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Poverty reduction during 1990–2013: Did *millennium* development goals adoption and state capacity matter?

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ABSTRACT

While poverty reduction remains central in the Post-2015 Agenda, its determinants remain debated in the literature, especially the role of structural conditions related to governance. This paper provides an assessment of two key dimensions: the global adoption of MDGs and state capacity. We do so by studying whether they facilitated convergence in income poverty measures, using cross-section and panel methods, with data on 89 developing economies for the period 1990–2013. We find that poverty headcount and gap measures tended to decrease faster in countries with initially higher income poverty. Such convergence accelerated after 2000, suggesting that MDGs adoption was instrumental to poverty reduction. However, this still leaves unexplained substantial variation in poverty reduction performance across countries. Such variation is explained by state capacity: countries with greater ability to administer their territories in 1990 experienced faster income poverty reduction and were more likely to have achieved the MDG target. This result is insensitive to robust regression methods and to a large set of controls (initial level of income, dependence on natural resources, education and health inputs, dependence on foreign aid, ethnic fractionalization, regional effects and a set of governance variables). As *good governance and effective institutions* are included in the Sustainable Development Goals, this result provides empirical justification for this move, suggesting that more effective states could be crucial to sustain the development progress achieved so far.

1. Introduction

As the Millennium Development Goals (MDGs) period has just ended, this is the time to assess successes and failures, trying to learn lessons to inform the next set of global development goals and policies. Between 1990 and 2015, as many as 1 billion people have been lifted out of poverty around the world (UNDESA, 2015). However, the determinants of achieving the MDG goal of halving poverty remain debated in the literature, especially the role of structural factors related to governance conditions. In particular, it is not clear which governance dimensions matter and the evidence on their significance remains mixed (Dalgaard & Erickson, 2009; Fiszbein, Kanbur, & Yemtsov, 2014; Kwon & Kim, 2014; Smith & Haddad, 2015; Sumner & Tiwari, 2009). In the last two decades, much poverty has been reduced, even in countries like Uganda and Bangladesh, which ranked poorly in a wide range of governance quality indicators, challenging the view that there may be no ultimate “governance trap” (Asadullah, Savoia, & Wahiduddin, 2014; Mahmud, Asadullah, & Savoia, 2013; McGee, 2000). Nonetheless, key policy reports and development agencies routinely emphasize improved governance as a key pathway to achieving the MDG goals by 2015 (e.g. see United Nations Millennium Project, 2005). At the same time, the global adoption of MDG targets per se, which is an element of global governance, is likely to have mobilized political consensus around the agenda of poverty reduction and provided a focus for policy advocacy (Fukuda-Parr, 2011; Fukuda-Parr & Hulme, 2011; Hulme, 2015; Waage et al., 2010).[1]

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[1] However, for an opposite argument (i.e., that MDGs adoption may demoralize governments in regions where poverty is very high), see Easterly (2009).

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Our paper seeks to contribute to this debate by undertaking a systematic re-assessment of the income poverty eradication achievements, looking at the role of two key governance dimensions. One is the role of changes in development policy at the global level, i.e., assessing to what extent the adoption of the MDGs had an impact. The second is at the national level: assessing the role of state capacity, which is an under-researched aspect in the recent debate (Savoia & Sen, 2015). The two are related, such that it is appropriate to analyze them concurrently, because the effects of changes in global governance may or may not be reflected in individual countries' poverty eradication policies and policy implementation, depending on the underlying governance conditions at national level. This exercise is worthwhile, because income poverty continues to be a key development goal in the Post-2015 Agenda and because it improves our understanding of the structural conditions that facilitated its eradication.

Apart from the development goals literature, such an assessment contributes to the broader research agenda on *good governance* (Grindle, 2004), now seen as both *intrinsically* and *instrumentally valuable* to development progress (Hulme, Savoia, & Sen, 2015). It is instrumental to development, as academics seem to agree that improving the design of rules and regulations, the effectiveness of policies and the competence of public bodies is key to improving economic development (e.g., Baland, Moene, & Robinson, 2010). In the last two decades, research has been striving to assess the effect of economic institutions on national income levels or growth rates (e.g., Acemoglu, Johnson, & Robinson, 2001). Recent arguments emphasize the role of state capacity (Besley & Persson, 2011; Fukuyama, 2013). Much of this research focuses on the effects on economic development (e.g., Dincecco & Prado, 2013), but other development outcomes, such as poverty and inequality, have received far less attention (Savoia & Sen, 2015).[2] By focusing on poverty reduction, our paper also contributes towards filling this gap. Also, existing research has often conflated state capacity with state performance (Centeno, Kohli, & Yashar, 2017). It is important to distinguish between the two: the former is about institutions and the latter is about outcomes. Our paper tries to do that too, by considering the separate effects of administrative and legal capacity on poverty reduction. Governance is also intrinsically valuable, because it is a development goal in itself in the Post-2015 development framework, as Goal 16 of the Sustainable Development Goals (SDGs). Therefore, understanding the role of governance deficits, and state capacity in particular, for income poverty eradication may shed light on whether and how this choice could support development progress in other SDGs areas.

An empirical analysis of income poverty eradication requires examining whether (and how fast) differences in income poverty levels among countries are narrowing. But should we expect them to narrow? There are both "endogenous" and "exogenous" mechanisms supporting the hypothesis of convergence in poverty levels. Important exogenous mechanisms have to do with the influence of former colonial powers through development cooperation and the pressure from the international community through mechanisms of global governance, such as the adoption of MDGs. Being comparative, performance indicators like MDGs can influence state policy outputs, as they facilitate the monitoring of state behavior and serve as a tool for international governance (Kelley & Simmons, 2015).[3] Adoption of MDGs is also likely to have improved the targeting and flow of official development assistance (ODA), ensuring that aid emphasizes human development and/or is disproportionately allocated to countries that need to make the most progress on the MDGs (Addison, Niño-Zarazúa, & Tarp, 2015). Moreover, MDGs adoption has influenced national development plans, leading to the introduction of Poverty Reduction Strategy Papers (see Seyedsayamdost, 2017). Early assessments have shown that these are, on balance, important means for making progress on MDGs (see Booth, 2003) and recent econometric evidence found that the effect of ensuing policies has led to greater reductions in headcount poverty and infant mortality (Elkins, Feeny, & Prentice, 2017). We would thus expect that poverty convergence could have started or accelerated with adoption of the MDGs and the ensuing renewed effort to tackle poverty.

Regarding endogenous mechanisms, one should expect poverty rates to converge across countries, since mean household incomes across countries tend to converge and since growth in mean incomes reduces the absolute incidence of income poverty (Ravallion, 2012).[4] Other mechanisms of poverty convergence could derive from diminishing returns to antipoverty policy and how and whether actors within the economy choose to tackle poverty. In analogy with capital accumulation and income convergence, the concept of diminishing returns could also be applicable to poverty reduction, as the early 'units' of antipoverty measures are relatively more effective and less costly to attain. It could be much less difficult and costly to attain a lower level of poverty from an initially high level than from a low level (see Noorbakhsh, 2007). For example, in an economy with a high number of poor, it would be relatively easy to target and reach recipients, and it should be easier to build political support in face of widespread poverty. On the contrary, antipoverty policy implementation could be more difficult if an economy already has relatively low levels of poverty, as it could be politically more difficult to prioritize poverty reduction interventions. Poverty reduction could also be costly if the remaining poverty is entrenched and in the form of traps. Regardless of which of the above endogenous mechanisms is at work, we hypothesize that countries' capacity for poverty reduction, and hence eventual convergence in poverty levels, is subject to structural governance conditions concerning the institutional capability of states to deliver policies benefiting their citizenry, i.e., state capacity. Therefore, poverty convergence may be more pronounced in countries with greater state capacity. We suggest that this effect could work through two channels: through higher administrative ability when delivering poverty-reducing policies (Bardhan, 2005, 2016; Bockstette, Chanda, & Putterman, 2002; Evans & Rauch, 1999) and through

[2] An important exception is Cingolani, Thomsson, and de Crombrugghe (2015), showing that states with greater administrative capacity reduce child mortality and tuberculosis prevalence. Imai, Gaiha, and Thapa (2010), and Tebaldi and Mohan (2010), also offer evidence that upholding the rule of law and controlling corruption reduce poverty levels. See also Cook (2006) for an early discussion pointing to the importance of state effectiveness for achieving pro-poor growth and progress towards the MDGs target of poverty reduction in East Asia. For evidence against the hypothesis that good governance leads to poverty reduction, see Kwon and Kim (2014), which finds that good governance only contributes to poverty reduction in middle-income countries, not low-income ones.

[3] Kelley and Simmons (2015) argue that, once rulers realize that they are being monitored, they may change their priorities to meet external expectations. They discuss three mechanisms through which indicators can affect policy outcomes: (a) they help to attract or retain domestic political support and hence influence national policy making; (b) performance indicators can work through direct peer shaming; (c) indicators may impact policy by activating transnational social pressure.

[4] Poverty convergence is defined in proportionate, rather than absolute, terms in Ravallion (2012). The presence of poverty convergence by the proportionate definition implies that poorer countries tend to see larger relative reductions in their poverty rate. Countries starting out with a high incidence of absolute poverty should enjoy a higher subsequent growth rate in mean consumption and (hence) a higher proportionate rate of poverty reduction. Using a sample of household income data that covers about 90 developing countries between 1977 and 2007 and focusing on the conventional poverty headcount ratio at $2/day, Ravallion (2012) does not find evidence of convergence in poverty headcount ratios across countries. Cuaresma, Klasen, and Wacker (2016), however, reexamine this hypothesis, arguing for a specification based on absolute convergence and finding robust evidence of convergence in absolute poverty headcount ratios and poverty gap measures. Furthermore, Cuaresma, Klasen, and Wacker (2017), re-investigating Ravallion (2012), find that the apparent absence of proportionate convergence was sensitive to including a group of influential observations from the transition economies.