

# Opinion

## Focus actions to reduce poverty

By Bjorn Lomborg

**S**INCE 2000, Ghana's development has been a real success story. The country has witnessed sustained economic growth, with real GDP per capita increasing by 3.5 per cent per year on average and extreme poverty levels falling by almost 80 per cent according to the Ghana Statistical Service (GSS).

However, in recent years, poverty levels have barely changed nationally and it appears to be worsening in certain parts of the country. The rural savannah area contains 75 per cent of the country's extreme poor, with 36 per cent of the population living in extreme poverty, up from 27 per cent in 2013.

Remaining clusters of poverty will be harder and more expensive to eradicate and public spending has to explore effective ways to make sure limited resources are used in the smartest ways possible.

Ghana Priorities, a collaboration between the National Development Planning Commission (NDPC) and Copenhagen Consensus, aims to find the best solutions for the country by studying the social, environmental and economic costs and benefits of policy initiatives. The project has 28 teams of economists evaluating more than 80 policies to find out which ones offer the biggest return for every cedi spent.

Their research on new initiatives, ranging from childhood nutrition to education and malaria prevention, is being released over the following weeks with the intention of offering valuable insights to policymakers.

### Poverty graduation

Charles Adjasi from the Stellenbosch University in South Africa and Brad Wong from the Copenhagen Consensus studied the effects of four well-known policy instruments designed to improve livelihoods: poverty graduation programmes, cash transfers, microfinance and social housing.

Poverty graduation, first developed in Bangladesh by the non-

governmental organisation, BRAC, is a multi-faceted and intensive programme that aims to permanently lift extremely poor households out of poverty. Households are given assets, typically livestock and training to use those assets to earn a living.

They are offered additional support throughout the two years of the programme: cash, life coaching, health and banking services and community integration. Research from across the world has shown that this initiative is successful in generating long-lasting boosts to income, assets and food security.

For Ghana, the benefits would be worth GH¢ 17,600 to the household. However, the programme is expensive, at GH¢ 9,600 per household. This still represents a return of 1.8 times higher than the original investment.

### LEAP

Another initiative the researchers studied was Ghana's Livelihood Empowerment Against Poverty program (LEAP), that provided cash grants and health insurance to poor households.

The intervention suggests increasing the stipend by seven per cent for 81,600 households living in regions with higher costs of living. This would require an additional GH¢ 13

million per year or GH¢160 annually for eligible households.

Previous evaluations of LEAP have shown that households use the cash grants productively and the researchers estimate that the benefits in increased consumption will be GH¢ 21 million per year, equivalent to GH¢ 255 annually for every household. Every cedi spent on

BCR Summary Table

Intervention	Discount Rate	Benefit per beneficiary (GH¢)	Cost per beneficiary (GH¢)	BCR
Poverty graduation	8%	17,574	9,633	1.8
Increase cash transfers under LEAP	8%	255	160	1.6
Microfinance	8%	1,679	1,077	1.6
Social Housing	8%	205,425	201,213	1.0

\* Note: Social housing intervention is an average of three types of housing. All figures assume an 8% discount rate.

this initiative would produce social and economic good worth GH¢1.6.

The researchers also considered expanding access to microfinance. Close to half of Ghanaian households operate a non-farm household business, but access to credit to start and sustain these ventures is very limited. Providing a microloan of GH¢3,900, repayable over one year, would cost GH¢ 1,100 in operation and financing expenses.

The benefits are two-fold. The first is revenue for the

microfinance institution which generates income equal to GH¢1,200 from providing the credit service. The second is to the household. Careful research shows that beneficiaries use microfinance to give them greater choice in how they generate their incomes.

This benefit of choice is worth GH¢500 according to the researchers. The total benefits of microfinance amount to GH¢1,700, with every cedi spent bringing a return of GH¢1.6.

Approximately 65 per cent of households in Ghana live in impoverished structures due to inadequate housing supply and infrastructure.

### Housing

That is why researchers also evaluated the benefits of increased social housing in urban areas. The initiative consists of generating two types of structures: two-bedroom semi-detached houses and high-rise apartments in urban areas.

This intervention has the lowest return of the ones studied, costing an average of GH¢201,000 per beneficiary and bringing in a benefit of GH¢205,000. Still, that is not to say it will not greatly improve the lives of Ghana's urban poor.

Overall, the researchers suggest that poverty graduation is likely to be the most effective use of public funds aimed at reducing poverty directly. Besides having the largest benefit-cost ratio, the programme

brings sustained benefits to the recipients throughout the course of their lives.

However, it is possible that other indirect approaches to poverty might be more effective.

This could focus on improved education or better health care, which for the same amount of cedis often could help much more. This conversation will continue over the coming weeks in the *Daily Graphic* to spur the discussion on future priorities for Ghana.

*The writer is the President of the Copenhagen Consensus and a Visiting Professor at Copenhagen Business School.*

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