

Sobhan, Rehman

**Working Paper**

## A macro policy for poverty eradication through structural change

WIDER Discussion Paper, No. 2005/03

**Provided in Cooperation with:**

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

*Suggested Citation:* Sobhan, Rehman (2005) : A macro policy for poverty eradication through structural change, WIDER Discussion Paper, No. 2005/03, ISBN 9291906751, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

This Version is available at:

<https://hdl.handle.net/10419/52989>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



EXPERT GROUP ON  
DEVELOPMENT ISSUES



United Nations  
University

**WIDER**

World Institute for Development Economics Research

Discussion Paper No. 2005/03

## **A Macro Policy for Poverty Eradication through Structural Change**

Rehman Sobhan \*

January 2005

### **Abstract**

This paper argues that poverty originates in the structural injustices of a social order which incapacitates the poor from participating in the growth generating sectors of the economy and leaves them captives in the so called informal sector, characterized by low productivity and low earning capacity. In such a system the poor remain individualized and hence disempowered which compels them to interface with the market economy on highly inequitable terms which relegates them to the lowest tiers of the value addition chain. 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 interventions, to redesign the structural sources of poverty, bring into consideration issues of social, political as well as economic reform.

Keywords: Bangladesh, cooperatives, institutions, land, micro-credit, women

JEL classification: D02, E26, J54, O11, Q15

Copyright © EGDI and UNU-WIDER 2005

\* Centre for Policy Dialogue, House 40/C, Road 11, Dhanmondi R/A, GPO Box 2129, Dhaka 1209, Email: rehman@citechco.net; www.cpd-bangladesh.org

This study was presented at the EGDI-WIDER Conference on Unlocking Human Potential – Linking the Informal and Formal Sectors in Helsinki, 17-18 September 2004.

UNU-WIDER gratefully acknowledges the support and collaboration of the Expert Group on Development Issues (EGDI) of the Swedish Ministry of Foreign Affairs. UNU-WIDER also acknowledges the financial contributions to its research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Ministry for Foreign Affairs), Norway (Royal Ministry of Foreign Affairs), Sweden (Swedish International Development Cooperation Agency – Sida) and the United Kingdom (Department for International Development).

*The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.*

*[www.wider.unu.edu](http://www.wider.unu.edu)*

*[publications@wider.unu.edu](mailto:publications@wider.unu.edu)*

UNU World Institute for Development Economics Research (UNU-WIDER)  
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Camera-ready typescript prepared by Adam Swallow at UNU-WIDER  
Printed at UNU-WIDER, Helsinki

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

ISSN 1609-5774  
ISBN 92-9190-674-3 (printed publication)  
ISBN 92-9190-675-1 (internet publication)

## **1 Introduction: 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 groups of the poor. Such micro-programmes, from their conception, take the structures of production and distribution as given and are designed to assist poor households operating in the informal sectors of the economy to marginally improve their earning capacity. Such programmes may help to alleviate poverty but will hardly serve to eliminate it. Nor will it improve the social conditions of the poor who will remain embedded in the very structural arrangements of society which have created and perpetuated their poverty.

This paper argues that poverty originates in the structural injustices of a social order which incapacitates the poor from participating in the growth generating sectors of the economy and leaves them captives in the so called informal sector, characterized by low productivity and low earning capacity. In such a system the poor remain individualized and hence disempowered which compels them to interface with the market economy on highly inequitable terms which relegates them to the lowest tiers of the value addition chain.

Any credible agenda which seeks to end poverty must address the structural injustices which perpetuate poverty. Such a strategy must aim to enhance the capacities of the poor to participate in 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 per cent of the population to participate in a market economy is likely to be the most effective policy instrument to sustain economic growth as well as eradicate poverty. Such an approach towards policy design suggests that the eradication of poverty should remain central to the design of macro-policy reform rather than its by-product.

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 interventions, 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 macroeconomic policy and have preferred to use the term macro-policy.

This paper is divided into two parts: the structural dimensions of poverty, and policy interventions at the macro-level.

## **2 The structural dimensions 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 features of poverty reinforce each other to effectively exclude the poor, 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 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. Any credible agenda to predicate poverty 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, and
- governance.

## **2.1 Unequal access to assets**

In all countries faced with endemic poverty and indeed many middle-income countries, inequitable access to wealth and knowledge disempower 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. 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 an inequitable access to productive assets in the rural economy also tends to be inefficient because small farmers have proven to be both more productive as well as likely to spend most of their income derived from their meagre 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 the investment of capital, as well as more productive effort on the land.

## **2.2 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 market opportunities provided by globalization. The fast growing sectors of economic activity largely 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 returns, in the chain of value addition, accrue to those classes who control corporate wealth.

The 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 poor with little opportunity for sharing in the opportunities provided by the market economy for value addition to their labours.

### **2.3 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. However, a more serious problem facing the poor, in many developing countries, lies in the growing disparity in the quality of education which divides the rural and urban areas as well as the urban poor from a much narrower elite. In such societies 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 is driving the information technology (IT) revolution, inequitable access to quality education, relevant to the dynamics of the market, could emerge as the principal deprivation of the poor.

Insufficient and inequitable access to healthcare is also compounding the inequities in education. The dominant problem in most developing countries is not the complete absence of healthcare but the incapacity of the public healthcare systems to deliver quality healthcare. Ill-provisioned health services expose the poor to a life of insecurity, where earning opportunities can be disrupted by episodes of illness. 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 healthcare, 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.

### **2.4 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.

### **3 Macro-policy interventions to eradicate poverty**

In this section we address the issue of policy interventions, at the macro-level, needed to democratize opportunities for the poor. This discussion addresses the issue of correcting injustice through empowerment of the poor by strengthening their capacity to participate in a market economy and democratic polity. The proposed policy interventions are structured under the following headings:

- 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
- Restructuring monetary policy to deliver credit and provide savings instruments to the poor
- Designing institutions for the poor
- Empowering the poor

More such interventions can be incorporated into the above agenda in the area of budgetary policy and redefining the direction of foreign aid. These and other possible interventions are omitted from this paper which aims to focus on enhancing the capacity and opportunities of the poor to participate in the market economy. The subsequent discussion is largely suggestive and is designed to initially stimulate debate as a prelude to designing more substantive policy proposals.

#### **3.1 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. I do not share the reservations of some scholars and international agencies 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 need to recognize that the correlation of political forces to underwrite a radical agrarian reform is not currently present in too many countries. If such a coalition could be put in place I have no hesitation to argue that a radical reform, which could transform the political economy of rural society, would not only help to end rural poverty but could also be dynamic for the economies of many Third World countries.

Whilst social revolution may not be imminent there is no reason why we cannot explore agrarian reforms which are politically feasible as well as economically sustainable.

Within such a perspective, four 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 water courses owned by the state
- Correcting injustice in the system of land administration

Transfer of tenancy rights into permanent leaseholds has been implemented in the agrarian reforms of the 1970s in the Philippines, and in the 1980s 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 cultivator does not retain incentive to invest in the land nor are they able to use land as collateral to access the credit market. This proposition has been addressed by Hernando de Soto who emphasized the enormous development potential to be derived from vesting legal land titles on the large numbers of ‘squatters’ in urban slums dispersed across the world. 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 why the World Bank has not applied conditionality in the service of agrarian reform whilst it has never hesitated in using policy conditionality on aid dependent Third World governments to enforce changes in property rights through privatization of state-owned enterprises (SOEs) or promoting decollectivization of farms in transitional economies.

### **3.2 Enhancing access to a knowledge based society**

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 recognized as a mainstream concern of the development agenda. However, my own emphasis in this area would be on democratizing access to education and healthcare to enhance the capacity of the poor to participate in an increasingly knowledge based society.

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 be the move towards substantially enhancing investment for the purpose of upgrading the quality and governance of schools serving the poor to a level where they do not feel disadvantaged compared to those who can afford to access better quality private education. Such a goal carries formidable implications as to costs and governance which go well beyond the more modestly conceived Millennium Development Goal (MDG) for education.

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 remain 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 and users of IT services.



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

#### *3.3.1 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 non-government organizations (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, the designing of institutions which aggregate the market power of the poor as well as the deployment of professional management skills specially trained to assist the poor in up scaling their participation in the market economy.

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

Many NGOs around the world provide marketing services to the poor, for particular commodities, in particular markets. The globally recognized *Fair Trade Movement* is one such venture. 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 the Bangladesh Rural Advancement Committee (BRAC) in Bangladesh, to enable small dairy farmers, or just poor households who own a cow bought through a micro-credit loan, 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.

I 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 enterprises, 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 local civil society organizations and consummated through a dowry provided by both multilateral and bilateral funding agencies to organized groups of small farmers to buy into such ventures.

### **3.4 Restructuring monetary policy**

#### *3.4.1 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 macroeconomic stability, moderating inflation and meeting the credit needs of the corporate sector. The financial needs of the poor, once left to the informal sector, have now been segregated in the micro-credit market. This apartheid within 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 recognition of their innate sense of fiduciary responsibility for repaying loans and making regular savings has been institutionalized. These numbers are comparable to those who participate in the commercial banking system in Bangladesh. 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 intend to go into the merits and limitations of micro-credit here 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 macroeconomy, 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 self-worth of the poor.

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 organizations to graduate into corporate banks, owned by the poor. This, indeed, is the path followed by the Grameen Bank which is a corporate body with over two 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 5 per cent, 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 macrofinance system by accessing the deposits of the public and even marketing its assets at the global level, through such financial instruments as securitization, which are in widespread use in more advanced financial systems.

### *3.4.2 Restructuring financial services to serve the poor*

If the 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 community-based organizations to retail banking services to the poor. Commercial banks have to adjust their perspective as well as their 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. The World Bank has, for many years, been promoting financial sector reforms across the developing world. Regrettably, there is no evidence of any insistence by the World Bank that the reform process should also aim to restructure the macrofinancial system to deliver financial services to the poor, on the grounds of both market efficiency as well as alleviating poverty.

### *3.4.3 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. The Grameen Bank has accumulated Tk. 10 billion (about US\$187 million) in savings from its 2.3 million members. These savings remain on deposit with the 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.

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, the 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 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 provide 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.

The channelling of the savings of the poor into corporate investments should be matched by the channelling of urban savings to finance the corporate as well as micro-credit needs of the poor. An integrated monetary system is a two-way street where financial intermediation by the banks should be able to channel the savings of the rich to

underwrite the investment needs and creative capacity of the poor. Within such a perspective, credit from the commercial banks should also be made available to organizations of the poor to leverage their investments in the corporate sector.

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.

#### *3.4.4 Expanding the stakes of the poor*

The mutual fund is but one institutional mechanism 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. At the same time, the agro-corporations should be motivated to invest in improving the productivity and capacities of their rural partners.

An interesting possibility of enabling the poor to own corporate assets is provided in Bangladesh. The largest single foreign corporate investment in Bangladesh is manifested in the GrameenPhone experience. GrameenPhone is a commercial joint venture designed to provide cellular telephone services to Bangladesh. The company currently has 2 million subscribers which covers two-thirds of all phone subscribers in Bangladesh. Telenor, the largest mobile phone company in Norway holds a 51 per cent ownership stake in GrameenPhone and has so far invested over US\$600 million in the joint venture making it the largest single foreign investor in the country. Thirty five per cent of GrameenPhone is owned by Grameen Telecom, a sister organization of Grameen Bank which, in turn, is owned by 2.3 million poor rural women in Bangladesh. As and when GrameenPhone goes public it will be possible for these rural women to become direct stakeholders in the largest private enterprise in the country. The goal of Grameen Bank is to make these poor women into the majority owners of the company as Telenor meets their commitment to gradually divest their equity stake in the company to local investors. The prospect of poor rural women in Bangladesh owning one of the largest corporate enterprises in the country could have a transforming effect on how the poor perceive their role in the national economy.

Financial policy need not limit itself to ownership of corporate assets but 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 corporatization 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 US\$30, provide the substantive value

addition in Bangladesh's principal export of readymade 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 around the world could be given an equity stake in the enterprises where they work.

#### *3.4.5 Financing asset ownership by the poor*

Enabling the poor to own corporate assets in the modern economy should not be seen as an act of charity. The capacity of the poor to own corporate assets may, in part, be financed by their own savings which are not insignificant. However, acquisition of corporate wealth by the rich is largely financed by generous provisions of credit by the organized financial sector. It is suggested that the same opportunities provided to the rich to own productive assets, by pledging these same assets as security, should be extended to the poor who in any case have, in countries such as Bangladesh, proved themselves to be more creditworthy than the rich.

To further enhance the collateral of groups of the poor to buy corporate assets it is suggested that a share of the aid budget of multilateral and bilateral financial institutions, now dedicated to poverty reduction, should be channelled into a Global Equity Fund dedicated to enhancing asset ownership by the poor. This fund could be directed to capitalizing National Equity Funds for the poor in particular developing countries. This national fund could underwrite or directly extend loans to corporate bodies or mutual funds dedicated to the poor to buy up corporate assets or to set up their fully owned corporate enterprises. Such a redirection of aid would contribute to enhancing the capacity of the poor to diversify their sources of income through a recurring stream of earnings from the growth sectors of the market economy. Such a strategy would provide a much more sustainable approach to poverty eradication compared to the aid dependent welfarism which characterizes contemporary approaches to poverty reduction.

### **3.5 Institutions of the poor**

#### *3.5.1 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.

#### *3.5.2 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 the 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 NGO, as a financially autonomous institution of civil society, lies in its reinvention as a corporation 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, thereby giving 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.

The NGOs are not the only agency for forging collective solidarity within the poor. Community based or self-help organizations (CBOs) of the poor, cooperatives and activity based organizations, which bring groups of the poor together, should aspire to forge an institutional identity. Corporatizing these CBOs will provide the legal foundations 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 must operate in the market place and generate income rather than limiting themselves to survive as savings and loan associations.

### *3.5.3 Corporatizing micro enterprises*

A further use of the corporate format can be designed to aggregate the individualized capacities of micro-enterprises whether categorized as household or cottage enterprises operating exclusively in the informal sector or even as registered small scale industries. Most of these enterprises across the world suffer from the common problems of insufficient capitalization, lack of credit, poor product quality, low productivity and weak marketing skills. These weaknesses can be partly compensated by aggregating these micro-enterprises into larger corporate entities which provide the institutional externalities which can provide access to financial markets, improved technology and national as well as global markets. These small enterprises can become equity holders in the larger corporate entity and share in the value addition associated with up scaling their operations.

The entrepreneurial input for assembling these micro-enterprises, whether on a small scale at the local level or at a larger scale across the country, will need to be provided by local NGOs or some of the larger corporate NGOs. Particular social entrepreneurs can also take on this task. Thus, for example, BRAC in Bangladesh provides technology

upgrading, quality control, credit and marketing services to large numbers of handicraft enterprises across the country. However BRAC still deals with these enterprises as clients who are helped by access to credit, markets and skill development. BRAC has to take the next step of aggregating these producers into a larger corporate entity where they acquire an equity stake in the final profits of the enterprise. Such a corporate entity has been developed in India with the *Papad* cooperative where around 100,000 small household enterprises producing the spicy snack condiment, the *Papad*, have been aggregated to become the largest single supply source of quality *papads* to grocery stores across the country.

The prospect of large numbers of micro-enterprises, living precarious lives in the informal sector, coming together to former large corporate entities, competing in national and global markets, could again provide a new perspective on the role of the informal sector, in the national economy. These corporate entities of micro-enterprises can become the natural partners of larger corporate entities who can outsource many of their operations and component inputs to these entities. The problems of dealing with large numbers of such enterprises, scattered across the country, and maintaining quality control has discouraged what might otherwise have been a most cost-effective partnership between the formal and informal sector. These larger corporate entities of micro-enterprises would eliminate both the cost and managerial problems associated with building this linkage and open up new horizons of opportunity to the informal sector to formally be integrated with the macroeconomy.

### **3.6 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. 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 can invest them with a sustainable sense of solidarity which may not have been possible through more episodic participation in various class actions. However, 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 tantalize ourselves with the prospect of immediate social transformation: the purpose of presenting these ideas for empowering the poor 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.

#### **4 Conclusion: correcting the injustice of poverty**

Poverty will not be eradicated in any country by funnelling billions of dollars to myriads of micro-programmes designed to provide micro-loans to the poor to survive in the informal economy. Much of the Poverty Reduction Strategy Programmes (PRSPs) currently favoured by aid donors to reduce poverty and meet MDG targets is constructed around this penny packet approach to poverty. Such interventions as the PRSPs remain essentially astructural in their conception and thus remain disconnected from the dynamics of the market economy in their design as well as oblivious of the injustices of the social order which create poverty. This paper is thus designed to redirect the focus of development policy by locating the process of poverty eradication within the growth sectors of the economy and empowering the poor to participate in the market on the same terms as those on offer to the more privileged segments of society. Such an approach seeks to reverse the injustices of history which have condemned the poor to live out their lives on the margins of society whilst a privileged elite perpetuates its hold over the economy and polity. Correcting injustice is, however, not a positive sum game. We therefore need to further explore the scope for reconstructing the political economy of our societies to a degree where we can aspire to genuinely transform the circumstances of the poor.