Eradicating Rural Poverty: 
Moving from a Micro to 
a Macro Policy Agenda

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Introduction

The theme of the address

I feel deeply privileged at being provided with this unique opportunity to address this distinguished audience today, as part of the Public Lecture Series on Rural Poverty Eradication, organized by IFAD, in collaboration with FAO and WFP. I follow some very distinguished personalities in this lecture series and thereby feel doubly honoured.

It is appropriate that this lecture should be associated with the launch of IFAD’s Rural Poverty Report 2001 which represents one of the most positive statements, emanating from the international development community, on the issue of poverty eradication. The IFAD report recognizes that at the beginning of the 21st Century there is general agreement, at the global as well as national level, that poverty is unacceptable as part of the human condition. The global family has come to recognize that the coexistence of pervasive poverty, with the affluence of a much smaller segment of the population, is ethically unacceptable, economically inefficient and politically unsustainable. Apart from IFAD, the United Nations as a whole, the DAC, the World Bank, the IMF, the Asian Development Bank, as well as major donor countries such as U.K., the Nordics and the Netherlands, have put poverty eradication as the primary mission of their aid programmes.

Most developing countries also put poverty alleviation as their primary development goal. The recent UNDP Poverty Report 2000 on Overcoming Human Poverty, records that 69% of all developing countries have prepared explicit poverty plans or have incorporated poverty alleviation into their national plans. However, preparing plans on alleviation of poverty is not necessarily reflected in national policies or allocative priorities.

These various commitments to eradicate poverty have been apotheosized, first at the Social Summit in Copenhagen in 1995 and then at the Millennium Summit, convened by the United Nations in New York in June 2000, where the international community committed itself to halve extreme poverty by 2015.

Such commitments to alleviate poverty are not new and have informed the agendas of the UN, international agencies as well governments for at least a quarter of a century, if not longer. However, until recently, poverty alleviation was part of a broader agenda for development and viewed as a byproduct of rapid growth. What is, however, new today is the prioritization of poverty as the primary mission of the global development agencies and many governments. The development agencies, in particular, appear quite categorical in defining poverty reduction as the immediate priority of their various aid programmes.

Whilst there is a temptation to take these commitments as the rhetorical posturings of a cynical world, the premise of my address before you today is that both governments as well as the international system are quite serious about their commitment to eradicate poverty. My presentation, therefore, takes as its point of departure, the proposition that the assault on poverty is now the dominant goal of the international development agenda. I would, accordingly, aim to discuss the design of a policy agenda which is consistent with a commitment to eradicate poverty not in some remote future but within the first two decades of the new millennium.
My presentation before you does not intend to break any new ground on the conceptualisation of poverty or its estimation. This is a task which has been well covered by scholars as well as reports of some distinction, prepared by organizations such as IFAD. Rather, my address focuses on taking the argument forward to put before you an agenda for possible action by the global community, which could make a substantive breakthrough in transforming the poor into the agents of development rather than its incidental beneficiaries. The arguments advanced before you in my address suggest that the eradication of poverty, notwithstanding its prioritization in the global development discourses, still remains a subsidiary concern of development policy where the focus of poverty policy remains to relieve or alleviate poverty.

The argument of the paper

The issue of poverty alleviation has been ghettoized in a self-contained universe of micro-oriented programmes and projects targeted to specific group of the poor. Such micro-programmes, from their conception, remain incapable of generating the synergy needed to eliminate poverty. Such programmes tend to degenerate into welfarism and thus remain unsustainable without the largesse of aid donors.

The concept of alleviating poverty originates in the growing awareness in the development community that the prevailing agendas for policy reform are likely to perpetuate poverty. However, in the possibly more humane world of today, we need to do something to provide safety nets for the victims of reform. It is argued here that this approach to alleviate poverty, as an outcome of defective policies, has served to perpetuate poverty. Unless the focus of the poverty discourse moves towards mainstreaming the issue of poverty through rethinking the design of development policy, poverty is likely to be perpetuated into the next century.

Mainstreaming poverty at the policy level demands that the tired debate over the prioritization of growth as the route to poverty eradication should be put to rest. The relevant issue is to enhance the capacities of the poor to contribute to the process of growth by empowering them to participate, on more equitable terms, in the dynamics of the market economy. To enhance the capacity of 40/50% of the population to participate in a market economy is likely to be the most effective policy instrument to sustain economic growth. Such an approach towards policy design suggests that the eradication of poverty should remain central to the design of macro-policy reform rather than an afterthought. This demands a macro-policy agenda which is designed to enhance the capacity of the poor as producers, consumers and above all, owners of wealth.

The need for a macro-policy designed to eliminate poverty is premised on the argument that poverty originates in the structural features of society which can only be addressed at the macro-level. Policy intervention, designed to redesign the structural sources of poverty, bring into consideration issues of social, political as well as economic reform. It is for this reason that I have deliberately avoided using the more easily recognized concept of macro-economic policy and have preferred to use the term macro-policy. This particular perspective which guides my paper on poverty eradication seeks, at best, to put before you the broad contours of a macro-policy agenda. Obviously, my central argument on the primacy of the macro, demands more substantive investigation and analysis. Some of this work is found in the IFAD Report
and even find its way into WDR 2000. My own presentation is, thus, designed to move the work of the IFAD report forward. It is my hope that my paper will provoke debate, encourage more study but, above all, encourage substantive reflection on the design of policies among national policymakers as well as the international development agencies.

My presentation will be divided into two parts:

I. The structural dimensions of poverty
II. Policy interventions at the macro-level

I. The structural dimensions of poverty

A decade ago the World Bank was arguing that rapid growth was the best solution for eradicating poverty. A commitment to growth sustaining policy reforms, inspired by the Washington Consensus, backed by temporary safety nets for those who were possible victims of such growth, was expected to reduce the proportion of those living in poverty. Needless to say, the success story of the Asian Tigers as well as Chile, provided the substantive foundations of this hypothesis. A decade later, in WDR 2000, the World Bank had come to terms with the proposition that policy reforms were not enough to alleviate let alone eradicate poverty. Structural concerns, of a rather more basic nature than the structural adjustments demanded by the Washington Consensus, were recognized as central to the design of policy reforms. In the last few years, a variety of new words such as empowerment, inclusion and ownership, have found their way into the development vocabulary. Again, without retreating into cynicism, I would prefer to view this discovery of structural concerns by agencies such as the World Bank, as a recognition that poverty had if anything increased in the 1990s, was not likely to be eradicated in the near future without addressing structural issues and that its perpetuation was now threatening the very foundations of a number of developing and transitional societies.

In contrast to the World Bank, IFAD had, historically addressed structural issues. In the latest Rural Poverty Reports 2001, IFAD focuses on such issues as access to assets, markets and institutions as the sources of rural poverty. So does WDR 2000 which also focusses on such issues as inequality, markets, assets and empowerment. This represents a significant evolution in the perceptions of the World Bank on poverty, from the conviction in WDR 1990 that growth, through policy reforms was the solvent of poverty.

The assumptions underlying this structuralist perspective on poverty recognizes that neither targetting of development resources to the poor, nor the promotion of growth, are likely to resolve the problem of poverty. The poor are embedded in certain inherited structural arrangements such as insufficient access to productive assets as well as human resources, unequal capacity to participate in both domestic and global markets and undemocratic access to political power. These structural feature of poverty reinforce each other to effectively exclude the poor, from participating in the benefits from development or the opportunities provided by more open markets. In such a system, even targetted programmes of poverty alleviation, carry transaction costs due to the institutional structures which mediate the delivery of resources to the poor.
It is, however, not enough to recognize the salience of structural issues in the poverty discourse without addressing the political economy which underlies the structural features of a society. Poverty originates in the unequal command over both economic and political resources within the society and the unjust nature of a social order which perpetuates these inequities. We may term these inequalities as structural injustice. Such injustice remains pervasive in most societies exposed to endemic poverty. We may address these inequities in relation to access to:

- Productive assets
- Markets
- Human Development
- Governance.

Unequal access to assets

In all countries faced with endemic poverty and indeed many middle-income countries, inequitable access to wealth and knowledge desempower the poor from participating competitively in the market place. Indeed the market itself, as it operates in the real world rather than in text books, is designed to compromise the opportunities on offer to the poor. The IFAD report has emphasized that in most societies, with a substantial proportion of the population living in poverty, the poor have insufficient access to land, water and water bodies. Where they access such resources they do so under exploitative tenancy arrangements.

Such inequities in title and access to agrarian assets do not derive from the competitive play of the market but from the injustices of history and therefore lack moral as well as social legitimacy. Such inequitable access to productive assets in the rural economy also tend to be inefficient because small farmer’s have proven to be both more productive as well as likely to spend most of their income derived from their merge assets, in stimulating secondary activity in the rural economy. Where there is a dichotomy between the owners of land and the actual tiller of the land, this serves as a disincentive to both investment of capital, as well as more productive effort on the land.

Unequal participation in the market

Within the prevailing property structures of society, the rural poor, in particular, remain disconnected from the more dynamic sectors of the market, particularly where there is scope for benefiting from the opportunities provided by globalisation. The fast growing sectors of economic activity tend to be located within the urban economy, where the principal agents of production tend to be the urban elite, who own the corporate assets which underwrite the faster growing sectors of the economy. Even in the export-oriented rural economy, in those areas linked with the more dynamic agro-processing sector, a major part of the profits, in the chain of value addition, accrue to those classes who control corporate wealth.

The rural poor, therefore, interface with the dynamic sectors of the economy only as producers and wage earners, at the lowest end of the production and marketing chain, where they sell their produce and labour under severely adverse conditions. This leaves the rural poor with little opportunity for sharing in the opportunities provided by the market economy for value addition to their labours.
Unequal access to human development

The IFAD report recognises that low productivity remains an important source of income poverty. Higher income and ownership of wealth remains closely correlated to higher levels of education. Low productivity, thus originates in insufficient access to education and technology. However, a more serious problem facing the rural poor, in many developing countries, lies in the growing disparity in the quality of education which divides the rural and urban areas. In such societies today, the principal inequity in the education sector is manifested in the growing divide between a better educated elite with access to private as well as foreign education and the poor who remain condemned to remain captives within an insufficiently funded and poorly governed public education system. In an increasingly knowledge based global economy, which has driven the IT revolution, inequitable access to quality education, relevant to the dynamics of the market, could emerge as the principal deprivation of the rural poor.

Insufficient and inequitable access to health care is also compounding the inequities in education. The dominant problem in most developing countries is not the complete absence of health care but the incapacity of the public health care systems to deliver quality health care. Ill-provisioned health services expose the rural poor to a life of insecurity, where earning opportunities can be disrupted by episodes of ill health. Poor health and nutrition can undermine both individual as well as national productivity and can influence the lifetime opportunities of the poor. In contrast, a small elite who are positioned to avail of private and even foreign health care, enjoy first world health standards. This growing disparity between the health status of the elite and the poor in such countries is inherently unjust because it denies all citizens equal chances of living a healthy life and even to compete in the market place.

Unjust governance

This inequitable and unjust social and economic universe is compounded by a system of unjust governance which discriminates against the poor and effectively disenfranchises them from the political benefits of a democratic process. The poor, where they are not directly oppressed by the machinery of state, remain underserved by available public services. Where such services are at all accessible to the poor, they pay high transaction costs for these services. The agencies of law enforcement insufficiently protect the poor and frequently oppress them for personal gain as well as on behalf of the elite. The judicial system denies the poor elementary justice both on grounds of poverty as well as the social bias of most Third World judiciaries.

In such a social universe the poor remain tyrannized by state as well as money power and have to seek the protection of their oppressors within a system of patron-client relationships, which perpetuates the prevailing hierarchies of power. Where the democratic process has been renewed, often after long episodes of autocratic rule, the poor are denied adequate access to representation in the systems of democratic governance from the local to the national level. Representative institutions tend to be monopolized by the affluent and socially powerful who then use their electoral office to enhance their wealth and thereby perpetuate their hold over power. In such an inequitable and politically unjust environment, the benefits of democracy remain the privilege of the elite supported by small collectives of sectional power.
II. Policy Interventions at the macro-level

In the second part of my presentation I seek to address the issue of policy interventions at the macro-level to confront the issue of structural injustice. My presentation to you is not designed to revisit issues already quite comprehensively addressed in the IFAD report, but to take the argument of the IFAD report forward to provide more focus to the specific interventions which would serve to correct these structural injustices in developing countries in general and in rural societies in particular. The underlying theme of my subsequent discussion of macro-policy is the issue of correcting injustice through empowerment of the poor, by strengthening their capacity to participate in a market economy and democratic polity. My proposed macro-policy interventions are structured under the following heads:

- Expanding the ownership and control of the poor over productive assets
- Enhancing their access to a knowledge based society
- Strengthening the capacity of the poor to compete in the market place
- Redesigning budgetary policy to reach public resources to the poor.
- Restructuring monetary policy to deliver credit and provide savings instruments to the poor
- Designing institutions for the poor
- Empowering the poor

The subsequent discussion is largely suggestive and is designed to initially stimulate debate as a prelude to designing more substantive policy proposals.

Expanding the ownership and control of the rural poor over productive assets

The principal assets available to the rural poor tend to be land and water. The IFAD Report has discussed the issue of land reform and ownership over water rights. I do not share the reservations of the IFAD report about confiscatory land reform, largely because the prevailing title to such land, in most developing countries, is grounded in unjust and often illegitimately acquired title to such land. However, we are not here to sound the trumpet for social revolution but suggest interventions which are politically feasible as well as economically sustainable. Within such a perspective, three areas of agrarian reform could be considered:

- Transforming tenancy rights into either ownership rights for the tenant or through right of permanent tenancy.
- Redistribution of ownership of uncultivated land
- Giving title to lands and watercourses owned by the State.

Transfer of tenancy rights into permanent leaseholds has already been implemented in the agrarian reforms of the Philippines in the 1970s, and 1980s and in the State of West Bengal, in India, under Operation Barga. The operative issue here is to give those who actually, cultivate the land, a direct stake in the land. Without legal title to ownership or tenancy of land, the cultivators retains little incentive to invest in the land nor are they able to use land as collateral to access the credit market. The first principles of both market and institutional economics would therefore suggest that some form of agrarian reform remains part of an unaddressed agenda of economic reforms. I have never understood the logic of the World Bank using policy conditionality on aid dependent Third World governments to enforce changes in
property rights through privatization or decollectivization but have never applied conditionalities in the service of agrarian reform.

There are, obviously, significant socio-political problems which need to be addressed within particular countries, which remain specific to the design of such agrarian reforms, particularly where land remains a source of power within rural society. Here I would suggest that an organization such as IFAD and/or FAO, which have always emphasized the importance of agrarian reform, should assume a more pro-active role in promoting reform, on grounds of its importance in eradicating poverty. Through work which can serve to design feasible reform proposals, IFAD/FAO could serve to catalyse more purposeful interventions by more economically influential donors such as the World Bank or bilaterals of the EU.

As a first step, IFAD could initiate an exercise to identify countries where introduction of agrarian reforms can immediately lead to positive gains for the poor at relatively limited political cost and can then identify a possible public investment programme to support such a programme. Initially IFAD may focus on:

i. A few countries where tenancy reforms could be introduced. This should indicate the resources needed to either buy up lands under tenant farming or to compensate owners who would be willing to surrender permanent leasehold rights on the land

ii. Identify countries and areas where sizeable amounts of untenanted and uncultivated land remain available. In such countries a comprehensive rather than project related strategy for transferring land not directly under productive use, to the ownership of small farmers, should be worked out. The financial, legal, social and political implications of such a reform process should be spelt out.

iii. IFAD/FAO may support a series of studies, in a selection of countries exposed to high rural poverty, to comprehensively identify scope for policy interventions in the following areas:
   • Distribution of public lands, as well as rights over water bodies in the public domain which could be assigned exclusively to the poor.
   • Distribution of forest lands in the public domain, as also lands alongside public roads and water bodies, for community development through groups of the poor.

In the forestry, aorestation, irrigation and fisheries sector, as indeed in small agrarian reform programmes, organizations such as IFAD have initiated a number of programmes which are under implementation throughout the world. What I am suggesting here, is a conscious departure from the project approach, towards a national macro-programme which identifies available productive assets for distribution to the poor. Such an exercise should work out the modalities, as well as estimate the costs of the transfer, spell out the institutional arrangements to sustain such transfers, indicate provisions for credit, technological support and marketing arrangements and finally estimates the social and political implications of the process of asset transfer.

Such a series of exercises at mapping reform opportunities at the national and global level, could be used to build a national constituency for reform and would put a major issue of structural reform, with far reaching implications for empowering the
rural poor, before the global development community, which could than seek to mobilize funding as well as political support behind such a reform process.

**Enhancing access to human resources**

In the area of human development courtesy of the pioneering work of scholars such as Amartya Sen and visionaries such as Mahbub ul Haq, human development is already recognized as a mainstream concern of the development agenda. However, my own emphasis in this area would be on democratizing access to education and health care.

Such an agenda for human development would move beyond ensuring education or health for all, which should remain on every agenda. The priority for the next decade should move towards substantially enhancing investment for the purpose of upgrading the quality and governance of rural schools and health care facilities to a level where the rural poor do not feel disadvantaged compared to the urban middle class. Such a goal carries formidable implications as to costs and governance. What I would, therefore, suggest is a phased series of investments in upgrading these public facilities so that the budgetary impact and governance problems could be more easily absorbed. At the same time, within the next 5 to 10 years, the graduates of such a process of quality enhancement efforts could be seen to be competing for university places with the elite, endowed with a no less robust state of health than the children of the elite. The spectacle of children of the poor rising to positions of professional, economic and political influence will, itself, have an empowering effect on the poor to demand more rapid democratization of opportunities for human capacity development.

Until public services in the health sector, for example, can be brought to a competitive level with private services, public resources should be channeled to establishing a system of health, disability and old age insurance for the poor to enable them to access private health care. A similar system of public scholarships should be targeted to the children of the poor to access private education, where each institution should be encouraged to set aside a proportion of places for the poor. A recent initiative, emanating from the Ford Foundation, to deploy a $300 million a year international scholarship fund, to exclusively target the underprivileged, merits wider emulation.

The knowledge revolution is now being brought within the reach of the poor by advances in telecommunications. Formidable opportunities are being opened up in the area of distance learning and medicare, for urban standards of education, medical diagnosis and prescription to be delivered to the most remote villages. Here major investments to build the infrastructure to take the IT revolution to the villages, remains a major goal of public and global development policy. Grameenphone in Bangladesh remains an important example of how poor rural women can be brought into the communications revolution as both providers as well as users of IT services.

In similar vein, the direction of R&D agendas, at the global level, to not only address the concerns of the poor, as in the case of HIV/AIDS, but to develop technologies for the rural poor, have been fully discussed in the IFAD report and many of their suggested interventions merit urgent attention. The related global public
goods debate needs to be taken forward so that foreign aid can be directed to delivering such goods to the poor across the world.

**Strengthening the capacity of the poor to compete in the market place**

*Market based institutions for the poor*

The capacity of the poor to operate on more equal terms in the market place, depends in considerable measure on their capacity for collective action. The weakness of the poor, in the market place, originates in their isolation. Here investment in institutions, whether sponsored by NGOs or representing collective action by the poor, in the form of marketing cooperatives, or corporate bodies of the poor, remain crucial interventions.

Since the developing world is littered with the debris of captured, corrupted or failed cooperatives, directing collectives of the poor into such a risk-prone area as the market, should not be underestimated. However, the issue remains to invest the poor with the capacity to develop the financial and organizational strength to sell their products and services, at a time and in a market, which offers them the best terms, rather than to sell their produce out of distress or the need to subsist. Such a perspective would demand interventions in the macro-credit market to underwrite such marketing ventures, as well as deployment of professional management skills, to assist the poor in participating in the market place.

It should be kept in mind that commercial managers are professionals who can be hired in the market place and can be provided with incentives for good performance by collectives of the poor no less than corporate enterprises. The task ahead would be to empower the poor to draw upon such professionals without feeling socially intimidated by their own hired employees. Conversely, such a process should encourage the emergence of a socially motivated class of managers who would not necessarily remain undercompensated, who could specialize in serving such organizations of the poor who have dared to venture into the market place. International development agencies can be persuaded to initially underwrite some credit support as well as management inputs for such commercial organizations of the poor. But in the final analysis such ventures must be sustained in the market place.

**Adding value to the labour of the poor**

Many NGOs around the world are already providing marketing services to the poor, for particular commodities, in particular markets. However, the best service that can be provided is to help the poor to add value to their labours by moving upmarket through either agro-processing or providing inputs to the corporate sector. The pioneering role of Amul Dairy in India and more recently, BRAC, in Bangladesh, to enable small dairy farmers, or just poor households who own a cow, to become part of a milk processing chain, enables the poor to share in the profits from selling pasteurized milk or cheese in the metropolitan market. Similarly Grameen Bank’s initiative to support rural handloom weavers to upgrade their product to provide Grameencheck fabrics, as inputs to Bangladesh’s leading export industry of readymade garments, provides significant new opportunities for value addition to the labours of the poor, rural based, weavers.

Here, I would suggest that such initiatives may take one step further, by financially empowering the vast body of small farmers servicing the private agro-
processing sector, as well as handloom weavers, to become equity stakeholders in the upstream enterprises which add value to their produce or labour. Tobacco, cotton, sugar cane and jute growers, servicing export-oriented corporate bodies, could be brought together, as corporate bodies or as members of a dedicated Mutual Fund, to acquire a stake in these private corporate bodies engaged in the task of value addition. This marriage between the small farmer and the downstream agro-processor could also be promoted by organizations such as IFAD and consummated through a dowry provided by the World Bank to organized groups of small farmers to buy into such ventures.

The IFAD report has drawn attention to the positive role played by the Fair Trade Movement, which carries the produce of poor farmers and small enterprises into the retail markets of the developed world. Fair Trade is a commendable initiative. However, I would suggest that the movement should encourage the small businesses in developing countries, who reach out to small producers, to transform their suppliers or artisans into share holders of the enterprises. Similarly, the Fair Trade Movement should, itself, consider incorporating itself and providing an equity stake in such a formidable global corporate enterprise, to the small farmers and artisans whose products are being sold in the supermarkets of the developed world. The emergence of such a global corporation of the poor and the weak, would do much to not just build global solidarity amongst the poor but to transform this into market power. There is no reasons why the Fair Trade Movement could not aspire to emerge as the Lever Brothers of the poor.

Redesigning budgetary policy to reach public resources to the poor

Restructuring the budget

In its present configuration, budgetary policy aggregate, public expenditure programmes without setting any explicit goal to serve the poor, who tend to remain marginalized in the budgetary concerns of most developing countries. In the absence of any explicit structuring of the budget to serve the poor, most budgets contain a plethora of projects/programmes, ostensibly targeted to the poor. In many least developed countries (LDCs) such pro-poor programmes tend to be underwritten by a variety of aid donors. A not insignificant part of these expenditure targeted to poor, do not reach the poor, due to high transaction and delivery costs, which enrich the non-poor or expatriate consultants.

Much of this misdirection of public expenditure is concealed under opaque budgetary practices which make it impossible to identify the share of the budget directly reaching the poor or estimating its outcomes on the circumstance of the poor. In this respect, targeted aid programmes are no less likely to carry high transaction costs, with poor outcomes and weak sustainability.

Any serious attempt to dedicate public expenditure budgets to the concerns of the poor, should be transparently structured to clearly identify not just projects explicitly targeted to the poor but resources delivered to and directly impacting on their lives. A number of such efforts, usually at the level of civil society, have attempted every year to restructure the national budget to isolate its contribution towards poverty eradication. However, such efforts remain underresourced and carry unresolved conceptual problems so that they have not been very effective in persuading Finance Minister to more carefully calibrate their budgets to reach the poor. Nor
have likeminded donors been any more successful than civil society inspite of many efforts at promoting budgetary reform through provision of technical assistance.

*Inducting the poor into the budgetary process*

Apart from targeting public expenditure to the poor the more serious limitation of the budgetary process lies in the absence of consultation with the poor. A quite disproportional amount of time is spent consulting business leaders and economists on design. Much less, if any, effort is invested in consulting the poor about what they expect from the budgetary process. Some consultative exercises, often at donor initiative have tended to produce some rather self-conscious outcome exercise the sponsor ends up hearing what they want to hear. A number of civil society initiatives to consult the poor have yielded more promising results. However, unless such efforts are institutionalized and can serve to influence policymakers, they degenerate into episodic exercises in providing some catharsis for the grievances of the poor.

Ideally, it is governments who should reach out to the poor whose votes elect them to office. Such an effort should not, however, manifest itself as an a pro-forma, pre-budget exercise in bureaucratic tourism of some rural areas but should be institutionalized into the structures of governance. The consultative process each year should be proceeded by a process whereby the concerns of the poor are systematically recorded and reviewed by the budget makers before they embark on their annual consultative encounters with the poor.

All such efforts at making budgets more transparent and consulting the poor will be meaningless if they do not end up reprioritizing public expenditures to put resources into those sectors that serve the poor. This process will have to precede the task of ensuring that allocated resources actually reach the poor. However, allocating budget priorities is not a zero sum game and the political economy of a society needs to be taken account in any discussion on the budget. If the poor are to compete with the Defense Forces to influence the allocative choices of the Finance Ministry, they will need to collectively empower themselves to compete in the political arena rather than to depend exclusively on the good sense of the policymakers.

*Fiscal policy*

The instruments of fiscal policy in many developing countries are usually not designed to address the concerns of the poor. It must, therefore, be recognized that fiscal systems can also be redesigned to do more than provide incentives for business enterprises and relief to the poor. The poor are also producers of goods and services and remain sensitive to the incentives offered by a well-designed fiscal policy. The instruments of direct as well as indirect taxation need to be calibrated to make better use of their distributive and poverty reducing power. Fiscal specialists should be invited to join hands with poverty specialists to rethink the design and mechanisms for formulating a fiscal policy which can better serve the needs of the poor.

*Restructuring Monetary Policy*

*Taking micro-credit out of the ghetto*

Nowhere is there a greater need for developing a macro-perspective for poverty eradication than in the area of monetary policy. The instruments of monetary policy appear to be exclusively targeted towards ensuring macro-economic stability, moderating inflation and meeting the credit needs of the corporate sector. The
The financial needs of the poor, once left to the informal sector, have now been ghettoized in the micro-credit market. This segmented design of the monetary system remains a major anomaly in the global development discourse. The micro-credit movement has, in many ways, revolutionized the banking system of many countries such as Bangladesh by moving a large segment of the rural population, from the informal to the formal capital market through access to institutional credit. In Bangladesh 10 million poor households, mostly women, have graduated from the informal money market into organized banking, where they have been conscientised into recognizing fiduciary responsibility for repaying loans and making regular savings. These numbers are comparable to those who participate in the commercial banking system. No less important, the micro-credit system has established the creditworthiness of the poor and laid to rest the myth that only men of property should be eligible to access the institutional banking system.

I do not here intend to go into the merits and limitations of micro-credit or to suggest that it is the panacea for poverty eradication. Indeed, I would argue that, by its very nature, micro-credit can never aspire to eradicate poverty since it only addresses one component of the various markets which condition the lives of the rural poor. It is arguable that by locking the poor into the micro-credit system, based on the fiduciary responsibility of the household, they have been excluded from participating in the macro-economy, have been isolated from collective action and condemned to live on the fringes of the poverty line. It is, therefore, not surprising that countries with the most substantive exposure to micro-credit, remain mired in poverty. Having said this much, I would, in no way, aim to diminish the enormous contribution of micro-credit in alleviating poverty and distress, as well as enhancing the selfworth of the poor. As the Chairman of the Board of Grameen Bank for the last 5 years I can speak with some authority on the subject and take pride in the pioneering achievements of Professor M. Yunus and his colleagues at the Grameen Bank.

Regrettably, few Finance Ministers in the developing world have registered the crucial lessons from the micro-credit revolution that the poor are bankable and creditworthy. The logic of this discovery would be to enable micro-credit organisations to graduate into corporate banks, owned by the poor. This, indeed, is the path followed by Grameen Bank which is a corporate body with over 2 million shareholders, composed mostly of poor women, who are also the clientele of the Bank. Bangladesh and indeed a number of other developing countries, are ready to sustain many more such banks, owned by the poor and serving the poor. Given the high level of non-performing loans in the regular banking system of Bangladesh, the fact that Grameen Bank, with a credit volume comparable to the largest commercial banks, can limit its portfolio of non-performing loans in the range of 10%, demonstrates that it has the capacity to operate as a competitive bank, whilst serving the needs of the poor. There is today, no reason why such organizations, of the maturity of Grameen Bank, should not graduate into the macro-finance system by accessing the deposits of the public and even marketing its assets at the global level, through such financial instruments as securitisation, which are in widespread use in more advanced financial systems.

*Restructuring financial services to serve the poor*

If Grameen Bank can move upmarket, there is no reason why commercial banks should not redirect their loan portfolios to the poor on account of their
creditworthiness, particularly in an environment when many of their largest commercial borrowers remain habitual defaulters. This is not to suggest that commercial bankers have to immediately move out of their air-conditioned offices and visit each client in their village home, as is the practice with the micro-credit organisations. A number of banks are already using NGOs and, in the case of Kishorgonj sub-district in Bangladesh, community-based organizations, to retail banking services to the poor. Commercial banks have to adjust their perspective as well as portfolios to the market opportunities provided by the poor.

Corporate banks may be more inclined to do this if the government were to incorporate such a redirection of banking services into the design of financial sector reforms. It is notable that whilst the World Bank has been promoting financial sector reforms across the developing world. There is no evidence of any insistence by the World Bank that the reform process should also aim to restructure the macro-financial system to deliver financial services to the poor, on grounds of both market efficiency as well as alleviating poverty.

**Mutual Funds for the Poor**

Apart from the issue of redesigning monetary policy to deliver credit to the poor, the monetary system also needs to put in place a much wider spectrum of financial instruments which can serve to mobilize the savings of the poor. An organization such as Grameen Bank has accumulated Tk. 10 billion (about $187 million) in savings from its 2.3 million members. All these savings remain on deposit with Grameen Bank and are used for further lending to its members. Savings mobilized by other NGOs such as BRAC, ASA, Proshika, as well as by individual households, indicate that the poor remain formidable savers. In India, a large number of small community organizations in Andhra Pradesh State, have, in aggregate, accumulated savings of around $180 million which remain on deposit with the banks.

The monetary system needs to design special financial instruments to attract these micro-savings into the corporate sector, particularly where it can be structured to serve the poor. Again, Grameen Bank has taken the initiative in launching the first Mutual Fund of the poor, where it is providing opportunities for investing a small fraction (Tk. 150 million) of the savings of its members, in a managed, close-end, Mutual Fund which would invest its portfolio in the corporate sector. The potential of this experiment has to be tested within the small, rather unstable capital market of Bangladesh.

Whatever may be the fate of the Grameen Fund, the concept of Mutual Funds for the poor, provides a significant institutional mechanisms to move the poor out of the village economy and into the more dynamic corporate sector, to a stage where a significant share of corporate wealth could be owned by the poor. The savings of the poor can not only augment the savings base but also broaden the investment capacity of the economy, whilst transforming the poorest rural household into stakeholders in the process of national economic growth.

Such an integrated financial system carries obvious risks associated with the nature of the market mechanism, as well as the probity of the corporate sector, which will demand special safeguards to protect the interests of the poor. But unless these opportunities for linking the poor to the corporate sector are explored through
widening the horizons of monetary policy, the poor will remain permanent captives in the ghetto of the micro-economy.

*Expanding the stakes of the poor*

The Mutual Fund is but one institutional mechanisms to link the poor to the corporate sector. The underlying premise of the Mutual Fund is the notion of creating possibilities for the poor to own corporate assets. We have already identified the opportunities for linking the farmers to the agro processing corporate sector by giving them an equity stake in such enterprises. Financial policy could also be restructured to ensure that all assets, from urban land, to real estate development, from banks to corporate trading houses, could be redesigned to accommodate the poor as equity partners. The two institutional instruments to make this possible remain the Mutual Fund and the need for private limited companies to transform themselves into public limited companies. Here monetary and fiscal policy can provide incentives to encourage the corporatisation of private wealth along with the reservation of space for equity ownership of this wealth by the poor.

It may be suggested that the opportunities for democratizing ownership of corporate wealth should not be limited to the rural poor but could be extended to workers, to own shares in the enterprises where they work. The 1.2 million women, mostly from the rural areas, who earn monthly wages of around $30, provide the substantive value addition in Bangladesh’s principal export of ready-made garments, are no less deserving of being made stakeholders in the most dynamic sector of the economy, than are the rural poor. Similarly, workers in banana, sugarcane or palm oil plantations could be given an equity stake in the enterprise where they work.

*Institution of the Poor*

*Collective action by the poor*

The poor survive as individuals with no institutional persona. The primary task of building institutions for the poor should be to enable them to rediscover their collective identity. The forging of such a collective identity does not, however, develop out of abstract notions of identity but is likely to emerge out of a process of collective action. Such collective action tends to be constructed around particular social actions or through shared participation in pursuit of economic gain. Here, if the poor are to be mobilized for collective action, special institutions of the poor, may need to be constructed. Two such institutional arrangements are discussed below:

*Corporations of the Poor*

Over the last two decades the NGOs have come to play a growing role in most developing countries, principally as delivery agents, contracted by donors to deliver certain services targeted to the poor. Whilst much may be argued about their institutional efficacy, systems of accountability and even cost-effectiveness, it is generally accepted that NGOs tend to be more effective in delivering resources directly to the poor than the machinery of state. It has, however, been argued that the emergence of the NGO as an aid contractor, keeps them heavily dependent on aid. This external dependence is increasingly compromising the role of NGO’s as social mobilizers and advocates of the poor.

It is suggested that the long term sustainability of the NGOs, as financially autonomous institutions of civil society, lies in its reinvention as corporations of the
poor. The future of the NGO as a social institution lies in its ability to use its institutional capacity, which has extended into rural communities across the world and given them direct access to vast numbers of the poor, to use this reach to link the poor to the market. This can be done through transforming NGOs into corporations of the poor, where their micro-beneficiaries are transformed into the owners of a corporate NGO. Through such a measure, the individual weakness of the poor could be aggregated into the legally recognized power of the many. Initially only a small number of NGOs would have the organizational capacity and resources to evolve into nationally competitive corporate bodies. However, smaller NGOs can also evolve into more modest corporate entities. Even a single village based NGO could evolve into a small enterprise which could mobilize the poor to own the village pond, build and maintain rural roads or trade in commodities produced or consumed by the poor.

Community based organizations of the poor

The NGOs are not the only agency for forging collective solidarity within the poor. Community based or self help organizations of the poor, cooperatives and activity based organizations, which bring groups of the poor together, should aspire to forge an institutional identity. 6991 community based organizations (CBO), covering 132,000 households, have been organized in 6 countries of South Asia under the South Asian Programme of Poverty Alleviation (SAPAP) to jointly undertake savings and investment. In Pakistan, the National Rural Support Project has organized 11,000 community organizations with 241,000 members to participate in similar community actions in their village. In the state of the Andhra Pradesh the World Bank is assisting a programme for reducing poverty which plans to socially mobilize 5 million of the rural poor in CBOs to collectively participate in economic activity.

Corporitising these CBOs will provide the legal foundation for collective action, to enable these bodies of the poor to access credit, enter into contractual relationships and deal with international organizations. The precise legal persona of these corporations may vary from limited liability companies, with the poor as equity owners, to cooperatives with the poor as partner members. But the common feature of all such corporate entities of the poor is that they much operate in the market place and generate income rather than limiting themselves to survive as savings and loan associations.

Empowering the poor

The entire process of building a collective identity for the poor through specially constructed institutions, derives from the need for the poor to claim a place in society which is more commensurate with their numbers in society. The poor remain disempowered because they are isolated. Bring them together and they emerge as a major force in the economy, in society and eventually in the political arena. Incorporating the poor, around opportunities for collective economic benefit may invest them with a sustainable sense of solidarity which may not have been possible through more, episodic participation in acts of class action. In the final analysis, it is only when the poor are sitting in the representative institutions of the state, in local elective bodies as well as in Parliament, that they will be able to ensure that their special concerns will be mainstreamed within the policymaking process.

It is argued that a society populated by a large number of corporate bodies of the poor, bound together by opportunities for economic gain, could aggregate into a
powerful political force which could transform the balance of power in many parts of the developing world. This vision, however, lies in the distant future and we should not tantalise ourselves with the prospect of instant social transformation. My purpose in putting these ideas for empowering the poor before you is to spell out a broad continuum for policy action. This approach demands a change in perspective from poverty alleviation to poverty eradication through structural change.

It is unlikely that many governments in the developing world would rush towards building up institutions of the poor to a point where the balance of power in society could be transformed. Those governments who do have a genuine commitment to eradicate poverty may essay a beginning by encouraging the emergence of a Mutual Fund for the poor or promoting community based organizations. In South Asia, for example, most governments have accepted the idea of expanding the coverage of CBOs, as an instrument for rural development.

However, neither the concept of building corporations of the poorer or the Mutual Fund, depend exclusively on the government for its advancement. NGOs are at liberty to reconstruct their corporate identity, as are the poor to organize themselves. Though in some countries such a process may require enabling legislation. The international development community can, however, help to accelerate such a process of empowering the poor, by redirecting their aid programmes towards both encouraging the emergence as well as enabling corporate bodies of the poor to acquire wealth. This could suggest provision of resources to support acquisition of land, water bodies, leveraging purchase of shares, building capacity to compete in the market, and enhancing the knowledge base of the poor, particularly to participate in the IT revolution. Indeed, all such programmes could themselves derive from a new generation of locally owned structural adjustment reforms, premised on the empowerment of the poor.

I do not think that anything I have said today is particularly radical. Neither Mutual Funds or corporations of the poor should raise the spectre of the barricades. However, when such an argument is viewed within an holistic policy framework, it does represent a change in the direction of the agenda for poverty eradication, away from narrow programmes of income gain for the poor to their empowerment through collective action for economic gain. If this perspective can eventually inform the agendas of some governments and some forward looking international institutions such as IFAD, then some value addition to the global development discourse may emerge out of my presentation before you today.

In conclusion I would like to reiterate my conviction that unless we can create a world, where the deprived are given a direct stake in the process of development we will neither be able to eradicate poverty or to sustain development. Failure on both fronts will make it much more difficult for many Third World countries to sustain their democratic institutions and eventually to preserve the coherence of their societies. A world where the very social order remains under threat, in an increasing number of countries, is not likely to leave those of you who enjoy the security of life in Rome or New York, untouched.