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# The Design of Pro-Poor Policies: How to Make Them More Effective

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## Summary points

- A key policy concern in emerging-market economies is the appropriate design of policy interventions to alleviate chronic poverty. Largely missing from conventional analyses of poverty traps are the psychological mechanisms through which the experience of poverty forms the beliefs, values and aspirations of the poor.
- Pro-poor policies tend to focus on relaxing external constraints that may perpetuate poverty traps, such as lack of credit or insecure property rights, but internal constraints such as learned helplessness, pessimistic beliefs and an external locus of control are also important.
- These internal constraints are endogenous because they adapt to the experience of chronic poverty. Over time, however, they become an independent source of disadvantage for poor persons in their own right.
- Pro-poor policies aimed at raising aspirations will alleviate poverty more effectively than those that address external constraints alone.
- The 'Dream Building' sessions pioneered by the Durbar Foundation to empower a marginalized, stigmatized community of sex workers in Kolkata provides suggestive evidence of the potential impact of interventions in raising aspirations.

## Introduction<sup>1</sup>

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 attained in 2010. Upon closer inspection, however, nearly all progress was limited to one country (China). Excluding it, the number of people earning less than \$1.25 per day 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. Once China is excluded, that number rose from 1.53 billion in 1990 to 1.82 billion in 2008.<sup>2</sup> The bulk of these ‘really poor’ are found in South Asia (specifically India) and sub-Saharan Africa.

Given the amount of official aid that has been disbursed over the years,<sup>3</sup> why do so many people still live in poverty? In the austerity following the 2008 global financial crisis, this is a key policy concern in the United Kingdom, especially in view of the commitment, supported by all major political parties, to increase aid from 0.56% of GDP in 2011/12 to 0.7% of GDP in 2013/14.<sup>4</sup>

This raises further questions. How does aid affect poverty, and what determines its effectiveness? Perhaps equally important, how should projects supported by aid be designed to maximize its efficacy? Examining the impact of aid on growth, and on poverty alleviation via growth, Burnside and Dollar (2000), Collier and Dollar (2002) and Rajan and Subramanian (2008) suggest that official development assistance has had little or no impact. Other studies (Arndt et al. 2009; Tierney et al. 2011) have identified some positive effects, but the macro-level evidence is mixed.

Meanwhile, micro-level studies convey a different picture. 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. More recently, the Independent Evaluation Group (IEG) of the World Bank (2008), for example, has found that micro-level projects funded by official development assistance have had a positive impact on poverty alleviation.

This contradictory evidence makes it difficult for development practitioners to know how to respond. First, it is worth noting that some of the studies finding little or no effect of aid on growth should be discarded because the estimation techniques that were used are not robust (Arndt et al. 2009 give examples). Second, and more interestingly, aid may affect poverty via multiple micro- and macro-level channels that sometimes offset one another. For example, an aid-funded project might be effective locally, and resources are freed up as a result, but there is no gain at the national level because the resources made available are grabbed by others (Mosley 1987).

This paper focuses on the micro-level impact of aid-funded projects and how the design of such projects can maximize their impact on poverty alleviation. In considering the micro-level impact of aid, the usual starting point of most research is the assumption (since Nelson 1956) that *external* resource constraints form a ‘poverty trap’ and aid opens the trap by relaxing the external constraints. A newer strand of research (Appadurai 2004) suggests that poverty traps could also be formed by psycho-social constraints *internal* to individuals, such as the lack of hope and/or self-confidence, a sense of shame and ‘aspirations failure’.

The analysis in this paper focuses on research that goes beyond conventional accounts of deprivation and disadvantage, which formalizes the role of aspirations

1 The analysis reported here builds on work carried out in collaboration with a number of CAGE researchers, including Anandi Mani (Warwick), Sanchari Roy (Warwick), Patricio Dalton (Tilburg), Dr Sandip Mitra (ISI Kolkata) and Dr S. Jana (Durbar); this work also formed the basis for Chapter 6 in Becker et al., *Reversals of Fortune? A Long-term Perspective on Global Economic Prospects*, CAGE Policy Report (2013), <http://www2.warwick.ac.uk/fac/soc/economics/research/centres/cage/events/publiclectures/policymay2013/>. This paper draws on some of its content.

2 Calculation based on World Bank data, <http://research.worldbank.org/PovcalNet/>. The figure used was \$61 per month (at 2005 prices), which works out at just above \$2 per day.

3 Since 2000, official development assistance by countries belonging to the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) has increased from \$53.9 billion to \$128.7 billion (both at current prices), an increase of almost 2.5 times in nominal terms (OECD/DAC 2010).

4 See, for example, ‘Election 2010: where they stand. Guide to party election policies’. BBC News, [http://news.bbc.co.uk/1/hi/uk\\_politics/8515961.stm](http://news.bbc.co.uk/1/hi/uk_politics/8515961.stm), where the manifestos of the Conservative Party, Labour Party and Liberal Democrat Party are summarized.

failure in a poverty trap (Dalton et al. 2012). ‘Aspirations failure’ refers to the condition of a person who does not aspire to escape poverty although it is escapable with additional effort. Building on the analysis in Dalton et al. (2012), this paper shows how aspirations interact with a person’s external circumstances and become an internal constraint with a bigger impact on poor individuals than on wealthier individuals. This analysis is supported by ongoing field research of sex workers in Kolkata, India that provides evidence about the impact of raising aspirations in a marginalized, stigmatized community.

The key implication for the design of pro-poor policies is that they need to address simultaneously the internal constraints (such as aspirations failure) of poor, marginalized individuals, and the sources of external disadvantage, in order to maximize the impact on poverty alleviation.

### The poverty trap: what is missing?

While poverty can be measured in terms of those who are poor now, chronic poverty implies multi-dimensional processes that trap people in poverty over long periods. Chronic poverty, defined as the inability to fulfil basic needs during a period of more than five years, is one of

the oldest problems confronting humanity. More than 300 million people worldwide lived in chronic poverty in the late 1990s (Chronic Poverty Research Centre 2005) and continue to do so today.<sup>5</sup> Table 1 shows that the highest level of chronic poverty is in sub-Saharan Africa (40%), with South Asia faring little better at 35%.

### A gap in the economic literature?

An extensive literature on poverty traps (surveyed by Azariadis 2004 and Azariadis and Stachurski 2004) has focused on the external constraints that may keep people chronically poor. Many possible factors include malfunctioning credit and insurance markets, coordination problems and status quo biases that hinder investment and innovation, and ‘bad institutions’ that promote corruption. While any of these factors can make a good story, empirical evidence has not been decisive (Azariadis and Stachurski 2004).

Empirical problems aside, these models tend to disregard endogenous psycho-social constraints, such as lack of self-confidence and aspiration failure, although these are well documented in other disciplines such as psychology, sociology and anthropology.

The literature in these fields shows that poverty, with social exclusion, has detrimental self-reinforcing effects

**Table 1: Documenting chronic poverty**

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

Source: *Chronic Poverty Report 2004–05*, Chronic Poverty Research Centre (2005).

<sup>5</sup> For more evidence of chronic poverty, see *inter alia* Jalan and Ravallion (1998), Fouarge and Layte (2003), Biewen (2003), and Duncan et al. (1993).

on self-perception, self-confidence and lack of aspirations. Robert Walker (cited by Atkinson 1998) argues that

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.

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 shared by Appadurai (2004), an anthropologist, 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' involves not only setting goals but also knowing how to reach them. Although resources provide the opportunity to aspire, a capacity to aspire is also essential. As Bandura (1991) points out,

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.

When economists ignore such considerations, the result is a theoretical gap in the economic literature and a practical obstacle to designing effective anti-poverty policies.

#### [Aspirations failure: theory and evidence](#)

The theoretical starting point in this paper is the notion that the condition of poverty, the degree to which poor

people are satisfied with their lives, their aspirations to escape poverty, the efforts that they make to do so and the success or failure of their efforts are dynamically linked.

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. Aspirations are central to the work of Stern et al. (2005) who argue that individuals 'can be constrained by their aspirations and perceptions of their role, so that development depends on relaxing these constraints'. They 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.

Are internal constraints a cause of poverty, or only its consequence? Do the poor remain deprived because they lack hope, motivation and aspirations or, as Bernard et al. (2011) claim, is it merely 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?'

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.'

The renowned sociologist W. J. Wilson (1987) offers clear evidence of the 'social exclusion-lack of aspirations-poverty' link first observed in urban ghettos in the United States in 1970. In his view, the increasing 'social isolation' of the poor, especially poor African-Americans, has greatly contributed to their poverty. 'Out of sight, out of mind' allowed most of the non-poor to deny or forget the conditions in the ghetto. Furthermore, Wilson argues that causality can equally go in the other direction: poverty also implies exclusion. Indeed, a concentration of poverty isolates the poor from the middle class and its role models, resources and job networks. In effect, he concludes, being poor in a mixed-income neighbourhood is less damaging than being poor in a high-poverty neighbourhood.

Moreira (2003) argues that lack of hope, with low self-esteem, is a shared characteristic of Brazilians of the poor northeast: 'As the poor lose their values, they no longer believe in themselves. They go through a process of nihilism (denial of hope).' Most poor people, she claims, have lost hope and submit themselves to the destiny given to them by God.

When aspirations have failed, subjective well-being may become a poor measure of deprivation and disadvantage. There is evidence of a 'satisfaction paradox' (Sen 1999), when the poor describe themselves as no less satisfied with their lives than the population as a whole. Rojas (2004) makes this point, citing a survey of 1,540 respondents in Mexico in 2001. Almost 90% of respondents in the survey declared that they were either happy or very happy with their lives. Yet more than half of the people in the survey could be considered poor according to their household income. The lack of a direct link between poverty and dissatisfaction suggests that poor people adapt their aspirations to their condition.<sup>6</sup>

If hard work is an ingredient of success, an individual's beliefs about the role of hard work (versus luck or other external circumstances) in life will shape efforts, goals and outcomes. A poor person's beliefs on this issue may be quite different from those of a richer person. Indeed, there is clear evidence that people of lower socio-economic status tend to place greater weight on external circumstances in deciding life outcomes (Schultz and Schultz 2004).

This is of particular importance for younger people, who have more opportunities ahead of them to shape their own futures. In the United Kingdom, for example, evidence of the impact of poverty on young people comes from the Avon Longitudinal Study of Parents and Children (ALSPAC). As Figure 1 demonstrates, children between the ages of 8 and 14 years from the most deprived areas attach little weight to their capacity to determine their own outcomes. They believe that external factors, rather than the fruits of their efforts, will decide how they live. For other children, the weight placed on their own effort rises strongly with an increase in prosperity.

Young people who come from deprived backgrounds also demonstrate less faith in their own academic abilities and overall intelligence. Between the ages of 8 and 13 years, children from the most deprived families in the ALSPAC data have almost no confidence in their ability to succeed in school work. Again, confidence rises strongly with family prosperity.

Other research, such as the Longitudinal Study of Young People in England (LSYPE 2006), shows that children from the most deprived backgrounds have the lowest academic aspirations. They are least likely to say that they will apply to university or that their friends will continue their education. Such measures of personal and group aspiration rise steadily with family income.

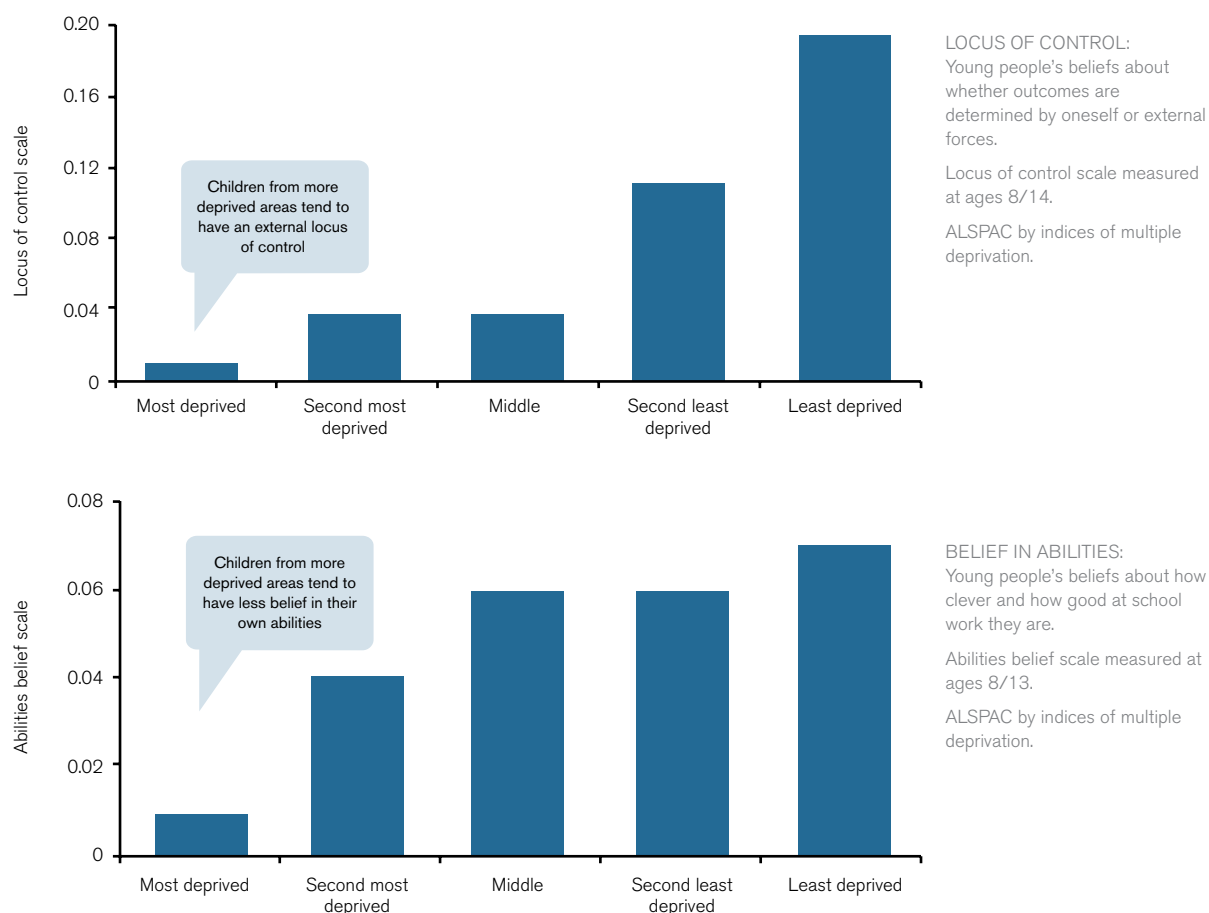
However, Falk et al. (2011) have shown experimentally that raising 'reference points' (or goals) can raise performance outcomes. In their study, when subjects were given higher reference points for earnings, they persevered longer at the experimental task. Because aspirations are 'reference points for life goals', this evidence underscores how higher goals can affect life outcomes.

In real life, such reference points emerge from the social settings that people inhabit. It is important, however, to separate two distinct channels of influence. One is the *information* that a person receives from a deprived social milieu; the other is the set of *values, beliefs and preferences* that a person forms under the influence of the same milieu. In the first view, aspirations fail because the poor person suffers from an information disadvantage, with fewer role models to copy and less chance of learning what matters for success. Alternatively, aspirations failure is an internal response to the experience of poverty that devalues success, even when it is visibly attainable.

There is considerable evidence to support the second view. Experimental work on 'stereotype threat' by social psychologist C.M. Steele (2010) and others shows that merely invoking racial or gender identity damages the educational performance of African-Americans and women respectively. In another case, Clark et al. (2003)

<sup>6</sup> Along similar lines, Medvec et al. (1995), studying the expectations and emotions of Olympic athletes, found that bronze medal winners tend to report higher satisfaction than silver medallists.

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



Source: Cabinet Office (2008), drawing on Longitudinal Study of Young People in England (LSYPE) (2006) data.

Note: The Avon Longitudinal Study of Parents and Children (ALSPAC) is hosted at the University of Bristol.

found that more pessimistic expectations raised the likelihood of frequent smoking and reduced that of exercise. This suggests 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.

Jensen (2010) and Jensen and Oster (2009) provide a helpful contrast. The former reports on the results of a field experiment in the Dominican Republic where students were informed about the benefits of staying in education after primary school, which they had previously underestimated. The result was a substantial increase in perceived benefits 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.<sup>7</sup>

In contrast, Jensen and Oster (2009) report that, in India, exposure to cable television programmes with inspiring female protagonists substantially changed beliefs and attitudes on gender-related issues. Women in villages with cable television reported a lower tolerance of domestic violence and weaker preference for sons, as well as an increase in autonomy and a decline in fertility. A greater number of girls enrolled in schools in those villages where cable television had arrived earlier.

The contrast between the modest effects of *information* in the Dominican Republic and the significant impact of *characters* in a soap opera on gender-related beliefs and outcomes

<sup>7</sup> For similar results in other contexts, see Miguel and Kremer (2004), Duflo (2003), Jensen (2010) and Cole et al. (2009).



in India is striking. Soap operas in this and other contexts (Bandura 2009) emphasize the similarity between their target audience and the life experiences of the characters. Their impact suggests that a woman's social environment affects aspirations through beliefs and values, independent of the information obtained from the life experiences of others.

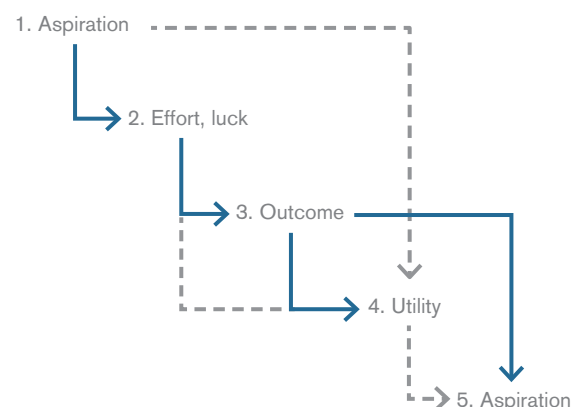
## How should we think about aspirations?

Dalton et al. (2012) supply a theoretical framework that links internal constraints and poverty traps.<sup>8</sup> To understand the psychology of poverty and low aspirations, a key behavioural bias (or 'internal constraint') from which individuals suffer in setting life goals or aspirations is explicitly modelled.

What is this bias? Typically, in the ladder of their life's aspirations, most people are able to visualize only one rung above them at a time – not the entire pathway they can travel. As a result, individuals underestimate how their aspirations may evolve over their lifetime as a consequence of their own effort.<sup>9</sup> Both rich and poor suffer from this bias, but as the analysis below demonstrates, it has a greater impact on the poor.

Figure 2 presents a person's 'aspirations cycle' as a timeline with five steps. In Step 1, aspirations are set. In Step 2, effort depends on aspirations (+). In Step 3, the outcome depends on effort (+) and good luck (+). In these first three steps there is nothing unconventional. However, at Step 3 a key factor that makes aspirations failure more likely is poverty. Poverty imposes an additional constraint on the poor as they face much greater downside risk from bad luck in their lives.<sup>10</sup> The greater downside risk lowers their expected benefit of investing effort into any goal. For example, when a child is performing poorly in school and parents are worried about whether the harvest will generate enough to eat, they will think twice about hiring a remedial teacher. Lower effort, driven by risk, increases the odds of low performance and will then feed into endogenously lower aspiration and achievement in the long run.

Figure 2: The aspirations cycle



Note: Blue (solid) arrows are positive (+) feedbacks; grey (dashed) lines are negative (-) feedbacks.

In short, the downside risk of bad luck exacerbates the adverse effects of the behavioural bias in setting aspirations. By limiting the effort choices of the poor, it makes them less likely to aspire to do their best.

In Step 4, utility depends on the outcome (+), on the effort cost of obtaining it (-) and on the aspirations that motivated it (-). Utility in Figure 2 is the psychological payoff from performance. While this is not always the same thing, for present purposes one could equally think of it as 'life satisfaction' or even 'happiness'. Utility here is based on both conventional and unconventional assumptions. Conventionally, it is assumed that more utility is linked to higher outcomes and lower effort. Unconventionally, however, a person's psychological gains and losses are determined relative to a reference point defined by aspiration.<sup>11</sup> The lower one's aspirations, the more one will be satisfied by a given outcome.

In Step 5, aspirations are reset by outcome (+) and utility (-). Finally, aspirations evolve in ways that the social scientist – but not the subject – can predict. In this model, good outcomes lift aspirations; when things go

<sup>8</sup> Other relevant works include Banerjee and Mullainathan (2010), Bogliacino and Ortleva (2011), Genicot and Ray (2011), Ray (2003) and Stark (2006).

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

<sup>10</sup> 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.'

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

well, people are empowered to raise their ambitions and strive towards higher goals. But, at the same time, aspirations are depressed by higher utility, indicating that a person is satisfied with the life he or she has achieved.

Figure 2 suggests that an intervention to lift aspirations may also raise effort and outcomes. Paradoxically, lifting aspirations may *reduce* utility; but in the struggle to escape from poverty *unhappiness is productive*; it maintains effort, outcomes and aspirations in the next cycle.

To illustrate this point, one can consider a poor person whose decision-making problem involves choosing between *low effort* that maintains the condition of poverty and *high effort* that opens an escape from poverty (by working harder at school or by starting a business).<sup>12</sup> The person can also have 'high' or 'low' aspirations. Table 2 provides a summary of the decision-making problem.

Table 2: Actions, aspirations and payoffs

	Low aspirations	High aspirations
Low effort	$0 + 0 = 0$	$0 - 2 = -2$
High effort	$(1 - c) + 1 = 2 - c$	$(1 - c) + 0 = 1 - c$

Note:  $c$  is the extra cost of higher effort.

Each payoff in the table is the sum of two components. The first component refers to an action-based payoff, while the second refers to a payoff based on a psychological state that responds to the reference point defined by aspirations.

Considering first a person with low aspirations:

- The action-based payoff from low effort (i.e. being trapped in poverty) is normalized to zero (0 benefit – 0 effort cost). There is also a zero psychological state-based penalty because there is no loss or gain relative to the reference point set by low aspirations.

- For the same person, high effort leads to an action-based payoff of  $1 - c$ , where 1 is the gain from exiting the poverty trap and  $c$  is the effort cost involved. There is also a psychological payoff of 1 (a gain relative to the reference point).
- Starting from low aspirations, high effort and an escape from poverty are the best choice as long as  $c < 2$ .

Considering the same person but with high aspirations, the action-based payoffs are the same, but all the psychological state-based payoffs are reduced (i.e. higher aspirations *reduce* utility).

- Continuing in poverty with low effort when the reference point is 'high aspirations' generates a psychological loss of  $-2$  (the psychological loss is greater than the psychological gain because of loss aversion); escaping poverty when the reference point is already 'high aspirations' is psychologically neutral (no loss or gain).
- Starting from high aspirations, high effort and an escape from poverty are the best choice when  $c < 3$ .

The condition for high effort leading out of poverty is more likely to be met when a person's aspirations are high ( $c < 3$ ) than when they are low ( $c < 2$ ). In other words, raised aspirations make higher effort and an escape from poverty more likely. One way out of the poverty trap, therefore, is to raise aspirations.

## What does fieldwork show about aspirations?

The preliminary findings of an ongoing micro-level project in Kolkata, India are instructive and may offer some important policy-making lessons.<sup>13</sup> The programme aims to raise the aspirations of a marginalized group in society, namely sex workers. Given the social stigma attached to the sex trade, particularly in India, many sex workers suffer from

<sup>12</sup> For the sake of simplicity, this example assumes that low effort always keeps the person in poverty and high effort always enables an escape. Putting probabilities on these outcomes would alter the computations, but the result would be similar.

<sup>13</sup> The investigators are Sanchari Roy, Anandi Mani and Sayantan Ghosal (all from CAGE), Dr Sanadip Mitra (ISI Kolkata) and Dr Smarajit Jana (Durbar Foundation). Full details of the methodology and the results reported here can be found in Chapter 6 of Becker et al. (2013). The pilot study has been scaled up to around 600 participants, and, at the time of writing, data collection of the second phase had been completed. In addition to generating new results, preliminary analysis of the data confirms the results of the pilot study reported here.



a loss of hope and a sense of defeat. Can the intervention raise aspirations and self-perception (measured by self-efficacy and locus of control) and lead, in turn, to increased efforts to improve their own wellbeing?

The training programme, called 'Dream Building', aims to give sex workers a renewed sense that they are as entitled as others in mainstream society to have hopes and aspirations, to teach them how to work towards fulfilling these aspirations, and to develop a positive, proactive outlook regarding their future. In eight sessions, experienced trainers use novel methods of discussion and engagement. Some of the trainers are themselves former sex workers who have new lives and careers, and can thus serve as role models for participants.

Between February and July 2011 data were collected in a small-scale pilot study. A sample of 34 sex workers was randomly selected in the localities of Khidirpore (18) and Kalighat (16). Baseline interviews were carried out with women in February–March 2011, weekly 'dream-building' workshops were held during April and May, and an end-line interview took place in July. A control group of eight other women (four in each locality) was not exposed to the dream-building workshops, and each woman was interviewed once in June 2011.

For the pilot scheme, the researchers focused on outcome variables related mostly to behavioural and psychological measures, including opinion about oneself, sense of shame (arising from sex work as a profession), feeling of discrimination, locus of control, decision-making and mobility.

Two sets of analyses were conducted. First, a simple pre-versus post-analysis of the 34 women who constituted the original sample was carried out. All of these women were exposed to the dream-building workshops.

Each of the outcome measures was constructed as a binary variable based on a series of questions that were asked in surveys relating to the specific issue. With regard to opinion of oneself, for example, the question asked was: 'What is your opinion about yourself?' 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' was assigned the value 1, and 0 otherwise.

Being exposed to the dream-building workshop improves the sense of self-worth in treated women, with 29% 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 fallen women or sinners. They are also 29% less likely to feel ashamed of their occupation. After intervention, these women are also 28% more likely to feel discriminated against, which might reflect their heightened sense of self-worth. The impact of the treatment across the two localities appears to have been the same for these three outcomes.

The intervention also improved these women's self-confidence and strengthened their belief that their life was under their control. Similarly, the intervention appears to have significantly increased their mobility. Afterwards, they were 22% more likely to attend social functions, travel alone, etc.

In a treatment-control analysis, outcomes of the 'treatment' group of 34 women exposed to the intervention are compared with those of the eight women in the control group. The impact of intervention on self-worth, self-confidence, locus of control, decision-making and mobility is qualitatively similar to the results obtained in the pre- versus post-analysis.

## Conclusion

A key policy concern, particularly in emerging markets, is the appropriate design of pro-poor policies to maximize their impact on alleviating poverty. Taken together, the theoretical and empirical considerations reviewed in this paper suggest a gap in the conventional analysis of poverty traps. Largely missing has been consideration of the psychological mechanisms through which the experience of poverty forms the beliefs, values and aspirations of the poor. As Bandura (2009) points out, 'Failure to address the psycho-social 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.'

Much of the research in the field of economics focuses on the role of external constraints, such as market imperfections, coordination problems or institutional failures in perpetuating poverty traps. The result is that aid organizations tend to concentrate primarily on relaxing external constraints rather than on altering internal constraints.

Pro-poor policy interventions should aim not only to provide resources to relax external constraints but also to alter internal constraints (such as beliefs and aspirations), which adapt to the condition of chronic poverty and become, over time, an independent source of disadvantage for poor individuals. Changing beliefs is vital to break the failure of aspirations that can be found in poverty traps.

Pro-poor policies that take into account the need to alter internal constraints among the poor are likely to be far more effective and to have a greater impact in alleviating poverty than policies that are limited to addressing external constraints. The 'Dream Building' sessions pioneered by the Durbar Foundation to empower and modify the behaviour of a marginalized and stigmatized community of sex workers in Kolkata provide suggestive evidence of the potential impact of interventions that can raise aspirations and challenge psychological constraints.

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