Researchers
Thomas Bossuroy
World Bank
Markus Goldstein
World Bank
Dean Karlan
Northwestern University
Harounan Kazianga
Oklahoma State University
William Parienté
Université Catholique de Louvain
Patrick Premand
World Bank
Christopher Udry
Northwestern University
Julia Vaillant
World Bank
Kelsey Wright
Program Manager, Social Protection Program

Tackling psychosocial and capital constraints to alleviate poverty

Many policies attempt to help extremely poor households build sustainable sources of income. Although economic interventions have dramatic impacts on poverty, the potential for capital and psychosocial constraints to influence these impacts is underexplored. These constraints can reduce the ability of households to access financial services and invest in productive activities. For example, studies have shown that households with significant unmet psychosocial needs are less likely to invest in education and health, and these unmet needs can reduce the ability to save for the future. In addition, households with unmet psychosocial needs are less likely to access financial products and services, which can further exacerbate poverty.

We use a randomised controlled trial to study the impact of a psychosocial intervention on financial inclusion and poverty in rural Ghana. The intervention, called the "Psychosocial Support Program," provides a psychosocial support service to households, including counseling, peer support groups, and financial literacy training. The intervention is designed to address the psychosocial needs of households, which are often unmet due to lack of access to psychosocial services.

Results show that the intervention led to significant improvements in financial inclusion and poverty reduction. Households receiving the intervention were more likely to access financial products and services, and they were also more likely to invest in productive activities. In addition, the intervention led to improvements in mental health and well-being, which are important predictors of financial inclusion and poverty reduction.

We conclude that policymakers should consider the potential impact of psychosocial interventions on financial inclusion and poverty reduction. By addressing the unmet psychosocial needs of households, these interventions can help to improve financial inclusion and reduce poverty, thereby contributing to broader economic development goals.

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Tackling Psychosocial and Capital Constraints to Alleviate Poverty

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.

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