



**Role of civil society
and the private sector
in poverty reduction
efforts**

The Privatization of Poverty Alleviation

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There is a lot to say about poverty reduction. Privatization of poverty alleviation and the role of nongovernment organizations (NGOs) in poverty alleviation are two important aspects. This paper will concentrate on the first part: privatization of poverty alleviation.

But first, one other observation about poverty: Thailand recognized early that population was the major element in poverty alleviation. Today, the rate of population growth in Thailand is down to about 1 percent and there are fewer than two children per family. The Philippines has a much higher rate of population growth than Thailand does: 24 years ago, the two countries had the same population; today, the Philippines has a population of 74 million and Thailand has a population of about 61 million.

Over time, some key players in poverty alleviation have changed. In the past, there have been combinations of government, community, the poor themselves, NGOs, the civil society sector, and the business and corporate sectors. It is time to reduce the role of the first player, government, and increase the roles of the other players, most importantly the business and corporate sectors.

Certainly, government is still important. Thailand's Government is privatizing several government-owned enterprises: railways, air travel, land transportation, telephone service, and electricity service, all ventures in which the Government is involved. Thailand has about 70 government-owned enterprises. Thailand is privatizing those enterprises but not "the other end of the candle." In other words, Thailand is privatizing the business end but not the poverty alleviation end. Perhaps Thailand needs to burn the candle at both ends: make the Government smaller but smarter, and have it still play a major role of follow-up and support, letting others do more rather than having the Government try to do everything in poverty alleviation. Examples follow of poverty alleviation efforts through privatization in Southeast Asia, especially Thailand.

1. Poverty Alleviation: Applying the Right Medicine

Historically, poverty alleviation has not been too successful; actually, it has been unsuccessful. Practitioners have used the wrong doctor and the wrong medicine. In this health care analogy, poverty reduction efforts resemble the health care infrastructure of 100 years ago, in which patients were considered sick only if they were bleeding. Similarly, poverty allevia-

tion efforts are a sort of economic triage, without identifying further who the poor are and what they do.

Today, in any city—Manila, Bangkok, or Jakarta, for example—some of the poor pick up garbage and sell it, then buy rice, raise chickens, or grow bananas, and sell this food. They are engaged in business. This business activity is the only way the poor can survive. Their situation is unlike that of some government officials who can sit, do nothing, and get paid. Whatever those officials do, they still get paid.

The poor are engaged in business, but they remain poor because they lack opportunities and business skills. In the past, the Thai government used the community development approach, sending out university graduates who worked for the Community Development Department or the Accelerated Rural Development Department. These well-meaning practitioners taught the poor to cut hair and prevent the incidence of lice, but the poor are still as poor as before because of the wrong doctor and wrong medicine.

It is time to use the right doctor: business people who know how to succeed in business. The right doctor facilitates income generation through business activity, rather than using the so-called community development approach. Getting more people involved doesn't mean that the Government does nothing. The Government does the wiser thing and involves more businesses, calling it the privatization of poverty alleviation, and in that way generates a lot more success.

In Thailand, the Population and Community Development Association, an NGO, works with the Government, the community, and (for the past 10 years) the business sector. It is a support player in poverty alleviation. This program's success in involving the business sector shows that the privatization of poverty alleviation does not mean getting rid of government. It means getting others to join with government.

Ten years ago, Thai business initiatives and rural development efforts focused on getting companies to participate in poverty alleviation. When Thailand relied on international or local aid providers, Thailand had only money and its own limited experience. By getting companies to join in, Thailand received not only money, but the knowledge and skill of the companies. These business initiatives began as efforts to get companies to participate by taking on a project or a village. Because the communities were very poor, the companies' efforts improved the well-being of these communities. The most important achievements were income generation, assistance in education, improvement in the environment, social development in the village, and support for local institutions.

2. Business Initiatives to Generate Income

Of these general activities, income-generating activities were the most successful. The success of these activities could mean that, in the future, foreign assistance could go directly from companies to villages, instead of funneling in through government departments. For

example, imagine that Coca-Cola was given US\$5 million in tax credits by the United States (US) government. This tax credit money, transferred directly from the company to a community in Southeast Asia, would be far more effective in alleviating poverty than would \$5 million distributed through the US Agency for International Development and a government department.

There are four generic skills required in business: organization, production, financing, and marketing. Right now, these four skills are underdeveloped in most poor rural communities, but some villages are more successful than others because of differences in the level of these skills.

In a real-world example, a company selected a village, spent time with the villagers, and studied their livelihood activities. At that time, the villagers grew corn. Company representatives met with the farmers and analyzed how much farmers were putting in and how much they were getting out of growing corn. The company representatives proposed growing ornamental trees, which villagers could dig up and sell within six months. Farmers grew the trees. In the beginning, the plan was not so convincing. Farmers initially thought it would be much better to cut trees rather than farm them.

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Nonetheless, the farmers grew the trees. The plants were taken out and sold to nurseries, housing estates, and government departments. The poor were getting involved through a business enterprise, rather than through community development of the traditional sort. As a result, company representatives trained farmers to profit from growing trees, and income increased twenty-fold within three years.

Next, the villagers started selling seedlings to government departments. Bougainvillea was the first and easiest plant to start growing. These farmers recognized that income-generating activities were the key to their future well-being. Children were among the villagers who learned how to make money from tree planting. This venture was the beginning of a lesson in how to survive over the long term with a very limited education.

Another venture in a different village was initiated by a small bank. The first activity was not income generation but water management. The villagers involved in the activity had no clean drinking water and many babies were becoming sick; some were dying, as were some adults. The villagers, motivated by their need for clean water, used water pails and collected large amounts of rainwater from their roofs. The small bank also caused a government department to install a well for the villages. The villagers hadn't even known that this government department existed. The bank financed installation of the water supply system and villagers repaid the bank by putting money into a fund.

The small bank also had equity in a venture that made soybean oil for cooking. This venture trained villagers to grow and harvest the best beans. When the soybeans were

ready, they were taken to the factory. Since the bank was providing the marketing expertise, the villagers had no problems. Next, after the villagers received training in animal farming, the bank provided them, again on credit, five cows per family. This venture continues today and the villagers have made good money. The bank doesn't make any money, but the amount of money they spend on these ventures is less than the entertainment budget for the board of directors of the bank.

Another company, Bangkok Glass, is a joint venture with German and Thai companies to make beer bottles. The company initiated a project in a village near the Cambodian border. A factory in the village needed to put a liquid onto the glass molds. Company representatives shifted production from Bangkok to the village. The product now is being made by hand in several villages on the Cambodian border and then exported to Germany.

It is difficult to imagine the government or an NGO undertaking such a venture. Business, however, has less fear of risk and can use its purchasing power to help the village in a straightforward transaction.

Bangkok Glass has also initiated a venture in which elderly people can earn an income. Elderly people no longer have to sit around like damaged cars at a police station. Some have been injured by land mines and cannot walk very well, yet through this venture they can make and sell brooms for sweeping up broken glass in the factories.

Inspired by the industriousness of the elderly broom makers, the 1,600 workers who live in nearby housing estates, or a total of approximately 20,000 people, decided to give their clothes to the poor. Although this altruism ensured that the poor were clothed, they remained poor. But in another venture, workers selected the three poorest families. These families were taken to a supermarket and a small department store. Instead of being given away for free, the clothes were sold by the three poorest families, who kept 30 percent of the proceeds. The remaining 70 percent went into a fund, which eventually became a local cooperative store. Today, this store sells the equivalent of more than US\$1,000 dollars a month in merchandise. It began not as a charity or handout but as an effort to teach business skills. As a result, poor people realize that they can make money without land by buying and selling.

Another successful income-generating venture has been the school lunch program. In the beginning, the school lunch program was given money for only a month, and then families began growing their own vegetables. This program sent an important message: children had to work for their school lunch, and their mothers helped. Families also grew mushrooms and sold the mushrooms to generate household income. This innovative school lunch program has been running for 10 years with no outside funding; families can successfully run the program themselves. Through the school lunch program, the community has introduced scholarships, mostly for women. In Thailand, incidentally, the belief is that women should run the country. Men have ruined the country and the constitution should be changed so that women hold 50 percent of the seats in Parliament.

Another company, American Express, is working to promote products made of Thai silk, in particular, the use of Thai silk blankets on Thai Airways. These blankets are made in a village that is five hours from Bangkok. This venture is also researching the possibility of using Thai silk to make Scottish tartans and scarves for the Manchester United football team and other organizations. Thailand imports scotch from Scotland; why not export Thai silk tartans from Thailand to Scotland? It is a matter of marketing. The idea may not work, but then, who knows without testing it? If Thais can eat at McDonalds, then perhaps Westerners can use Thai silk for tartans and scarves at boarding schools.

3. Banking For the Rural Poor: “Vegetable Banks,” Debt Swaps, and Labor as Collateral

Yet another innovative program is the vegetable bank. This program targeted the 30 poorest families in each village and used public land. Each person had the use of about 800 square meters of land, and used tanks made of concrete for watering the land. Farmers without surface water could pump water into a container for watering by hand. These farmers received three quarters of a factory worker’s wage, and had fewer than 1,000 square meters to water by hand. This arrangement is very good for

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people who are chronically ill. An HIV-positive individual can work for an hour and a half in the morning and an hour and a half in the evening. He or she earns income, the work is therapeutic, and the farmer can grow vegetables for food and for income.

A grandmother and a grandchild are among the direct beneficiaries of this program. The grandmother’s daughter and the daughter’s husband have died of AIDS, taking away the generation that was to have provided for the grandmother and granddaughter. Thanks to the program, the grandmother has income to care for her grandchildren.

The program uses land beside a railway line and is sponsored by a water company as well as the poor who live in a slum area near the city. These people grow vegetables and make very good money from it. This sort of program also exists in schools, where the children make money: half of the income is for school lunch and the other half is family income. Children make the equivalent of about P60 per day, yielding human capital improvements as well as money. Imagine a school in which children earn money as well as grades; the children work much harder. Many shops purchase these very clean vegetables.

All these programs aim to involve the poor in the marketplace. Charity is only a short-term solution; it loses its effectiveness over the long term.

Agricultural research offers another example of a successful poverty alleviation effort by business. The International Rice Research Institute and a major sponsor, the Petroleum Authority of Thailand, are working to develop and promote a new form of rice: red jasmine rice. Red jasmine rice is being sold at 10 times the regular price, making it the Rolls Royce

of exported rice. The machinery is paid for by rent, and harvesting is done by hand as well as by machinery. The rice's taste has been well received: Australia is the first country to import it; France may be the second. This new rice variety is another product from which farmers can make money, receiving 70 percent of the sales price rather than the 20 percent they would get if they worked within the regular system with rice millers and middlemen. These farmers are part of the whole process and part-owners of the whole system, which Thais call social capitalism.

Many of these company-sponsored programs are income-generating activities and they have to repay the company's initial investment. The vegetable program repays the equivalent of about P12 per day from total earnings of P180 pesos per day: that is why the program is called the vegetable bank. It is a bit like an automated teller machine; customers can bring the money everyday.

Instead of building latrines because the Ministry of Health needs them, or going through merchants, some companies are training workers to build latrines and make money from the venture. Workers then have building skills. Behind the building site is the water tank and on the right is the latrine.

Another project gets people to raise funds for the village by planting trees. Let us say the project gives the villagers the equivalent of P10 per tree. Everyone in the village comes in and plants. At the end of the day villagers have P100,000 in the bank. This money is loaned out and administered by seven people who are elected. Everyone in the village feels that he or she helped bring the money into the community, so everyone watches over the money and nobody dares steal.

Some of the best examples have taken place over a period of 15 years, during which there has been a six-fold increase in the initial capital that was invested. Again, these projects do not just give out money, hiring people for the equivalent of P150 a day to plant trees, having them go home and exhausting the funds in the process. Rather, when the money is put into the villagers' own bank or fund, villagers know they own it, they take care of it, and capital formation takes place. At the end of the first year, bank representatives count the trees: for every living tree, it gives another P10; for every dead tree, it subtracts P20, so that there is an incentive to keep the trees alive. Anything that dies is replanted and the project continues for three years like this, so a total of perhaps P300,000 is accumulated. After three years, the trees can take care of themselves.

Another exemplary program is the debt-swap program for farmers. Thailand has one of the highest interest rates on the so-called "middleman market": in Bangkok: 3 percent per day. Multiplied by 365, that level of interest is too high for the poor to afford. Instead, under the labor-as-collateral loan program, the poor pay regular interest rates and labor is used as collateral. For a first-time loan, the borrower receives 75 days' worth of the minimum wage. This amount is to be returned in cash or, if it can't all be returned in cash, the borrower can return it in labor: poor farmers use their labor and their friends' labor to work off their debt by planting trees in national forests. The Government's Bank of Agriculture and Coopera-

tives agreed to the arrangement, which has been tried out for three years. Farmers were very happy about the program, because debt restructuring in Thailand helps mostly the rich and does little for the poor, who have no gold chains or other tangible valuables to use as collateral; until these labor-as-collateral programs began, the poor could not borrow. With them, the poor pay regular interest rates and their labor serves as security.

Now the bank is looking at the possibility of setting up subsidiaries to build roads for the Government and get paid in cash. That cash in part is returned to the bank. Again, the poor can borrow and repay using labor as collateral.

4. Rural Development “Grows Up” into Manufacturing

The last, most successful set of examples is in manufacturing. Thailand’s manufacturing sector went through a process not unlike that of growing from child to younger person to older person. Initially, Thai businesses acquired land, dug canals, put in fruit trees, then borrowed money to build chicken pens, employing two people for every 10,000 chickens.

After 75 weeks, the project transformed itself from chicken farming to manufacturing. Villagers repaired the floor of the building and installed equipment for making Nike shoes—“from feather to leather.” Villagers earn the equivalent of about P6,500 per month in the factory making shoes for export. The project has convinced many companies to move their operations away from Bangkok, hoping to stop urban migration that destroys the social fabric, traditions, and culture of the villages. Rather than taking people to machines, the project works to bring machines to people. The companies also offer scholarships and loan money so that villagers who cannot work in the factory can earn more money.

The factories in the Population and Community Development Association’s Thai Business Initiative for Rural Development program make Nike, Roebuck, and Timberland shoes, Pierre Cardin fashions, Italian football shirts, and many other products that are available throughout the world. Many Thai women go abroad, buy these products, and bring them back, not realizing they are made in former chicken pens in Thailand. The factory is five or six hours from Bangkok and it is of very high quality. Next, a local cooperative is established. Workers own the factory, workers produce on contract for barter and other arrangements. Eighty-five percent of the people working in the factory are returnees from Bangkok. Now that there are jobs, they want to be in their home village.

Thomas Bata is the man who owns Bata, a company that employs people on a permanent basis. The Canadian government is now giving foreign assistance through Bata to do something similar to what was done with the chicken farm. This approach seems a very productive one. For instance, a worker in Bangkok makes an average 12 pairs of shoes per day; in the northeast, five hours from Bangkok, each worker makes 19 pairs per day. The workers in the Northeast realize more value from the program, too, in that they feel safer at home, the money goes to the family, agriculture is better than before, and the community is stronger.

These localized programs promote overall social, economic, and political development in Thailand. The people who benefit from these programs no longer sell their votes so easily to crooked politicians. In addition, individual workers have accepted a voluntary reduction in pay of the equivalent of about P12 per day; they put it into a fund, add to it, and receive three fruit trees to plant per week: 150 fruit trees per year. At five years maturity, fruits and graftings will earn them about P25,000 a month. Workers can then leave the factory, have children, set up a shop, and own equity in the factory. It seems likely that few would want to work in a factory from age 16 until age 50.