

Final Draft

SACEPS/CPD Project

**Eradication of Poverty in South Asia through
the Empowerment of the Poor**

**Challenging the Injustice of Poverty in South Asia:
Agendas for Inclusive Development**

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PREFACE

Poverty remains endemic across South Asia. In spite of some progress in every country in reducing the proportion of people living below the so called poverty line, South Asia remains home to the largest concentration of income poor people across the globe. Income poverty has been compounded by the growth of inequality and the widening of social disparities in every country regardless of its rate of growth and poverty reduction. Poverty and inequity compromise the character of our institutions of governance, thereby aggravating social tensions, as well as threatening the sustainability of our democratic process.

Studies on poverty in South Asia have a long and distinguished pedigree. Considerable work of both a conceptual and empirical nature has been undertaken on this subject at the academic and policymaking level. The governments of South Asia have commissioned volumes of work, some of which has been of considerable merit, to guide their policy interventions in the area of poverty reduction. The exercises underlying the preparation of the Poverty Reduction Strategy Papers (PRSPs), including the PRSP itself, as well as the background work to successive five year plans in India and other South Asia countries, has enriched the literature on poverty. Work by the international development agencies such as the World Bank, Asian Development Bank (ADB), UNDP, IFAD and other agencies, both at the global level and in work specific to particular South Asian countries, has made valuable contributions to the design of policy on poverty reduction. In recent years the reports of two Independent South Asian Commissions on Poverty Alleviation (ISACPA), commissioned by two SAARC summits, have contributed a regional perspective on poverty alleviation strategies.

In the light of this enormous body of literature on poverty in South Asia, it would be superfluous to put one more study on the table unless it had something distinctive to say on the subject. The ongoing work by *Centre for Policy Dialogue* (CPD) on poverty in South Asia, undertaken as part of the joint work programme of the CPD and *South Asia Centre for Policy Studies* (SACEPS), accordingly attempts to provide a somewhat different, though not necessarily an original, interpretation of poverty in South Asia. Our study is predicated on the proposition that the persistence of poverty and the growth in inequality derives from the unjust nature of the social order which effectively excludes the resource poor from equitable opportunities for participating in the development process. Unless the structural injustices which underlie poverty can be corrected poverty will persist across South Asia.

The work programme underlying this volume was designed to identify specific policy and institutional measures which may serve to challenge the injustice of poverty in our region. Our proposed interventions are thereby intended to promote a more inclusive development process. Our particular interpretation of poverty serves as our point of departure from most other policy interventions at the institutional level, both national and global, aspiring to reduce poverty. Some of the interventions indicated in our work may have been episodically addressed, in one or another South Asia country within some programme, but no country, to our knowledge, has attempted to deal with the structural dimensions of poverty from the holistic perspective which informs our work.

In order to provide some understanding of the motivation underlying our work we have looked at the prevailing policy perspectives originating from international development institutions as well as from the governments of South Asia. It is our appreciation of the limitations in the policy agendas of these institutions and governments which has inspired our search for policy alternatives which can serve to induce some rethinking on poverty amongst policymakers in South Asia and within the global development community. We, however, aspire to project our ideas beyond the institutional players, to also reach out to political and civil society within South Asia, particularly to the constituencies of the excluded, who serve as the ultimate source of authority within a functioning democratic society.

Our work is structured under the following heads:

1. Poverty as Structural Injustice (The conceptual framework for the study).
2. The prevailing approach to poverty alleviation strategies:
 - The perspective of the international development community
 - Poverty alleviation strategies in South Asia
3. Promoting Structural Change
 - (i) Agrarian reform
 - (ii) Enhancing the market power of the excluded
 - (iii) Democratising educational opportunities
4. Policy and institutional interventions to promote structural change
 - (i) The role of budgetary policy
 - (ii) The role of financial policy

- (iii) Broadening ownership of assets through collective action
 - (iv) Insitutions for promoting collective action
5. The political economy of structural change

Our work draws upon two thematic studies on development policy at the global level and in South Asia and a set of country studies on Bangladesh, India, Nepal, Pakistan and Sri Lanka, which address thematic aspects of the above work programme from a country perspective (Annexure I). It also draws upon a review of the literature on poverty in general and more specifically on South Asia. Our work has greatly benefited from a set of dialogues that were convened to discuss the conceptual basis and operational implications of the proposed approach to structural change (Annexure 2). The conceptual assumptions underlying the work have also been presented at a variety of international fora where the comments have served to enrich our work. The final report has been exposed to discussion at two regional conferences organised in Dhaka and New Delhi (Annexure 3).

Since this work covers a broad canvas and intrudes into unchartered policy areas, our work remains a work in progress, which needs to be constantly fertilised by ongoing dialogue at the professional, policymaking and political level. In order to operationalise the policy agendas suggested in this work more intensive country specific work will be needed which can serve to influence a new generation of PRSPs as well as find a place in the manifestos of political parties. Our work is not intended as an academic treatise though our ideas need to stand on their intellectual merit. Our goal is to influence policy change. Our principal target groups therefore remain both policy makers at the global and at the national level across South Asia as well as the broader constituencies of political and civil society who have the capacity to promote or influence change.

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CHAPTER 1

POVERTY AS STRUCTURAL INJUSTICE

The structural dimensions of poverty

The international development community (IDC) has become much more conscious and committed towards ending the scourge of poverty. However, initiatives to reduce poverty, whether through the *Millennium Development Goals* (MDGs) or the *Poverty Reduction Strategy Papers* (PRSPs), through enhancing the flow of resources into poverty reduction programmes, may not be fruitful unless policymakers address the structural sources of the problem which create and perpetuate poverty. In recent years considerable academic work has been done on the issues of inequity and inequality in the development process. This literature tends to view the issue of inequity largely in instrumental terms and seeks to establish its possible negative implications for efficiency and growth or even on political stability. (Putterman, Roemer and Silvestre, 1998, Kanbur and Lustig, 1999, Deninger and Olinto, 2000). However, this discourse, which has now graduated from academic work into the reports of international development agencies (WDR, 2006), has yet to translate itself into policy and institutional responses from policy makers at the global or national level. This incapacity to diagnose and address the structural dimensions of poverty has limited the policy perspectives of both the IDC and the policymakers of South Asia. The CPD/SACEPS work programme is designed to address this deficit in the conception of poverty in order to encourage a rethinking of development strategies across South Asia. Our work seeks to identify the structural sources of poverty in South Asia and moves on to present a set of policy and institutional interventions which could serve to arrest the reproduction of poverty across the region.

The central premise of this work seeks to move away from the visualisation of poverty as a measure of income deprivation. Within the prevailing conception of poverty changes in the level of poverty are measured through the rise and fall of the incomes of households above and below the poverty line. This poverty line may be set on the basis of a nationally determined budget needed to meet basic needs or a globally comparable standard of a dollar a day or even two dollars a day. If incomes marginally improve so as to elevate a percentage of the population above the pre-determined poverty line, this is deemed as poverty reduction. Another episode of events such as a natural disaster or a severe inflation, which lowers real incomes of a segment of the population, can similarly elevate the level of poverty in the country. To measure the success or failure of public policy through the reduction or

enhancement of the percentage of people above or below the poverty line is both conceptually challengeable as well as problematic as a guide to policy.

Our work attempts to redefine poverty as a process which excludes significant segments of the population from opportunities to participate on equitable terms in the opportunities for development and decision making in society. Many such households may be identified among the income groups who hover just above the poverty line. In India, for example, 189 million people fall between the US dollar a day and US\$1.25 a day poverty lines. This slight elevation of the poverty line has recently been recommended by the committee appointed by the GOI and headed by the eminent economist Prof. Suresh Tendulker. This new poverty line is also being used globally by the World Bank. Within our definition of poverty those who are denied such opportunities for participation should be termed as the *excluded*. Eradicating poverty should, thus, be measured through the changes in the opportunity structures for the excluded.

Policies for poverty eradication would involve interventions which open up horizons for the excluded to avail of work opportunities, health care, education and assets which are traditionally more readily available to all those who are classified as 'rich'. This inequitable distribution of opportunities across society between the rich and the excluded is defined in our work as structural injustice. The term 'structural' indicates that exclusion does not derive from the play of market forces but originates in the structural arrangements of society which determine the working of market forces, as well the design and functioning of its institutions. The assumptions underlying this structuralist perspective on poverty recognise that neither targeting of development resources to the excluded, nor the promotion of growth, are likely to resolve the problem of poverty. The excluded 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 the undemocratic distribution of political power. These structural features of poverty reinforce each other to effectively exclude a large number of people from participating in the benefits of development or the opportunities provided by more open markets. In such a system, even targeted programmes of poverty alleviation carry transaction costs due to the institutional structures which mediate the delivery of resources to the excluded.

It is, however, not enough to recognise 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. Such injustice remains pervasive in most societies exposed to endemic poverty and is particularly manifest across South Asia. Any credible agenda to eradicate poverty in South Asia must seek to correct the structural injustices which perpetuate poverty. The main areas of structural injustice may be addressed in relation to:

• Productive Assets • Markets • Human Development • Governance

It would be appropriate to add the injustice of asymmetrical globalisation to the above themes. However, responding to the unequal and immiserising incidence of globalisation on countries and social groups around the world, merits separate discussion, which remains outside the scope of this immediate work.

The Sources of Structural Injustice

Unequal access to assets

Productive assets provide the main currency which enable people to participate in the market economy. Much attention has been given in recent years by the IDC as well as the policy makers of South Asia to the importance of the market in promoting development. However, much less attention is given to who participates in the market and on what terms. In all countries faced with endemic poverty and indeed many middle-income countries, inequitable access to wealth and knowledge disempower the excluded from participating competitively in the market place. Such inequities are particularly applicable to South Asia where the excluded have little command over productive assets. Asset poverty remains a significant source of income poverty. Rural poverty, for example, originates in insufficient access to land, water and water bodies for the less privileged segments of rural society. Where the landless or land poor do access such resources, they do so under exploitative tenancy arrangements. Those of the land poor who live in urban areas command little in the way of urban property, and have virtually no access to corporate assets.

Inequities in title and access to agrarian assets do not derive from the competitive play of the market but from the injustices of history. In South Asia, title to land was mostly appropriated through the exercise of power or access to political patronage rather than in the market. Ownership of land has thus been used as a source of social authority as well as a political resource. Retention of land, in such circumstances, is not just about its income earning potential but as a measure of political power and position in the social hierarchy. These inequities in the right to land are perpetuated through the malfunctioning of land and capital markets which do not make land readily available to those who most need it or provide them with capital on affordable terms to buy such land. Within such a socio-economic context, the

concept of freely functioning land markets for the sale or lease of land remains of limited policy relevance.

Such an inequitable access to productive assets in the rural economy of South Asia has kept the region's agricultural performance well below its full productive potential. Small and even subsistence farmers in South Asia have proven to be both more productive than larger farmers and have played a major role in stimulating the growth of crop production over the last four decades. Moreover, most of the expenditure of these small farmers, drawing upon income derived from their meager assets, serves to stimulate secondary activity in the rural economy. This has contributed to the significant growth of the non-farm economy which has reportedly contributed to the reduction of income poverty in some South Asian countries.

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. In such circumstances, the prevailing dispensation governing access to land lacks not just economic justification but moral as well as social legitimacy. Furthermore, the prevailing structures of land ownership remain inimical to the construction of a functioning democratic order which remains contingent on reducing the relations of domination and dependence which, in turn, define relations between the land rich and land poor.

Lack of access to capital and property assets in the urban sector serve as a measure of urban poverty. Lack of landed assets in the urban areas of South Asia is a reflection of market failure. The homeless remain willing to pay market prices not just for land and housing but also for the accompanying utilities in the form of water, sewerage, sanitation, gas and electricity as well as for just law enforcement. Neither private providers nor the state have been able to fully, or in most cases even minimally, respond to this effective demand from the urban excluded. Where the homeless mostly tend to be displaced immigrants from the rural areas, lack of access to property rights leave them without a legal identity. The urban excluded thus remain insecure, disempowered and without a real stake in the society where they live. This is dangerous not just to civic peace but to the sustainability of democratic institutions.

Unequal participation in the market

Within the prevailing property structures of society, the resource poor remain excluded 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 generated through the chain of value addition accrue to those classes who control corporate wealth.

The excluded, therefore, interface with the dynamic sectors of the economy only as primary 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 excluded with little opportunity for sharing in the opportunities provided by the market economy for value addition to their labours.

The incapacity of the excluded to share in the value addition process derives from institutional failure. As long as the primary producer remains an isolated individual who interfaces with economically more powerful or better organised buyers as well as manufacturers, they will remain condemned to participate in an unequal relationship, held captive at the bottom of the production chain. The incapacity of primary producers to come together through collective action, to enhance their bargaining capacity in the market place, represents a form of institutional failure.

Capital markets also fail the excluded and thereby limit their capability to participate in the more dynamic segments of the market. Capital markets have failed to provide credit to the excluded even though they have in recent years demonstrated their creditworthiness, through their low default rates in the micro-credit market, in spite of the high rates of interest charged by the microfinance institutions (MFI). The micro-credit market has originated from the non-profit sector as a response to the failure of the formal credit market and has remained segmented from the formal capital market. Micro-credit has served to meet the subsistence needs of the excluded but is not designed to empower them to participate in the macro-economy. The excluded therefore remain impounded in the ghetto of the micro-economy.

Structural constraints leave the excluded with little scope for graduation into a level of entrepreneurship where they could compete with those who dominate the macro-economy.

Nor do formal capital markets provide the financial instruments needed to attract the savings of the excluded and transform these into investment assets in the faster growing corporate sector. This market failure extends to the failure by the insurance companies to provide appropriate insurance products to meet the specific needs of the resource poor in the urban and rural sector. These market failures originate in institutional failure on the part of South Asia's formal corporate financial institutions to restructure their organisations to equip them to respond to the effective demand for capital and financial services by the excluded.

Unequal access to human development

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. Failure to meet the demand of the resource poor for quality education, at affordable prices, is yet another example of market failure in South Asia. This market failure is not unique to South Asia and has been generally compensated by state intervention. The problem in South Asia originally lay in the insufficient resources committed to education. The subsequent move to invest a larger share of public resources, across South Asia, in education served to expand opportunities for the resource poor. However, a combination of poor governance, as well as insufficient public expenditure, has contributed to the widening disparity in the quality of education which divides the rural and urban areas, as well as the majority of the people, from a much narrower elite.

In much of South Asia, 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 resource poor who are condemned to remain captive within an insufficiently funded and poorly governed public education system, supplemented by poor quality private or denominational schools. In an increasingly knowledge based global economy, which is driving the IT revolution, inequitable access to quality education, relevant to the dynamics of the market, could emerge as the principal deprivation of the excluded in South Asia.

Failure to provide adequate education to the excluded is compounded by the failure to provide adequate health care. Whilst public expenditures on health care in all South Asian countries have expanded in recent years, public health services remain both inadequate in relation to the needs of the excluded and deficient in quality of service made available to them. As a result, the excluded are increasingly compelled to seek health care from a variety of low calibre private providers. Quality health care remains the privilege of those with the resources to pay for this from private providers either at home or abroad. When the compulsion for survival drives the excluded to avail of quality private health care services, its costs often drive those with limited income into poverty and the already resource poor into extreme poverty.

Public health care services, where available, have served the excluded but at high transaction costs where access to quality care becomes a privilege rather than a right. As a result, public care, particularly at the tertiary level, tends to be accessed by those who have the access and resources to lay claim to better quality services. In such a universe, access to health care has emerged as yet another social divider between the elite and excluded of South Asia. This divide has served to compromise the life chances of the excluded and thereby continues to perpetuate inequality and injustice in this region.

Unjust governance

This inequitable and unjust social and economic universe is compounded by a system of unjust governance in South Asia, which discriminates against the excluded and effectively disenfranchises them from the political benefits of a democratic process. The excluded, whether they tend to be women, the resource poor or minorities, remain excluded from the policy concerns of the ruling elite, voiceless in the institutions of governance and hence, underserved by available public services. Where such services are at all accessible to the excluded, they pay high transaction costs for these services. The agencies of law enforcement insufficiently protect the excluded and frequently oppress them for personal gain as well as on behalf of the elite. The judicial system, in most South Asian countries, denies the excluded elementary justice because of their poverty as well as the social bias of most South Asian judiciaries. The institutions of democracy remain unresponsive to the needs of the excluded, both in the design of their policy agendas as well as the selection of their electoral candidates.

In such a social universe, the excluded of South Asia remain tyrannised 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 prevails or has been renewed after long episodes of autocratic rule, the excluded of South Asia are denied adequate access to office in the political parties or representation in the systems of democratic governance from the local to the national level. Representative institutions tend to be monopolised 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. In contrast, the needs of the excluded, whether for decent work or improved human development, remain unrecognised. Even where the excluded register their disenchantment at the polling booths by voting a succession of incumbent regimes out of office across South Asia, the political parties in every country have remained largely unresponsive in heeding the political voice of what may be the largest segment of the voting population. In such circumstances, the political parties which are contesting for power should be offering a new set of policies and a new style of governance to their respective voters. In practice, government after government across South Asia has continued to offer a broadly unchanged set of policy prescriptions which are today in some discredit across much of the developing world and, recently, even in the developed world.

Since the majority of the voters in South Asia tend to be drawn from the ranks of the excluded it would be politically sensible to ascertain what these voters actually want. But governments neither consult with their principal constituents on what they want nor do they design policies which may be sensitive to their specific concerns. This lack of an appropriate political response to the voices of the excluded reflects a form of political market failure in South Asia. It also reflects a form of institutional failure whereby the excluded have remained, as in the economic market place, unable to get themselves heard. The excluded tend to be isolated and hence incapable of deploying the strength of their collective political power. So far, the existing political parties, even those who draw their inspiration from this class, have failed to organise the excluded to act collectively. Nor have the excluded been able to organise themselves to come together to project their own interests.

Correcting injustice

Policy premise

If we are to correct these injustices which deprive a significant segment of the population of South Asia from more effectively contributing to and sharing in the development process, our policy agendas need to be made more inclusive. The work programme at CPD has attempted to address the issue of correcting injustice through empowerment of the excluded, by strengthening their capacity to participate on more equitable terms in a market economy and democratic polity.

The significant point of departure in our approach to poverty eradication originates in our conception of poverty as injustice. Our suggested interventions are, therefore, focused on dealing with the process of poverty creation through measures for structural change. Our policy agenda is premised on elevating the excluded from agents into principals through repositioning them within the processes of production, distribution and governance. Within the production process, we seek to graduate the excluded from living out their lives exclusively as wage earners and tenants by investing them with the capacity to become owners of productive assets. Within the distribution process we seek to elevate the excluded from their role of primary producer, by enabling them to move upmarket through greater opportunities to share in the value addition process. Democratising access to assets and markets must be backed by equitable access to education and health care. Democratisation of access to quality education and health care is both integral to the empowerment of the excluded and instrumental in their elevation from agents to principals.

The disempowerment of the excluded largely originates in their isolation which, within a highly inequitable society, enhances their vulnerability to the vagaries of market forces. Any move to reposition the excluded must, therefore, be built upon strengthening their capacity for collective action. Institutions for promoting asset ownership and realising a higher share of value addition for the excluded must be designed to develop and sustain their capacity for collective action. Collective action by the excluded remains central to any measure that seeks to strengthen their capacity to participate in the democratic process and share in the benefits of governance.

The policy agenda

The proposed policy interventions suggested by the CPD study, to empower the excluded of South Asia, are structured under the following heads:

- Expanding the ownership and control of the excluded over productive assets
- Strengthening the capacity of the excluded to compete in the market place
- Designing institutions for collective action by the excluded
- Enhancing their access to quality education
- Redesigning budgetary policy to reach public resources to the excluded
- Restructuring financial policy to deliver credit and provide savings instruments to the excluded
- Empowering the excluded

The above policy agenda is designed without prejudice to the ongoing initiatives for promoting poverty reduction through programmes for income gain and the realisation of the MDGs. Such programmes, which form the core of the PRSPs and five year plans of South Asian countries, command their own intrinsic value. We would, however, hope that the issue of structural change will, sooner rather than later, find a place in all programmes which are designed to eradicate poverty. Our proposals provide a body of ideas, drawing on the experience available within South Asian as well as some global experience, which are designed for correcting the structural asymmetries which constrain the opportunities of millions of our citizens.

The urgency for change

Our agendas for change have acquired a new urgency in the wake of the ongoing crisis which is consuming the global economy. A world order which has elevated the values of the casino into the central dynamic of the capital market is threatening the livelihood of millions of vulnerable people around the world. We do not presume to challenge this order. However, we do seek to build a development process which is less dysfunctional, less unfair and more serviceable to the needs of millions of ordinary people. We believe that providing assets and enhancing the scope for income gain for millions of people in South Asia, located at the bottom of the pyramid, will strengthen the resilience of our economies to cope with such global downturns. Liberating the productive potential of these millions, by investing them with resources and skills, will stimulate, internalise and sustain the growth process across

South Asia. Transforming these millions into owners of wealth, equipped with the capacity to access the upper tiers of the market, will invest them with a sense of empowerment they have rarely known.

The full realisation of such a transformation in our social order must obviously remain in the future. Much will depend on the evolving political economy which drives or constrains structural change and is unique to each country in South Asia. But if we are genuinely committed to the goal of reducing poverty, promoting a more inclusive development process and ensuring the sustainability of our democratic order, then we must, at least, begin to address the injustices which reproduce poverty in our societies.

A social order, where millions of people remain condemned to lives of insecurity, poised on the margins of subsistence, where the quality of their education condemns them to a life of toil, where an episode of ill health could drive their entire family into destitution, is not sustainable. An economic order where millions of young women are condemned to earn thirty dollars a month, whilst a handful of people can aspire to first world life styles, because such low wages make their enterprises more export competitive, is not sustainable. A political order, where those with wealth can use it to capture and perpetuate themselves in power, while those millions who vote them to power have no opportunity to either share this power or to determine how its fruits are consumed, is unsustainable.

We live in dangerous times which are likely to become even more dangerous if we do not correct the injustices which divide our society. A stable democratic order will only be sustainable if enough people across South Asia can be invested with a sufficient stake in defending this order against challenges from a variety of extra-democratic forces.