

Public Finance II.

Lecture X - **Poverty and Inequality**

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Readings:

- Gruber, J. (2005). Public finance and public policy. Macmillan.
- Congdon, W. J., Kling, J. R., & Mullainathan, S. (2011). Policy and choice: Public finance through the lens of behavioral economics. Brookings Institution Press.
- Sunstein, C. R. (2020). Behavioral science and public policy. Cambridge University Press.

Poverty line

- A poverty line, also called a poverty threshold, is the line below which it is difficult, if not impossible, to afford basic needs. The poverty line is determined in each country by adding up the cost of meeting minimum needs, such as food and shelter. Household incomes that are too low to afford minimum needs, are below the poverty line.
- Poverty lines aren't the same in all countries. In higher-income countries, the cost of living is higher and so the poverty line is higher, too. For example, in Slovakia extreme poverty line is set to around 5 EUR per day and 2% of population live under that line.
- The international poverty line, currently set at \$1.90 a day, is the universal standard for measuring global poverty. As the cost of living increases, poverty lines increase too. Since 1990, the international poverty line rose from \$1 a day, to \$1.25 a day, and most recently in 2015 to \$1.90. This means that \$1.90 is necessary to buy what \$1 could in 1990.
- Although poverty is often discussed in terms of dollar amounts, quality of life is also part of the conversation. Living in poverty means a life of struggle and deprivation.
- Children living in poverty often lack access to quality education. Sometimes it's because there aren't enough quality schools, their parents cannot afford school fees, or because impoverished families need their children to work. Without a quality education, children grow up being unable to provide for their own children — thus the generational cycle of poverty.
- Living in poverty also means not being able to afford a doctor or medical treatment. It means no electricity, limited shelter, and often little to no food on the table. For young children, improper nutrition can mean stunting and wasting that permanently impact their development. In impoverished countries where many people lack access to clean water and sanitation, poverty means the spread of preventable diseases and the unnecessary death of children.

Global poverty facts

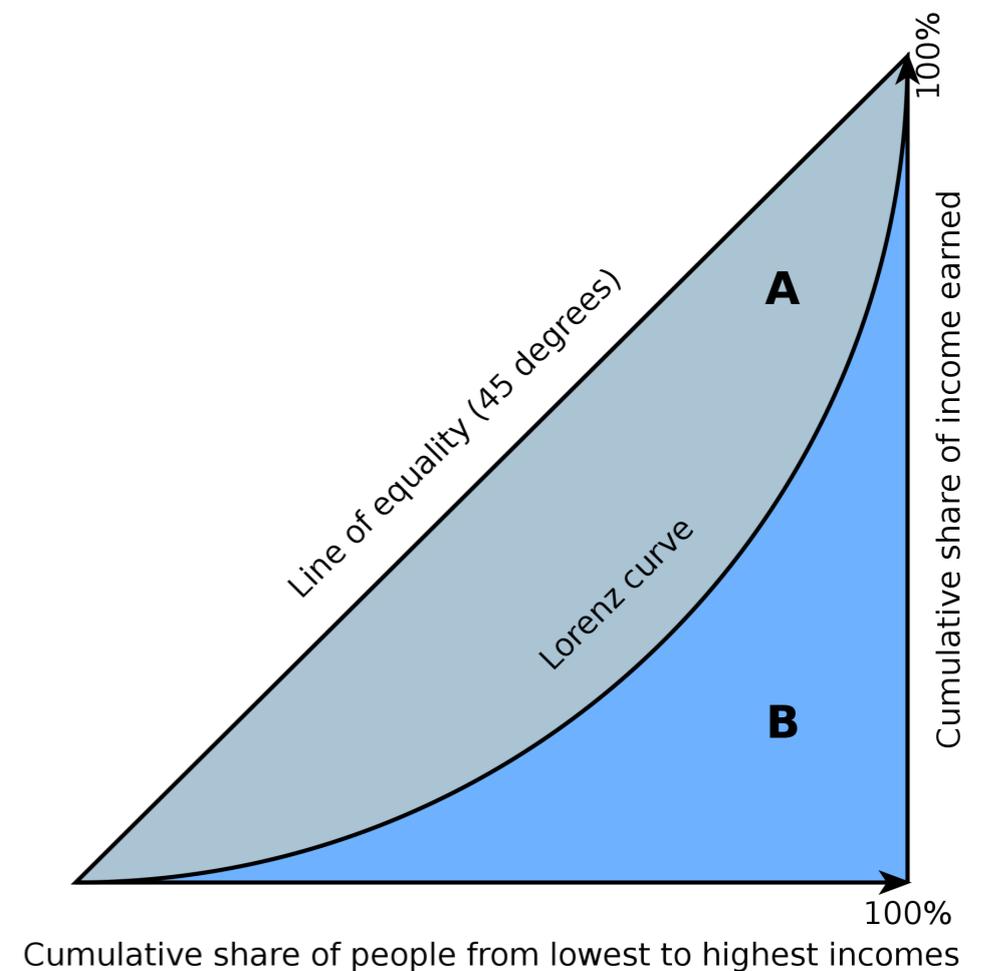
- 689 million people (9.2% of world population) live in extreme poverty, surviving on less than \$1.90 a day. Children and youth account for two-thirds of the world's poor, and women represent a majority in most regions.
- Extreme poverty is increasingly concentrated in sub-Saharan Africa. About 40% of the region's people live on less than \$1.90 a day.
- Extreme poverty rates nearly doubled in the Middle East and North Africa between 2015 and 2018, from 3.8% to 7.2%, mostly because of crises in Syria and Yemen.
- Although countries impacted by fragility, crises, and violence are home to about 10% of the world's population, they account for more than 40% of people living in extreme poverty. By 2030, an estimated 67% of the world's poor will live in fragile contexts.
- About 70% of people older than 15 who live in extreme poverty have no schooling or only some basic education.
- 1.3 billion people in 107 developing countries, which account for 22% of the world's population, live in multidimensional poverty. About 84.3% of multidimensionally poor live in sub-Saharan Africa and South Asia.
- Multidimensional poverty acknowledges that poverty isn't always about income. Sometimes a person's income might be above the poverty line, but their family has no electricity, no access to a proper toilet, no clean drinking water, and no one in the family has completed six years of school.
- Within the categories of health, education, and living standards, there are 10 key indicators of multidimensional poverty that include nutrition, child mortality, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing, and assets. If a person is experiencing deprivation in three or more of these standards, then they're multidimensionally poor.

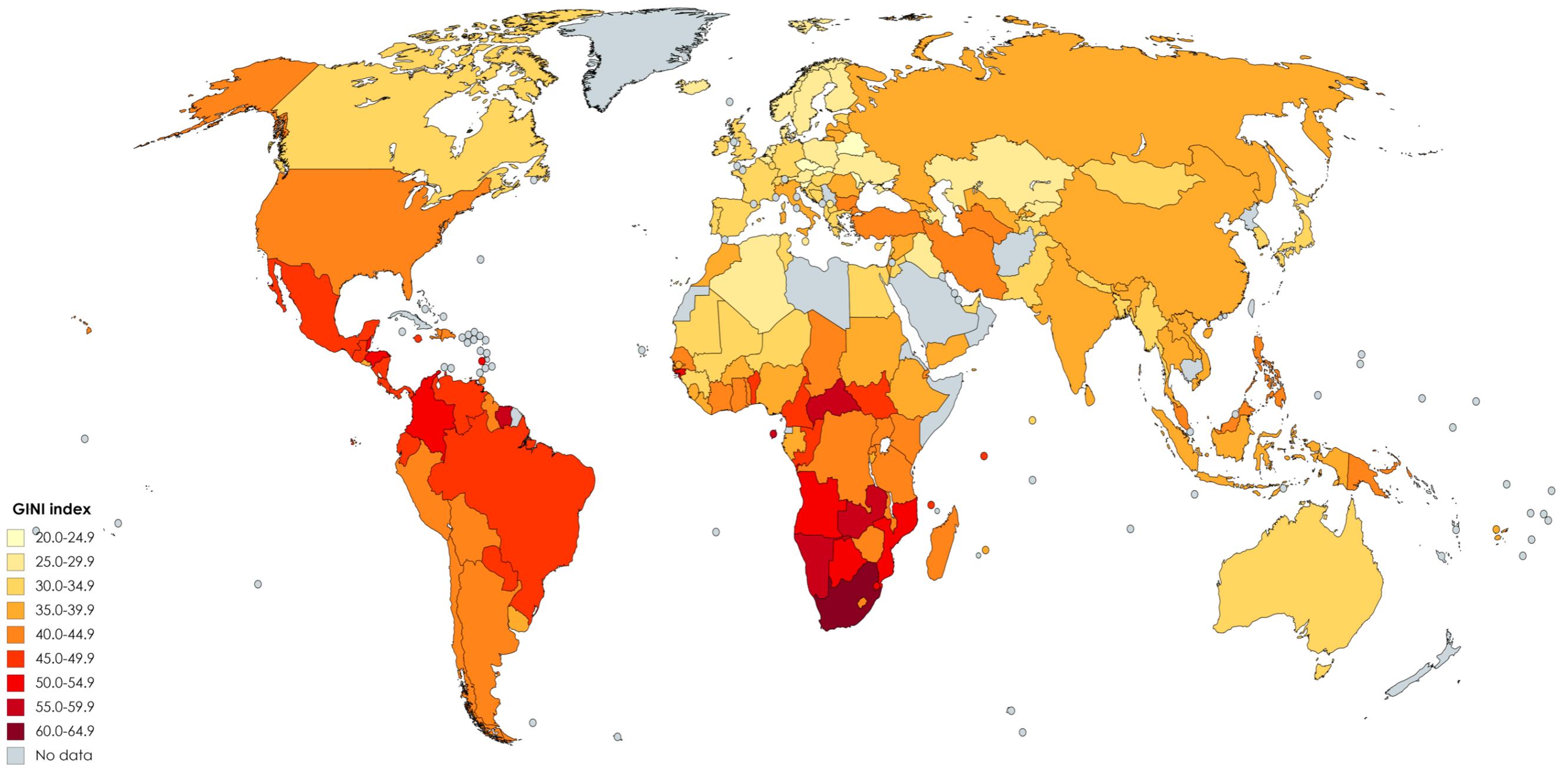
Cycle of poverty

- Poverty can be a trap. For someone to get out of poverty, they need opportunities such as education, clean water, medical facilities nearby, and financial resources. Without these basic elements, poverty becomes a cycle from one generation to the next.
- If families are too poor to send their children to school, their children will have a difficult time earning an income when they grow up. If a community lacks clean water, women will spend much of their day gathering water instead of earning an income. If medical facilities are far away, a parent loses income every time they take a sick child to the doctor.
- Natural disasters and conflict can add to the cycle of poverty or add people to it. When a natural disaster strikes an impoverished community without functional public institutions, families are more vulnerable and often lack basic resources to recover, thus further entrenching a community in poverty or jeopardizing one that had recently emerged.
- COVID-19 drove an additional 97 million people into extreme poverty in 2020, according to World Bank estimates.

Inequality

- Income distribution covers how a country's total GDP is distributed amongst its population. Economic theory and economic policy have long seen income and its distribution as a central concern. Important theoretical and policy concerns include the balance between income inequality and economic growth, and their often inverse relationship.
- The most popular measure of income inequality is the Gini coefficient. The Gini coefficient is usually defined mathematically based on the Lorenz curve, which plots the proportion of the total income of the population (y axis) that is cumulatively earned by the bottom x of the population.
- The line at 45 degrees thus represents perfect equality of incomes. A Gini coefficient of zero expresses perfect equality, where all values are the same (e.g. where everyone has the same income). A Gini coefficient of one (or 100%) expresses maximal inequality (if only one person has all the income or consumption and all others have none).
- For Slovakia, the Gini coefficient is estimated to be around 25%.





Overcoming poverty

- Questions about poverty and inequality are tricky ones for economic analysis, because often the underlying issues are normative. They involve not just efficiency but also equality, and economics alone cannot answer questions about what is just and equitable. The issues of social welfare, poverty, and inequality thus differ in character from issues related to market failure, such as asymmetries of information or externalities. Whereas with market failures unregulated outcomes were clearly inefficient, poverty and inequality can exist in efficient economies—they may simply be undesirable in some sense.
- Incomes at that low level both reflect and create undesirable conditions, not only for individuals who suffer directly the hardships associated with poverty but also for societies and economies that allow such conditions to persist. As a result, economic policy often seeks to address the issue of poverty. Social and transfer policies work both to alleviate hardship and to provide individuals and families with the tools and opportunities necessary to escape poverty.
- The world has made huge strides in overcoming global poverty. Since 1990, more than 1.2 billion people have risen out of extreme poverty. Now, 9.2% of the world survives on less than \$1.90 a day, compared to nearly 36% in 1990. We can help end extreme poverty by identifying what's causing poverty in a particular community and then determining what needs to change. Because poverty looks different in various places and is caused by different factors, the work to eradicate extreme poverty varies on the context.
- Perhaps infrastructure needs to be improved with new schools, medical clinics, or access to clean water. Or maybe, people need more economic resources to help boost their income so they can better provide for themselves and their families. Regardless of the solution, to ensure poverty doesn't return, the work must be sustainable. So, the community must be involved in each step.

Overcoming poverty

- In 2019, the Nobel Prize in Economics was awarded for the fight against poverty, utilizing field experiments (Abhijit Banerjee, Esther Duflo, Michael Kremer).
- The researchers focused on education (the effect of teaching materials, school lunches, financial incentives for teachers, class sizes, syllabi and learning styles), health (e.g., incentives for vaccinations, deworming), but also the effect of microcredits or time-limited agricultural subsidies.
 - For those interested: <https://www.nobelprize.org/uploads/2019/10/advanced-economicsciencesprize2019.pdf>
- To alleviate poverty and inequality is also a mission of many foundations. Financial, material, or voluntary assistance to the poorer is usually perceived in society as a sign of goodwill or belonging. As a willingness to give up something in favor of another person, without any compensation or reward, perhaps with the exception of warm glow.
- However, helping the poor can be, and often is, a strategic step to improve living conditions not only for the recipient but also for the donor.

Country of unlimited resources

- Imagine a country, with two of its inhabitants living in a common place. Let's call them Adam and Boris. They feed on apples. The more apples they eat, the stronger and healthier they will be.
- Let's say they need to eat at least three apples a day to stay fit. Adam is more powerful and therefore can pick up to 15 apples a day, while Boris only 5. Since 3 is enough to survive, both are able to be self-sufficient. If one of them is not self-sufficient, it is only his fault, for example because he is lazy.
- If there is any transfer of apples between Adam and Boris in this arrangement, for example if Adam gives a few apples to Boris a day, we can automatically call this transfer a charity. Adam can be an altruist, that is, he can have a selfless joy of Boris getting better with his gift. He can also donate apples for his warm glow - because of the donation, he might feel like a better person.
- In any case, even such a basic form of charity increases the overall well-being of society, as for the "poorer" Boris, every apple is more valuable than for Adam, who has a surplus.

Scarcity

- Essentially unlimited human needs (everyone would like to have more and more apples) in reality always run into limited resources. Let's imagine that Adam and Boris can only find a total of 8 apples a day in their neighbourhood. Since Adam is three times better at picking apples than Boris, he picks up 6 apples a day and Boris only 2.
- However, this puts Boris in a state where he cannot ensure his minimum daily apple intake - so he gets below the poverty line. Note that the economy is operating as efficiently as possible. All resources (apples) are used. However, the result is inequality, which will also deepen over time.
- If Adam eats his 6 apples today and Boris only 2, Boris will have less strength tomorrow than he does today. After a while, Boris weakens so much that he won't be able to pick up two apples a day. In contrast, a well-fed Adam is getting stronger every day. Soon, the ratio of harvested apples will change from 6:2 to 7:1. The scissors of inequality are opening more and more. The rich are even richer and the poor even poorer.
- In fact, every economy that works efficiently leads to such a result. The more the economy rewards people for their abilities (or luck, or worst of all, dishonest activity), the greater the inequality in society.

Incentives

- If Adam has a good heart, he may share some of his apples. But what if he decides to be selfish and gives Boris nothing? Inequality in society will create tension. Boris wants to survive in the first place, and since his economic activity (picking apples) fails to make a living because of Adam's competition, the situation will lead him to try to steal apples from Adam.
- If Adam can't protect his apples from Boris, he loses the motivation to pick more apples than he can eat immediately (because he knows that everything he doesn't eat on the spot will be stolen by Boris). Adam therefore reduces his apple picking (say, to 3 apples a day, which he eats right away), giving Boris the opportunity to pick his 3 apples as well. He won't collect more than 3 either, because then Adam would start stealing.
- The result? Adam and Boris eat three apples a day. Both survive, but untapped apples remain rotting in the trees. We have equality in society, but at the cost of losing efficiency.
- At the same time, due to distrust in society, there is no opportunity for some beneficial cooperation in order to improve conditions for all. This is how socialism works. Due to weak property rights (e.g., inability to do business) it creates very weak incentives for efficiency.
- While it might seem that to keep his rich lifestyle, Adam just needs to protect his apples from theft, it is not so simple. Because if stealing is not possible, then something even worse than stealing could start. The violence. If Boris wants to survive and can't collect or steal food, he starts radicalizing. The situation will inevitably lead him to try to eliminate Adam completely. Economic efficiency will fall even further.

Institutions

- An economically efficient society cannot exist without culture. At the most basic level, this culture must be created by the government. In order for society to prosper, it first and foremost needs quality institutions that ensure the protection of property rights and punish acts of violence. Without quality institutions, any potential prosperity will immediately turn into violence. At the same time, the institutions are the reason why taxes exist and must necessarily exist.
- For example, countries with high volume of underground resources are sharply polarized precisely because of differences in the quality of institutions. While some (Norway, Sweden, Canada, Australia,...) are really rich thanks to high-quality institutions, in others (many African countries or some countries in the Middle East,...) civil unrest and terrorism is flourishing due to tensions between great natural resources and low quality institutions.
- Suppose Adam and Boris live in a country where the institutions have managed to reach a decent level and stealing is not possible. The country will return to efficiency, but inequality will reappear and deepen. Adam is getting better every day and Boris is getting worse every day. Note that Adam is doing well thanks to the institutions, in other words, he is doing well precisely because Boris is doing worse!

Cooperation

- Imagine that a new kind of food suddenly appears in our illustrative country. For example, a deer. At the same time, let's assume that two people are needed to catch a deer. One is not enough. If Adam and Boris want to improve on food, they will need each other. In order for Boris to help Adam with deer hunting, Boris will have to be strong. So he will have to eat three apples a day.
- In order to increase his well-being (in addition to picking apples, he also wants to hunt deer occasionally), Adam will want Boris to be well fed. So Adam will start sharing apples with Boris. How many apples will he give him? Exactly enough for Boris to eat three every day. Boris quickly realizes that he doesn't have to pick apples at all, because Adam is willing to feed him every day because of deer hunting.
- Boris is therefore not interested in any work until the point when he receives three apples from Adam. However, when he gets three apples, it suddenly pays off to work (go with Adam to hunt deer), because from this point Boris can only improve his condition by working - he won't get anything else for free.
- So, as in the past, we have a situation where the richer Adam voluntarily gives apples to the poorer Boris. But this time it's no longer about charity. Adam does it in his own interest.

Transfers

- Helping the poor (transfers) is closely linked to the question of opportunities. Unless there were deers, Adam had no economic incentive to help Boris, because even if he fed him three apples, Boris had no way to do him any good. Therefore, if Boris does not have any opportunity for economic activity beyond the harvest of apples, any transfer from Adam is pure charity. But if Boris has another opportunity (deer hunting), then the transfer from Adam is not a charity, but a very sophisticated way for the whole society to improve.
- This is exactly how efficient transfers to the poorer should work. Everyone should find themselves in a situation where it pays to remain economically active. From the real world's point of view, therefore, free public goods (such as education or health care), but also free food appears to be the better choice than money.
- Thus, if the first task of the government was to secure property rights (and other legal responsibilities) in order to create the conditions for economic efficiency, then the second task is to reduce inequality by redistributing funds (collected by taxes) from richer to poorer. However, the key motive should not be equality of wealth, but equality of opportunity.

Trade-Offs in Transfer Policy

- Setting the level and form of transfer policy to correct a given assessment of the problems posed by poverty and inequality requires judgments about policy trade-offs. Transfer and redistribution policies, perhaps more than any other policies in public finance, are ultimately dependent on judgment calls by society and policymakers. Making those calls involves consideration of welfare trade-offs across individuals—judging whether on net social welfare is improved by transferring income from one group or individual to another.
- The main trade-off across policies in this model is broadly captured as being between equity and efficiency. While policies that improve equity can in principle improve outcomes, in practice they may come at some cost to economic efficiency as individuals change their behavior in response. The specific manifestation that is of primary concern for the narrow purposes of transfer policy is the efficiency cost due to the moral hazard that such programs can create and its effects on labor supply in particular.
- By insulating recipients from the full consequences of adverse economic events or unproductive activities, the incentives that those recipients have to protect themselves against those events or to engage in economically productive activities are diminished. Of particular interest for income support policies is the moral hazard created with respect to work incentives. By cushioning the blow of low labor income, such programs can reduce incentives to seek and take employment. That comes at a cost to economic efficiency.
- A related set of trade-offs is due to the fact that policymakers typically cannot observe the characteristics by which they would like to identify recipients of benefits.

Targeting Recipients

- One way in which policy seeks to minimize the efficiency costs of redistribution is by targeting specific populations to receive transfers. That is difficult even in standard models, because there is a presumed information asymmetry between policymakers and individuals with respect to knowledge about who is truly needy.
- As a result, policymakers employ specific targeting methods, such as tagging based on observable characteristics, or ordeal targeting. Because of the imprecision of such methods, they can lead to errors of either commission or omission—that is, they can lead to benefits being claimed by individuals for whom they are not intended, and they can lead to intended individuals failing to receive benefits. Either comes at a cost to program efficiency.
- In order to restrict the benefits of any given program to qualifying individuals, it is necessary to screen prospective recipients to determine whether they meet the eligibility criteria. In practice, that determination often is made by requiring that individuals actively apply for benefits and demonstrate their eligibility. As a result, the effectiveness of income support programs in delivering benefits to targeted individuals is a joint function of who is targeted by the policy, which is defined by eligibility rules, and who takes them up, which is determined by individual behavior.
- Given the elective nature of participation in such programs, not all eligible individuals apply for or take up benefits. And as an empirical matter, the take-up rate—the fraction of eligible individuals who actually receive benefits—of most income support programs is far from perfect. The costs of program participation take at least two forms: transactions costs (the direct costs associated with claiming and keeping benefits) and stigma costs (the subjective sources of disutility that are associated with receiving benefits). In this model, policies fail to reach the intended recipients if the costs that they impose are large relative to the benefits that they deliver. If, for instance, the neediest individuals have less access to information on programs or are more discouraged by the hassle costs of applying for benefits, then imperfect take-up could be consistent with self-selection into programs working in a way that actually undermines efficient targeting.
- The key behavioral insight is that it is not necessarily program complexity itself that comes at the cost of participation or screening efficiency, but the complexity of the program as experienced by eligible individuals. The complexity of underlying program parameters such as eligibility criteria affects the take-up decision only to the extent that individuals are required to deal with it directly. Policy might, therefore, retain complex eligibility rules but shift the burden of applying those rules from the applicant to the government.

Benefits and Outcomes

- Another fundamental design challenge for programs that provide assistance directly to recipients is to structure benefits to promote the types of outcomes intended. While take-up of programs is necessary to achieve program goals, it is not in general sufficient. The ultimate goal of social programs might be thought of as reducing hunger or food insecurity, and thus, these programs might be judged by whether and to what extent they alleviate any of a variety of hardships associated with material deprivation.
- However, delivering benefits is not identical to producing outcomes. For transfer policy to be successful, it must look beyond whether it can get benefits to those in need in order to determine whether those benefits achieve program goals. A behavioral approach can help in making that evaluation because many aspects of program effectiveness are determined by how recipients respond to and make use of benefits. For example, the extent to which benefits lead to reductions in hunger and food insecurity will be a joint product of the form and level of the benefit, on one hand, and the decisionmaking process by which recipients decide how to spend and consume, on the other.
- There is some evidence that designating benefits in a particular way may lead to a labeling effect, whereby recipients tend to dispose of benefits in the ways suggested by their labels instead of treating benefits as fungible with other sources of income. For example, there is an evidence that food stamps might encourage food consumption more than cash transfers do. May the food stamps instead of cash be a good idea after all?

Division of labor, trade and defense

- Adam is very good at picking apples, and in order to occasionally enjoy the deer, he shares them with Boris. Since Boris is not starving anymore, he can spend most of the day thinking about how to catch a deer more efficiently. Over time, he manages to develop a way to catch deer without Adam's help.
- What happens next? A specialization will emerge. If both Adam and Boris want to continue to consume both apples and deer, then Adam, who is doing better with apples, begins to focus solely on them. Maybe he'll even start growing apples, so he can provide more apples than before. On the other hand, Boris hunts deers. Subsequently, they start trading with each other. They agree on a ratio that is beneficial to both of them and exchange apples for deer meat. Thanks to specialization (division of labor) and trade, they have more food than ever before. Their well-being is constantly increasing.
- Note that transfers are no longer needed at this point! Adam no longer has to give Boris free apples. Instead, he exchanges them for deer. Adam's previous "charity" put Boris in a situation where it pays off to be economically active and he gradually became independent of Adam. However, for such prosperity to occur, we will again need institutions. The third task of the state is to provide contract enforcement mechanisms, so that everything that was promised in the business is kept.
- Adam and Boris live happily in their country, thanks to the culture established by the institutions. The economy thrives. Contracts are fulfilled, rules and laws are not violated. However, people from other countries are unlikely to follow these rules. The economic prosperity of Adam and Boris's country can lead foreigners to aggressive acts in order to seize as much wealth as possible. That is why Adam and Boris need their government and its fourth key role - defense against foreigners. Only then can they really prosper in their country.

International trade

- Let's go one step further. Adam and Boris, living in prosperity and security, find that in the neighboring country, grapes grow. They would like to get some wine. Thanks to the culture flourishing in their country, they understand that trade is a better way for everyone than violence. Since they have more food (deer and apples) than they need, they would like to exchange part of it for wine.
- They will agree on an exchange with the foreigner Filip. Suppose Filip's country is much poorer because it does not have the institutions to guarantee the basic functions of the state (securing property rights, effective redistribution, contract enforcement, and defense). Filip is therefore in an unfavorable position compared to Adam and Boris. He has little wine (storage is not worthwhile due to theft) and since he has trouble getting food, he is willing to exchange a large amount of his wine for a relatively small amount of deer and apples.
- At the same time, Adam and Boris know that if they don't agree with Filip, it will be easy for them to replace him - they will agree with anyone else in Filip's poor country. Filip is therefore pressed against the wall. Although voluntary trade (exchanging wine for food) is beneficial for both parties, the vast majority of the benefits fall on the side of Adam and Boris. While their prosperity will increase very significantly with such international trade, Filip will improve as well (otherwise he would not trade at all), but only a little bit.

Globalization

- When two countries start trading with each other, trade is usually much more beneficial for the country that has better institutions (and is therefore richer). International trade thus improves the efficiency of the global economy, but very unevenly. The rich again become relatively richer than the poor. In other words, the rich are getting richer because of the poverty of the poor!
- Differences in wealth and culture (institutions) between countries are the reason why, for example, American technology companies or European clothing brands can use Asian labor (including child labor) for literally a few cents, while the outputs of this labor sell in their domestic markets for several hundreds or even thousands of euros.
- The Asian workers are not protected by the institutions, for example through labor laws, and are therefore happy for money that is negligibly small from the European's point of view - had they rejected such wages, they would have no money at all.

International transfers

- If Adam and Boris start trading with Filip, then their welfare will dramatically rise precisely because Filip's country is not doing well! Filip is so pressed against the wall that it might seem that Adam and Boris can no longer "squeeze out" anything more from trading with Filip. Here, however, comes a paradox similar to the situation where Adam voluntarily fed Boris with apples because of deer hunting together.
- Adam and Boris can gain more from the international trade with Filip, perhaps counterintuitively, by helping Filip. If they, for example contribute to the charity that helps people in Filip's country get better, then Filip will gradually be able to produce more and more wine, and probably also in a more efficient way (for example, if charitable aid leads to the creation of new technology).
- Ultimately, the charitable help (from Adam and Boris) will once again turn into improved well-being for all - thanks to the increase in trade, not only Filip but also Adam and Boris will be better off.
- Thus, the effective redistribution of resources between countries will not only improve conditions in the recipient country, but also in the country that sent its resources voluntarily! Germany does not support the rest of the European Union through Eurofunds for charitable reasons.

Radicalism

- But there is one catch. What happened in Adam and Boris's country when they didn't have a culture? Violence emerged. And this is exactly what often happens in countries that receive funding (from charity but also from trade) from abroad, but do not have a sufficient culture established by quality institutions.
- Eurofunds, for example, are clearly beneficial for the well-being of Slovakia, but only because we have, while imperfect, still a relatively good culture, so that most of the funding will still show itself in improvements in public goods (such as infrastructure). However, this does not apply in many other countries, especially in Africa or Asia.
- Paradoxically, by trading with poor and unstable countries, the rich (stable, democratic, secure) create (instead of prosperity) room for violence, civil wars, terrorism, and also destruction of key ecosystems.
- Rich countries often help themselves through international trade with the poor, but they destroy their partners. Civil wars in poor regions are, to a certain extent, our problem, to which we have significantly contributed, in the pursuit of our own well-being. And this becomes even bigger problem when radicalism and terrorism begin to spread beyond the borders of a poor country and start threatening us directly.
- Adam and Boris cannot establish institutional order in Filip's country. Similar efforts in the past (such as the war in Vietnam, Korea, or Iraq) have always failed. The country must create its own order. However, Adam and Boris can contribute to the development of culture that will later be transformed into improved institutions. It is not enough to "help" developing countries by pouring money to them, because this money, in the absence of institutions, will literally disappear into the black hole. In the worst case, military equipment will be purchased or developed.

Non-profit organizations

- Non-profit organizations play a key and irreplaceable role in economic development abroad. This is because they can often quickly and reliably identify opportunities for multilateral partnerships, leading to increased economic activity among the poor.
- The aid should ideally be non-monetary. Non-profit organizations can contribute mainly by developing culture in poor countries through the development of the people themselves. By securing public goods (education, health care, etc.), they also support entrepreneurship where unstable and often violent governments are unable or unwilling to provide this.
- At the same time, it is critical that the aid is targeted, i.e., provided exactly where it will have the most significant effect. Foundations are valuable in the field of charitable aid precisely because of their expertise in determining the impact of aid on well-being. They can identify where aid will have the greatest positive impact. Thanks to this knowledge, their help can be extremely well targeted - they can create tiny islands of prosperity exactly where these are most needed.
- At the same time, NGOs engage in humanitarian aid for people in areas suffering from war or terrorism. Humanitarian aid helps to create a culture where absolutely no culture currently exists and thus contributes significantly to security and future well-being not only in the country but also globally.
- While foundations fund some of their activities through voluntary contributions, most of their projects are funded by government resources. Slovakia, for example, "pours" about 0.14% of GDP into the non-profit sector through SlovakAid (the target is 0.33%), which represents about 120 million EUR per year.

Effective altruism - case study

- “Millions of Trees for Africa” Project (Integra Foundation)
- More than a million trees (macadamia nuts) has already been planted in Ethiopia and Kenya, and the project still continues.
- Planting is coordinated by the locals, no big plantations are created, instead the trees are distributed directly to households (to small farmers). These farmers are also educated on how to take care of those trees, and monitored.
- Tree selection: Macadamia nuts do not traditionally grow in central Africa, but they have ideal conditions for doing so. They are very resilient and fast-growing.
- The tree generates a profit after 3 years from planting (up to 75 years) - macadamia nuts are one of the most expensive ones. One tree can generate one monthly income for an Ethiopian farmer.
- Fair trade: the purchase of nuts is automated - the nuts are weighed, a card is attached and the farmer automatically receives (fair) money on the account. Nuts are processed on site, then distributed (primarily) to Europe. A percentage of profit gets back to community projects to Africa.
- Eco benefits: trees purify the air, at the same time they are an excellent complement for a traditional coffee tree (it offers shade, retains water in the soil).