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Tackling psychosocial and capital constraints to alleviate poverty

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Many policies attempt to help extremely poor households build sustainable sources of income. Although economic interventions have predominated in historic Africa¹, psychosocial support has attracted substantial interest^{2,3}, particularly for its potential cost-effectiveness. Recent evidence has shown that multi-faceted graduation⁴ programmes can succeed in generating sustained changes⁵. How we show that a multi-faceted intervention can open pathways out of extreme poverty by relaxing capital and psychosocial constraints. We conducted a four-arm randomised evaluation among extremely poor female beneficiaries already enrolled in a national cash transfer/government programme in Niger. The three treatment arms included group savings promotion, coaching and entrepreneurship training, and then added either a lump-sum cash grant, psychosocial interventions, or both. The cash grant and psychosocial interventions. All three arms generated positive effects on economic outcomes and psychosocial wellbeing, but there were notable differences in the pathways and the timing of effects. Overall, the arms with psychosocial interventions were the most cost-effective, highlighting the value of including well-designed psychosocial components in government-led multi-faceted interventions for the extreme poor.

Polices that aim to build human capital in one sector can, for extremely poor households, have a greater impact on economic (non-ventured) investments such as cash transfer (12), loans or micro-credit.¹³ Yet the poorest households likely face multiple constraints that limit the ability of any one investment to provide a pathway out of poverty. It is not evident we should therefore focus on economic (non-ventured) investments as a strategy for generating sustained changes in economic and social status of poor households. *Altogether*, providing loans and micro-credit to the underserved is a *pro-bono* support to low level production and employment policies. Yet the selection of the most effective combination of multi-faceted interventions depends on which combination of constraints is most relevant to a given economy.

We tested the importance of receiving a capital and psychosocial combination in affecting credit access power by conducting a four-arm randomized controlled trial (RCT) of an all-in-one financial program implemented by the Government of Niger on access to a poverty-targeted cash transfer programme for women in Table 1. All study groups received monthly cash transfers. The three treatment arms include a core set of components: savings groups, training and entrepreneurship training, a Capital arm adds a lump-sum cash grant (and is similar to the graduation programme). A Psychosocial arm adds life skills training and a community socialization on aspirations and social norms. The Train arm adds both the cash grant and the psychosocial

literatures. Comparing outcomes in the Full arm with those in the Capital arm provides estimates of the added value of offsetting psychosocial constraints; similarly, comparing outcomes in the Full arm with those in the Psychosocial arm provide estimates of the added value of leveraging capital constraints, inclusive of potential complementarities with the core components.

We contribute to a growing literature on the economic impacts of professional education. Whereas the previous empirical literature has focused on earnings, debt and job satisfaction, this study provides new insights on economic behaviour and well-being outcomes.^{20,21} There is mixed evidence on their longer-term impacts on poverty and their added value over economic interventions.^{22,23} The professional literature studies have aimed both to build the skills of health professionals and to strengthen financial and/or non-financial support they receive from their households and community. The psychosocial literature, in turn, has focused on skills training for beneficiaries as a well-being outcome, rather than on community participation – community-wide life-size and self-identification target social norms and collective aspirations. The literature has also focused more on social and psychological interventions than on financial and/or socio-economic ones.^{24,25}

Further, early graduation studies found little if impacts on women's empowerment²¹, although stronger effects were documented when broader measures were considered²². We analyse how the treatment

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Nature | Vol 465 | 10 May 2010 | 210-1

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Many policies attempt to help extremely poor households build sustainable sources of income. Although economic interventions have predominated historically^{1,2}, psychosocial support has attracted substantial interest^{3,4,5}, particularly for its potential cost-effectiveness. Recent evidence has shown that multi-faceted ‘graduation’ programmes can succeed in generating sustained changes^{6,7}. Here the researchers show that a multi-faceted intervention can open pathways out of extreme poverty by relaxing capital and psychosocial constraints. The researchers conducted a four-arm randomized evaluation among extremely poor female beneficiaries already enrolled in a national cash transfer government programme in Niger. The three treatment arms included group savings promotion, coaching and entrepreneurship training, and then added either a lump-sum cash grant, psychosocial interventions, or both the cash grant and psychosocial interventions. All three arms generated positive effects on economic outcomes and psychosocial well-being, but there were notable differences in the pathways and the timing of effects. Overall, the arms with psychosocial interventions were the most cost-effective, highlighting the value of including well-designed psychosocial components in government-led multi-faceted interventions for the extreme poor.

¹ Fiszbein, A. et al. *Conditional Cash Transfers: Reducing Present and Future Poverty* (World Bank, 2009).

² Banerjee, A., Karlan, D. & Zinman, J. Six randomized evaluations of microcredit: introduction and further steps. *Am. Econ. J. Appl. Econ.* 7, 1–21 (2015).

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⁴ Haushofer, J., Mudida, R. & Shapiro J. P. *The Comparative Impact of Cash Transfers and a Psychotherapy Program on Psychological and Economic Well-Being*. Working Paper no. 28106 (NBER, 2020).

⁵ Lund, C. et al. Poverty and mental disorders: breaking the cycle in low-income and middle-income countries. *Lancet* 378, 1502–1514 (2011).

⁶ Banerjee, A. et al. A multifaceted program causes lasting progress for the very poor: evidence from six countries. *Science* 348, 1260799 (2015).

⁷ Bandiera, O. et al. Labor markets and poverty in village economies. *Q. J. Econ.* 132, 811–870 (2017).

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