depending on the type of market liberalization policy.

### The Political Feasibility Challenge

Redistributive policy instruments are almost always politically contested because, by definition, they create winners and losers. The political feasibility challenge is particularly pronounced if the losers are politically powerful and well connected, as is usually the case with redistributive land reform. Not surprisingly, successful reforms are typically linked to special political situations, such as major regime changes, as in Taiwan. Making tax policies more pro-poor by reducing tax evasion, for example, is politically difficult because the losers are politically powerful. The same applies to affirmative action policies, such as reserving positions in public administration or in the education system for socially disadvantaged groups. India's reservation policies are an example. Likewise, market liberalization policies are politically contested because they create losers. Hence, market liberalization policies typically are imple-

mented only under the pressure of conditionalities, as was the case with structural adjustment lending, or under the obligations of international trade negotiations, most notably those within the World Trade Organization.

Investment in infrastructure may be politically contested for environmental and social reasons, as in the case of large-scale infrastructure projects like dams. However, developing or improving small-scale infrastructure, such as rural roads and irrigation facilities, often has a positive political payoff. In addition, investments in social services, such as health, education, and agricultural advisory services, rarely face political contests. As indicated previously, the political challenge of these instruments is not opposition but the weak political voice of the poor, especially the rural poor, which stifles their ability to convey their needs and preferences for public infrastructure and services. The same applies to social safety nets. Nontargeted subsidies and trade protection are typically promoted politically by special-interest groups. They do not face general political opposition but are confronted with criticism from international financial institutions, donor agencies, and the domestic policy circles that promote market liberalism.

Most public investments in new technologies are not politically contested because they have the potential to increase the income of the poor while avoiding the political opposition inherent in redistributive instruments. However, some new technologies are politically contested, either because of environmental concerns, as in the case of agricultural biotechnology, or because they are expected to have negative effects on the poor, as in the case of agricultural mechanization in labor-abundant economies.

#### The Administrative Feasibility Challenge

Almost all policy instruments are accompanied by the challenge of administrative feasibility (see Table 39.1). This challenge is particularly pronounced if policy instruments are transaction intensive, implying that they require frequent activities across a variety of locations. At the same time, instruments that are discretionary or specific are difficult to standardize. Further, the transaction costs of monitoring and supervising such activities are very high. Services, such as primary education or agricultural extension, fall into this category: they must be provided every day, all over the country, and they require dedicated staff to meet the specific learning needs of children or the specific knowledge demands of farmers.

Other factors that contribute to the administrative feasibility challenge are scope for corruption and technical complexity. Large-scale infrastructure projects are affected by both factors. Many irrigation projects in Africa failed because they were not well designed for the specific hydrological conditions and because corruption in procurement lowered the quality of their construction. State intervention into markets—for example, restrictions on the marketing of agricultural products—

typically creates scope for rent seeking and corruption, even if such interventions are not technically complex. Accordingly, policy instruments that reduce the level of state intervention in the economy, such as market liberalization, are among the few policy instruments that have advantages in terms of administrative feasibility. However, in areas in which market failures are inherent, such as electricity utilities, privatization can foster corruption because it requires effective regulation to prevent corruption. Likewise, the move from general price supports to targeted subsidies involves an administrative feasibility challenge. Targeting subsidies, such as those for foodgrains, to individual households is a complex process subject to corruption, as India's Public Distribution System has shown.

#### The Fiscal Feasibility Challenge

Policy instruments that require a constant flow of budgetary resources, such as social services and social protection programs, are typically confronted with problems of fiscal feasibility. Teachers and health facility staff, for example, often do not receive their salaries regularly, which results in high absentee rates and low service quality. If extension agents lack operational resources, such as transportation to get to the field, they cannot be effective. Large-scale infrastructure projects are also confronted with fiscal feasibility challenges, but they are more easily financed by donor funding. In the case of infrastructure such as roads, drinking water facilities, and irrigation, maintenance is particularly susceptible to the fiscal feasibility challenge. Market interventions differ widely with regard to their fiscal feasibility implications because some, such as import tariffs, generate budgetary resources, while others, such as input or export subsidies, require financial resources.

#### Overcoming the Feasibility Dilemma

Each type of policy instrument faces at least one of the three feasibility challenges, and many are confronted with two (see Table 39.1). Current efforts to formulate development strategies often include assessing the fiscal feasibility challenge, because it is the focus of international financial institutions and donor organizations. In contrast, the challenges of political and administrative feasibility often receive less attention. Although this chapter provides some guidelines, in practice the limitations of policy instruments depend on context-specific conditions. Having experts and stakeholders participate in assessing feasibility challenges may foster a realistic country-specific appraisal. The assessments could be integrated into the participatory processes of developing poverty reduction strategy papers or other development strategies or sectoral policies.

An assessment of feasibility challenges is useful in devising strategies for dealing with them. Three strategies are possible: (1) selecting an instrument that is "second

best” from an economic perspective but involves fewer feasibility challenges than the “first best” instrument, (2) adjusting the design of the policy instrument or its implementation modalities to reduce the challenges confronted, and (3) improving the political, administrative, and fiscal conditions. Although the first and second strategies can be applied in the short term, the third strategy requires a longer time commitment. The second and third strategies are summarized in Table 39.2.

#### Strategies to Deal with the Political Feasibility Challenge

For redistributive policy instruments, one important strategy to improve political feasibility is to compensate the losers. In the case of land reform, for example, the state could compensate landowners. However, this leads to the fiscal feasibility challenge. Packaging popular policy reforms with unpopular ones can also reduce the political feasibility challenge. Some policy reforms can be introduced “by stealth” (“below the radar” of public attention). The Mexican program of poverty alleviation, Programa de Educación, Salud, y Alimentación (PROGRESA, now Oportunidades), which introduced direct cash transfers, was piloted in a remote area to avoid possible opposition until policymakers could prove its effectiveness. Policymakers can also use “windows of opportunity,” such as those arising after a change of government. One way to promote the introduction of targeted subsidies is to improve transparency about the extent to which nonpoor people benefit from untargeted subsidies. For example, increasing transparency on the extent to which better-off farmers benefit from agricultural input subsidies and from price supports can help to promote pro-poor reforms.

**Table 39.2 Strategies to overcome the feasibility challenges of policy instruments to reduce poverty and hunger**

Adjusting policy design and implementation	Improving the underlying conditions
<i>Political feasibility challenge</i>	
Compensating the losers: packaging unpopular measures with popular ones	Strengthening the political voices of poor people
Using “windows of opportunity,” stealth	Democratization
Increasing transparency	Political decentralization
	Social mobilization / political organization
<i>Administrative feasibility challenge</i>	
Reducing technical complexity	Supply-side reform strategies
Reducing the scope for corruption	Increased capacity and incentives
Working with nongovernmental organizations	Administrative decentralization
	Demand-side reform strategies
	Social audit
	Citizen report cards
	Right to information
<i>Fiscal feasibility challenge</i>	
Recovering costs	Reform of the budgetary process
Targeting	Reform of tax system

Source: Devised by the author.

A major challenge to reducing poverty and hunger is the lack of political voice of poor and food-insecure people. The problem is most severe for the rural poor, as emphasized by “urban bias” literature. The social and political mobilization of the rural poor is undoubtedly an important factor—perhaps the most important factor—in overcoming the political feasibility challenge. The type of political regime affects the opportunities that rural poor have to develop their voice. Democracies have a better record in avoiding famines, as Amartya Sen has shown, but the relationship between the type of political regime and success in reducing poverty is complex. A range of nondemocratic regimes had remarkable success in reducing poverty. These regimes had a strong development orientation, in some cases combined with an egalitarian ideology, as in China. The emphasis on political decentralization in recent decades is associated with the hope that bringing government closer to the people will strengthen the voice of the rural poor. However, whether it is easier to prevent local elites than national elites from capturing development resources depends on country-specific political and socioeconomic conditions.

#### Strategies to Deal with the Administrative Feasibility Challenge

One short-run strategy to deal with the administrative feasibility challenge is reducing the technical complexity of policy instruments and their scope for corruption. For example, the pumps now promoted for supplying drinking water in rural Ghana are technically less complex than those used earlier, enabling community members to maintain and repair the pumps themselves. Offering public works programs at a wage below the market is a targeting strategy that eliminates the need to identify target households and reduces the scope for corruption. In so-called failed states—where public administration is virtually absent in large parts of the country—working with NGOs may prove an important strategy. In the agricultural sector, producer organizations can play a major role in providing services. In India, dairy cooperatives provide livestock services to more than 12 million households, benefiting poor households, women in particular, who may not otherwise be reached by public or private service providers.

In the medium and long terms, the most promising option for overcoming the administrative feasibility challenge is to improve the quality of public administration. Efforts to improve public-sector management have a long history. Early efforts focused on the “supply side” of public administration by providing training, promoting merit-based recruitment and promotion, adjusting the pay scales of civil service employees, and strengthening the systems used in managing procurement, auditing, and public expenditures. More recent approaches have targeted demand-side reforms, strengthening the capacity of citizens to demand public services and hold service providers accountable. Examples include citizen report cards, social auditing, public-service delivery surveys, and participatory planning and budgeting.

Civil society organizations play an important role in these strategies, as exemplified by India's "right-to-information" campaign.

Donor policies can contribute to overcoming the administrative feasibility challenge in several ways. Donor coordination, as agreed in the Paris Declaration on Aid Effectiveness, reduces the administrative burden caused by fragmented development assistance. Administrative feasibility is also enhanced by avoiding externally imposed solutions at odds with local institutions, needs, and practices. Another important strategy is avoiding "blueprinting," instead choosing flexible and adaptable approaches that provide opportunities for learning.

#### Strategies to Deal with the Fiscal Feasibility Challenge

Among the strategies available for coping with the fiscal feasibility challenge are cost recovery approaches, including charging user fees for drinking or irrigation water or for agricultural extension. These approaches have their own political feasibility challenges. Moreover, making them pro-poor may require special provisions, such as exempting the basic consumption of the commodity from user charges. The targeting of subsidies is another strategy, even though this approach is confronted with both political and administrative feasibility challenges, as indicated previously.

Strategies to promote fiscal feasibility at the system level include reforms of the budgetary process and the tax system. Increasing tax revenues makes it possible to expand public spending for poverty reduction without jeopardizing macroeconomic stability goals. In many countries, the tax system is far from pro-poor, because wealthier households are in a much better position to avoid paying taxes. Increasing the contribution that better-off citizens make to a country's tax revenues could go a long way toward meeting the fiscal feasibility challenges of pro-poor policy instruments, even though the political feasibility challenge of this strategy has to be met.

#### Conclusion

Progress in achieving the first Millennium Development Goal—to halve hunger and poverty by 2015—has proved difficult, but reaching the "other half" of the poor and food insecure is an even greater challenge. Nevertheless, freeing the world of hunger and poverty is possible. Focusing on the three types of feasibility challenges discussed in this chapter is an important step toward this goal.

#### Note

1. \$1.08 at 1993 purchasing power parity.

### For Further Reading

Levy, B., and S. Kpundeh, eds. *Building state capacity in Africa*. Oxford: Oxford University Press for the World Bank, 2004.

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