

Poverty Reduction: What's New and What's Different?

**Report of a Seminar Organized by the Asian Development Bank
in Conjunction with the 32nd Annual Meeting
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FOREWORD

Poverty in Asia declined by almost half during the 30 years up to 1997, yet still encompassed close to 900 million persons. East and Southeast Asia made enormous progress during this period, but with the onset of the financial and economic crisis in 1997, the economic growth of a number of countries in these subregions came to a halt and even regressed.

The most severely affected countries were in Southeast Asia (Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, and Thailand). However, the overall impact seems less severe than earlier anticipated. At the same time, in addition to the transitional poor, chronically vulnerable groups of poor people suffered more than earlier believed. Given the inadequacy of government social safety nets, the beleaguered family system played its traditional fallback role of sustaining members through enormous hardships. These crisis-heightened burdens further impeded the daily struggle for survival and security of poor people with already limited assets compounded by low levels of education, health, and housing, and few opportunities to make demands of government. Even though national economies appear to be recovering, poor people affected by this "deeper crisis" will need much more time and assistance to pull themselves out of poverty.

For South Asia with its 500 million poor people, the incidence of poverty may have decreased, but the number of poor continues to increase because the rate of economic growth cannot offset population growth. In the Central Asian Republics, people are experiencing very high social costs because government systems that once provided guaranteed employment, family allowances, and social services are being abandoned or remain underfinanced.

Declaring poverty to be an unacceptable human condition that is not immutable and that can be affected by enlightened public policy and action, the Asian Development Bank (ADB) has made poverty reduction its overarching goal and the elimination of poverty its principal *raison d'être* for the foreseeable future. Gaining increasing importance is ADB's role in highlighting current and emerging issues likely to affect the ability of Asian countries to reduce poverty further.

Accordingly, in conjunction with its 32nd Annual Meeting in Manila, ADB organized a seminar on "Poverty Reduction: What's New and What's Different?" on 29 April 1999, featuring a distinguished panel of academics, officials of international agencies including ADB itself, a national government representative, and a civil society leader. The panelists were invited to assess as yet diffuse changes in the paradigms for economic growth that served as the foundations for substantial reductions in poverty before the crisis, particularly in East and Southeast Asia. They were also asked specifically to state what was different in Asia and the world today compared to a decade ago. The panelists' presentations were followed by the viewpoints of two discussants representing ADB and nongovernment organizations (NGOs), respectively, and then comments and questions from the heterogeneous audience, which included civil society leaders, government officials, and representatives of NGOs and international agencies. The report concludes with an analysis of the implications of the presentations and discussions for ADB and its developing member countries.

Serving on the panel were Dr. Richard A. Jolly, Special Adviser to the Administrator, United Nations Development Programme, and former United Nations Children's Fund Deputy Executive Director for Programmes; Dr. Partha Dasgupta, Faculty of Economics and Politics, Cambridge University; Dr. Martodinoto Mobyarto, Professor of Economics, Gadjah Mada University, and

Advisory Expert on Poverty Affairs to the Coordinating Minister for Economics, Finance, and Industry, Indonesia; and Dr. Christine Wallich, Director, Infrastructure, Energy, and Financial Sectors Department (West) and Head, Private Sector Group, ADB.

The two discussants were Dr. A. T. Ariyaratne, President, Sarvodaya Shramadana Movement, Sri Lanka, and Commissioner, Human Rights Commission of Sri Lanka; and Dr. Anita O. Kelles-Viitanen, Manager, Social Development Division, ADB, and formerly focal point for gender issues at the International Labour Organisation. The seminar participants were welcomed by Dr. William J. Staub of the ADB Office of Environment and Social Development (OESD). Dr. Kazi F. Jalal, then Chief, OESD, chaired and moderated the session. The analysis of the implications of the session was made by Dr. Mary Racelis, Director, Institute of Philippine Culture, Ateneo de Manila University, Philippines, who also prepared the report.

The Seminar was held at a time when the impact of the Asian financial and economic crisis was at its peak. Although the region has since begun to recover from this impact, the issues highlighted by the participants with regard to poverty and the potential to reduce poverty in the region are as pertinent now as they were then.

Rolf Zelius
Chief
Office of Environment and Social Development

OPENING REMARKS

Kazi F. Jalal, Chairman and Moderator

Examining poverty reduction in Asia today calls first for reassessing a decade-long consensus in development circles. Until mid-1997, international agencies together with national governments favored three workable approaches: (1) foster economic growth that expands income and employment opportunities for the poor, (2) develop human capital, and (3) protect vulnerable groups from catastrophic events through effective and timely safety nets.

The events and trends highlighted by the Asian financial and economic crisis point to new and emerging poverty situations: the appearance of transitional poor groups—people who were not poor before the crisis but fell below the poverty line as a result of it, and who could conceivably rise above it if circumstances allow; transitional economies, as in the Central Asian Republics, where grinding poverty had not existed prior to the dissolution of the Soviet Union but was beginning to appear; and a staggering increase in international flows of private capital and technology into the region, bringing serious consequences.

With inequality within East Asian countries increasing in 1999 as never before, these trends have changed the content of policy dialogues among multilateral development banks, bilateral aid agencies, and national governments. Strong civil society voices raised in protest have spurred this reorientation. Development agencies now emphasize the links between environmental destruction, poverty, and mal-development. Other poverty-related issues have moved onto center stage: the need for anticorruption measures; ownership of assets by the poor; sound development management; and good governance with transparency, accountability, and people's participation.

THE HUMAN DEVELOPMENT PERSPECTIVE

Richard A. Jolly

Two years ago questions like “what’s new and what’s different in poverty reduction?” would have brought a set of answers different from those that one would give today. Despite the Asian financial and economic crisis, positive new developments within the last two years suggest promising possibilities for poverty reduction and poverty elimination.

Poverty Reduction before the Asian Financial and Economic Crisis

Three new elements stand out in the approach to poverty reduction in the 1990s.

First, there was a new optimism in the mid-1990s over the prospects for rapid reduction of poverty in developing countries. The Human Development Report (HDR) for 1997, which focused on poverty, amply demonstrates this. It showed that the incidence of poverty had fallen more in the last 50 years than in the previous 500 years. Indicators of human development highlighted significant advances in most countries of the world, including countries that had experienced long periods of economic difficulty. The People’s Republic of China (PRC) and some 14 other countries, with a population totaling 1.5 billion people, had shown astonishing drops in poverty in less than 20 years. Ten more countries with almost another billion people reduced the proportion of their populations below the poverty line by a quarter or more. All this set the stage for optimism regarding prospects in the rest of the world, with many Asian countries leading the way.

Second, there was a new commitment to reducing and eventually eliminating poverty. At the World Summit for Social Development in Copenhagen in 1995—the largest meeting of heads of state ever held (117 presidents, prime ministers, and ruling monarchs), with 185 national governments represented—countries for the first time made clear commitments to eradicate poverty. This they pledged to do by setting national goals, reducing inequalities, and undertaking strategies aimed at substantially reducing overall poverty in the shortest time possible while eradicating absolute poverty by a target date to be specified by each country in its national context. Although not every country may be serious about making good its commitments, the fact that these have been made provides a focus for the Asian Development Bank (ADB), governments, nongovernment organizations (NGOs), and others to encourage and support action.

Third, a new conceptual framework emerged that defined poverty as human deprivation. This perspective has been highlighted in the HDR series, which drew on the ideas of Amartya Sen and the inspiration of HDR founder Mahbub Ul Haque. Notably, both are Asians.

Poverty Reduction after the Crisis

Two years after the mid-1997 beginning of the crisis, poverty alleviation in the region remained stalled, a contagion which has spread to other parts of the world. Some 40 percent of the world economy was now in recession. The optimism of the early 1990s had given way to deep pessimism and then cautious recovery, with countries still showing a wariness about prospects and their sustainability. These setbacks should not, however, undermine the attention to poverty; indeed, they should reinforce the resolve to tackle it forcefully.

Just as globalization has yielded painful lessons about the repercussions of financial vulnerability, it also offers new opportunities to deal with them at global and national levels. Clearly, international support is needed not only for the weak countries in Asia but also for many of the stronger ones. Recent events have shown that none are invulnerable to financial attack. The lessons of the 1990s in key areas of development indicate how much can be done when people, governments, and international agencies put their mind to it.

Accelerated Action for Poverty Reduction: Setting Goals

Experiences over the past five years, especially in the United Nations Children's Fund, have yielded several effective approaches to poverty reduction. A major one is to set goals, a vital step if all sectors of society are to mobilize around them for concrete, targeted, and achievable outcomes.

Despite all the difficulties of the 1980s, some 40 percent of the countries of the world achieved their goals in child mortality reduction. Immunization rates have risen to 80 percent in much of the developing world. Some 72 developing countries had rates double those of the United States. Similarly, polio eradication has come a long way from the days of spirited debates around whether it was at all feasible. As of today, an amazing 150 countries are polio free. Successes of this nature show that while crucial poverty issues like class and exclusion should not be side-stepped, it is also inappropriate to hold back because of them and ignore new avenues for addressing basic needs where rapid advance is possible.

Malnutrition is another case in point. In Thailand, a committed effort by the government in 1982 to reduce malnutrition, which was then affecting over half the children of the world, brought malnutrition levels down to 15 percent by 1991. The severe and moderate malnutrition that had afflicted another 15 percent was virtually abolished. In a similar vein, establishing goals for improving primary education offers hope through targeted action.

What were the secrets underlying these successful experiences? One was political commitment from many parts of society. Another was taking the decision to go to full scale instead of settling for more conventional pilot projects. Choosing low-cost approaches like clean water and oral rehydration allowed scarce financial resources to cover a much larger population than otherwise. Social mobilization at community, subregional, and national levels brought in large numbers of volunteers from all parts of society eager to help. Finally, careful monitoring fostered sustainability in providing information on whether or not the programs were fulfilling expectations.

Human Development

The human development approach to poverty parallels the approach to development. Drawing extensively on Amartya Sen's work, human development represents the process of expanding people's choices to live long, healthy, and creative lives. It is not merely about human resource investment, social-sector expenditure, basic needs, or economic growth, or even about poverty. As emerging data demonstrate, long-term patterns of economic growth do not necessarily correlate with progress in human development. Enlarging people's choices implies reinforcing human capabilities and fostering access to meaningful opportunities for exercising choice.

In 1997, Sudhir Anand and Amartya Sen helped define a multidimensional approach to poverty, which they saw as the denial of capabilities and opportunities for living a long, healthy creative life. Poverty is more than a lack of income. Overcoming it means having a decent standard of living, the respect of others, and the things that people value in life. As with human

development, the definition of poverty as a concept is much broader and more fundamental than its measurement, which cannot reflect all dimensions in a single, quantifiable indicator. Measurement dimensions include longevity, access to information and knowledge, social and political participation, and material means.

Like the Human Development Index (HDI), measurements for the human poverty index (HPI) rely on a composite index of the different dimensions of human life, with a focus on quantifiable elements such as longevity, knowledge, and a decent living standard. While the HDI measures progress in these dimensions in a country or community, the HPI measures the extent of their deprivation. The HPI is the counterpart to the Income Poverty Index in the same way that HDI is the counterpart to GNP per capita. HPI data sets exist for some 80 countries and can be readily found in the HDR. Contrast this with the dollar-a-day income-only measures that exist in about 48 countries (16 of them in Asia), according to the latest World Bank estimates.

The 1997 HDR, focusing on poverty eradication, lists six essential actions. First, empower poor people to gain greater power over their lives and resources. This is achieved by building the assets of individuals, households, and communities. The state can help by ensuring poor people's access to credit, food, education, health care, family planning, safe water, sanitation, and security of land and housing tenure. NGOs can help by advocating pro-poor governance and by organizing people to participate effectively in decisions and actions geared to acquiring assets, basic services, and a decent life.

Nutrition deserves particular mention. In the last 10-15 years, malnutrition rates have declined in all regions of the world except sub-Saharan Africa. It is important to point out that while the old arguments on why investment in nutrition is a vital part of human capital formation are still valid, new evidence reinforces strongly the crucial importance of nutrition interventions. Data from some 35 studies involving people born during the Second World War indicate that moderate or severe malnutrition in the womb or in the first two years of life has measurable effects on people's life chances in their 60s and 70s. Cancer, diabetes, and heart disease occur at significantly higher rates among older adults who suffered from malnutrition early in life. Much greater attention must be directed to the problem of malnutrition in the first two years of life and the nine months before that.

The ADB is to be congratulated on developing a major program of nutritional analysis covering seven countries of the region. PRC, India, Thailand, and others are working to identify practical actions for rapid reduction of malnutrition. Low-cost approaches must, however, contend with rising rates of obesity in middle age which, according to the World Health Organization, are reaching almost epidemic proportions.

Time limitations prevent further elaboration of the five other essential actions for poverty reduction and elimination, namely, gender equality, pro-poor growth, an active pro-poor state, equitably managed globalization, and international support for special situations (debt, AIDS, etc.) in the poorest and weakest countries. It is appropriate to conclude with the assertion that eradicating absolute poverty is a human right, a condition for global stability, an affordable goal, and a practical possibility.

NONMARKET INSTITUTIONS

Partha Dasgupta

The last 10 years of formal economics research have yielded significant lessons on poverty. This presentation transmits the broad thrust of the literature over this period—what has been learned on topics now recognized as objects of study, but which economists still do not appear to understand. Every example given here probably has a counter example, but it is important to disregard these for the moment and move ahead with the debate.

What We Know

State and market institutions. Institutions merit priority consideration. That is where the greatest development in economic theory and applied economics has occurred in the attempt to understand the nature of poverty in poorer countries. Until the end of the 1980s, the two institutions discussed extensively by economists were the state and markets. Economists, although they borrowed ideas on the state from political scientists, did not pretend to understand the state.

In fact, an interesting dualism developed in the ways economists or development economists wrote about the state, as an agency doing almost anything it wanted, while the market, whether doing well or badly, demanded considerable scrutiny to identify the ways in which it was failing as an institution. When the state came under criticism, the comments emanated from political science, not economics, literature. Economists lacked a model of the state.

Nonmarket institutions. The big change over the last 10 years came in a growing understanding of nonmarket institutions. Economists owe this conceptual shift very much to the extensive work of anthropologists. From it came the tight modeling that buttresses our understanding of markets and increasingly, nonmarket institutions. The latter include not only the state as an agency of the populace but those institutions that lie between the individual and the state, such as household- and village-level organizations.

The hallmark of nonmarket institutions is an agreement mechanism based on self-enforcement among individuals or groups, or on the power of emotional bonds among the participants themselves. Smaller, more permanent membership institutions are often held together in this way.

A good deal of the work on nonmarket local institutions has been done in the context of local common property resource management. The development economics literature over the last 10 years reveals a far greater sensitivity than in the past to the way rural people rely on their local environmental resource base. The aspects of environmental economics that can be married to development economics reflect the growing interest in nonmarket institutions.

Malfunctioning institutions. Economists recognize that although certain nonmarket institutions may have been justified in the past because they served their purpose extremely well, these institutions may not be able cope with modernization, causing certain groups of people to fall out or become disenfranchised. Several models have been constructed to show how this process generates poverty traps. Positive feedback loops operate in such a way that even if an economy as a whole grows not only in terms of income but also in the sense of the HDI, it can happen that certain groups lose out. The merit of working with these models is that they enable us to identify such groups. The empirical literature by anthropologists and NGOs on the experience of

acute rural poverty during a period of economic growth has been captured quite well by the models.

Another kind of malfunctioning is the situation where progressive institutions are blocked by entrenched nonmarket institutions that may have had a rationale in the past but are now dysfunctional precisely because they are preventing the growth of such progressive institutions.

What We Do Not Know

Although certain societies work and others do not, the literature presumes well-ordered societies without serious civic disturbances. Observers cannot predict upheavals involving large numbers of people, but they can describe them and might even smell them coming! We do not yet know the kinds of policies or even how to think about policies that need to be formulated in a world in which people are killing one another. Economists, and probably most other people, have absolutely no understanding of this kind of total disruption. Nor does well-ordered imply a “good” society, but only a society in which policies can be predicted to work one way or the other, a society where one can have a reasoned expectation of what lies ahead.

When a society collapses, whether from groups unable to live together or from an overly oppressive state, we do not understand the processes that have brought about that calamity. This is where informal, nonmarket institutions, which pre-date market ones and their third-party approaches, can be reexamined for their capacity to forge and sustain implicit agreements. If people get together and create something communally or collectively, even just by striking a bargain, what kinds of guarantees do they have that the agreement will be carried out?

That, in my judgment, is probably the most fundamental question in the social sciences today. Nonmarket institutions represent a particular route to solving that problem. Up to now, much of the work in development economics has emphasized that a faulty third party—the state—is malfunctioning. There are already indications that even nonmarket institutions are faltering because society is falling apart. We really do not understand how to think about that.

ROLE OF THE PRIVATE SECTOR

Christine Wallich

The principal aim of development is to alleviate poverty. Most people do not think of the private sector and poverty alleviation in one breath. Yet, the most expeditious way to reduce poverty is growth, pro-poor growth. Economies must grow at a pace and level sufficient to provide for the minimum needs of society, and the benefits of this growth must reach the poor.

Inclusion and Contestability

Since the financial and economic crisis, poverty has remained Asia's most urgent and fundamental problem. This is where the private sector comes in. Although Asia has done better than other regions with respect to growth, at least two important questions remain. How can we give the poor full access to the capitalist system so that they can enjoy the benefits of private wealth creation? And how can we ensure that the poor enjoy the fruits of growth? Or to combine them, how can we ensure that the inclusion of the poor and the contestability of capitalism lead to a capitalist system with a human face, or a capitalist system for the poor?

Here I consider three provocative topics: privatization and the poor; governance, anticorruption, and the poor; and access by the poor to credit and entrepreneurial opportunities.

Privatization and the Poor

Privatization is the current buzz word in Asia and elsewhere. The evolving role of government is to facilitate the process of production rather than to own the means of production. Like other multilateral organizations, ADB promotes privatization as a vehicle for improving efficiency and for releasing much-needed public resources for alternative uses, especially for pressing social requirements.

Where ownership is concentrated in the hands of dominant interests, a private monopoly can generate more negative and unintended consequences than a public one. The public, especially the disadvantaged elements of society, must be protected through an appropriate legal and regulatory structure in which consumer concerns, fair trade practices, and regulation of monopolies and quasi-monopolies are addressed. Regulatory frameworks should deal with unlawful restraints and anticompetitive practices, and do away with barriers to entry and exit. Equally important, labor concerns should be satisfactorily addressed either through adequate social safety nets or through retraining and redeployment.

But one must go further. How do countries go about privatization? What do the communities of economists in multilateral banks recommend on privatization? The answers do not lie in clinical or technical considerations alone. In Russia, privatization into the hands of a concentrated few has fundamentally changed the balance of power. A new "mafia-capitalism" has challenged the power and legitimacy of the state, cheating the average citizen of both wealth and voice. Hastily privatized banks have failed, causing deposit freezes and losses. In fact, most of the new poor in Russia are people who have lost out through mismanaged privatization, which, especially in the case of banks, initiated the loss of their savings and pensions.

In Asia, the distribution of income is also relevant to privatization and how to go about it. Here, the extremely wealthy rich, or the highest tenth decile on the scale, have very much more

than the ninth decile, the just plain rich. This is not the case in other parts of the world. In Asia, economic power is extremely concentrated and this is relevant when planning for privatization.

Some Latin American countries that also face distributional inequities have created a “popular capitalism”, trying to broaden stakeholders in the capitalist system. They share the Asian concern of political sustainability of reform and privatization programs. In Chile, pension reform transformed literally millions of pensioners (including some of the poor albeit not the poorest) into shareholders and thereby stakeholders in the market economy, through the creation of a funded pension system. Argentina is experimenting along these lines, while a voucher system is the instrument of choice in eastern Europe, although not without problems.

In Asia, there has been a good deal of concern about keeping assets out of the hands of foreign “bottom-fishers.” This is an important concern. However, perhaps we should also think about ways in which local people—who have borne the brunt of the crisis—can get a share and a stake. This might mean foregoing some revenue in the privatizing process. It also calls for identifying who is going to get the new economic wealth. Will the economy become more or less contestable, more or less exclusionary, and more or less friendly to the poor in civil society? This goes back to the starting theme: contestability and access to the market economy along with the fruits of its growth for all participants, including the poorest.

Governance and Anticorruption

Until recently, one rarely heard or could even say the famous “C” word: corruption. Yet it affects the poor in many ways: it slows the rate of economic growth and increases the gap between the haves and have-nots. It skews the incentive structure, with adverse consequences on the poor by, for example, depriving them of income-generation opportunities or favoring capital-intensive projects as against labor-intensive ones, where bribery is not so profitable. It inclines public spending toward infrastructure projects and away from social spending for the same reason. Corruption can affect the targeting of social programs to the truly needy, because funds are siphoned off from poverty programs by well-connected people in the public and private sectors.

How large is the effect of corruption on the poor? Some think this is a soft, mushy question, but the evidence is quite hard. In a recent International Monetary Fund study¹, cross-country regressions showed considerable impact of corruption. A worsening of the corruption index by 2.5 points (on a scale of 1 to 10) is associated with an increase in inequality equivalent to reducing education at the secondary level by three years, a large effect indeed.

A 1 percent increase in the rate of corruption reduces the income growth of the poorest (bottom 20 percent) by almost 8 percent per annum. This is serious. It is important and no one should underestimate how important corruption, anticorruption, and good governance are for the most disadvantaged people in this region. Increasing public and private accountability will pay handsome dividends for the poor.

What can we do? Many things are possible, but only a few of them can be mentioned here—donor support for better tax administration and for transparent public procurement. The involvement of NGOs as watchdogs can help. Another possibility is to try to “import” good governance and regulation. For example, by allowing foreign banks to operate, one can import

¹ Gupta, Sanjeev, Hamid Dawoodi, and Rosa Alonso-Terme. 1998. Does Corruption Affect Income Inequality and Poverty? Working Paper WP/98/76. Washington DC: International Monetary Fund.

the banking standards associated with a foreign bank. And, if the market is contestable, this can help force domestic banks to a higher standard of performance. This way, one piggybacks on the regulatory standards of the foreign country.

A zero tolerance policy on the part of multinationals is another approach. Others have suggested a list of “most corrupt private companies” as a good addition to country corruption ratings produced by Transparency International. It takes a mosaic of approaches. But the bottom line is that the poor cannot wait and that better governance really matters for them.

Financing Small- and Medium-Scale Enterprises and Microequity

The private sector can accelerate financial and entrepreneurial opportunities for the poor. Private-sector financial institutions assist directly in poverty reduction by providing easy access to financing on reasonable terms to small- and medium-scale enterprises, tiny industries, and even individual entrepreneurs.

Microcredit is quite a recent phenomenon, the first initiatives having been taken in Bangladesh by the well-known Grameen Bank. In Viet Nam, there is the Bank for the Poor, and there exist many people’s credit funds providing support to small farmers for production credits. In the Philippines, NGOs play an active role. Microcredit offers special opportunities in the aftermath of the Asian crisis, given the need to provide assistance to a sector that employs the largest number of people. There is a great interest today in small-scale financing. The availability of credit on reasonable terms can make a huge difference to low-income families. Each person engaged in microfinance has his or her favorite stories. Mine include “Knitting Together Nations,” a project in which Benetton out-sourced knitting to refugee women in Bosnia. In Ahmedabad, a Rs100 loan for an orange juice press allowed a widowed street vendor to pay her children’s school fees. While many challenges remain in microfinance, experience has shown that poor people can be a good credit risk if the right environment can be created. In short, microcredit works.

Government and multilateral agencies can assist by helping create the necessary policy framework. In the Philippines, for example, there is a law on small and medium enterprises. Thailand is about to legislate one. But beyond that lies a major challenge: making microcredit “bankable” or commercially viable. Further in the future is the prospect of getting these enterprises capital market access. Can we securitize a microcredit portfolio and reduce dependence on donors? Women’s World Banking did just that a year or so ago with a US\$250,000 placement in New York.

Much less familiar is microequity. Venture capital funds have traditionally not reached the smallest companies and certainly not the poorer families and individuals in need of credit to finance productive activities and improve the quality of their lives. However, microequity funds are now being piloted, first in Eastern Europe and then Latin America. These involve equity investments in the range of US\$50,000 to US\$250,000.

These, too, are not without problems. Overheads rise due to the small size of such funds. Fees are high, given a hands-on management approach. Donor or concessional funds are typically needed for start-ups. A heavy dose of entrepreneurial support is usually required to help microentrepreneurs make best use of the funds, calling in turn for reliable NGOs to run them on behalf of private investors. Because small and medium enterprises represent the largest source of employment in Asia, their access to microequity finance can make a huge difference for the betterment of many lives in the region.

Conclusion

The private sector has a great deal to contribute to poverty reduction. By fostering the growth of competitive markets, practicing good governance and exercising vigilance in the enforcement of laws and regulations, and through direct assistance programs for the poor, ADB will continue to forge partnerships with the private sector and governments in advancing the cause of eliminating poverty wherever and however it can.

POVERTY IN INDONESIA BEFORE AND AFTER THE CRISIS

Martodinoto Mubyarto

From the Indonesian point of view, a discussion of what's new and what's different about poverty in developing countries should focus on poverty-reduction policies in the wake of the Asian financial and economic crisis. Such a review carries both theoretical and practical implications.

This presentation does not necessarily represent the views of the Indonesian Government. It is necessary, however, to ascertain how governments dealing with ADB—Indonesia apparently being the largest single borrower—can strengthen relationships in such a way that the interests of both partners harmonize toward common goals for the country.

In Asia today, that calls for large loans whose benefits target the development of the informal sector or people's economy. This may not hold for private-sector development, as emphasized by earlier speakers. But for loans to be truly beneficial to the country, benefits should go to the poorest of the poor. Such transactions must automatically reduce income and wealth disparities between the rich and the poor, between the haves and the have-littles ("have-nots" is an inappropriate term because the poor do have something, even if it amounts to very little).

Development Mistakes

One of the most important mistakes countries commit—and Indonesia is an example—is to borrow too often and too much, well beyond what is needed. The result is that acquiring a substantial loan has become a measure of the Government's success. It is heralded in the Indonesian press as a significant achievement. This is one of the most important factors that led to the financial and economic crisis.

ADB and World Bank officials suffer from the same syndrome. When asked what they do, they explain that they are in charge of a certain project. The word "project" signifies a set of activities owned by someone other than the poor, be it the government, an NGO, or a bank.

Equity and Participation

What is new and different in Indonesian poverty reduction? Two elements come to mind. First, all programs should now integrate equity objectives. Economists must accept the blame for emphasizing only efficiency. Second, the poor, who are the focus of the programs, must participate fully in their design, implementation, and monitoring, and, of course, reap the benefits. More specifically, they must be empowered to run the programs themselves.

Poverty-oriented development programs started systematically in Indonesia in 1975-1976, when the success of Repelita 1 in speeding up economic growth also revealed serious income distribution inequalities. The proportion of Indonesians below the poverty line dropped from 40 percent (54.2 million) in 1976 to 11 percent (22.5 million) by 1996, the fastest decline having occurred in 1993-1996. The onset of the crisis arrested this rapid drop.

Supporting a People's Movement in a People's Economy

The IDT (*Impres Desa Tertinggal*, or Program for Assistance to Backward Villages), launched at the end of 1993 under Repelita VI, has three goals: to speed up the national movement for poverty eradication and ensure that it becomes a people's movement; to reduce inequalities of income and wealth; and to develop the people's economy. Poor groups are identified according to categories reflective of local village standards. By 1996, the program had covered 28,000 of the least-developed villages, or 43 percent of all villages in the country. Beneficiaries were 136,000 self-help groups, or *pokmas*, comprising 3.4 million poor households.

Each *pokmas* has about 30 poor families, and there can be several such groups in a village. Organizing these groups facilitates the channeling of services and funds to poor families as well as promotes interaction among group members. This continuing contact reinforces people's self-esteem. Often the poor are so isolated—psychologically, socially, culturally, economically, and politically—that they tend to have a sense of powerlessness: a belief that there is no way out of their present situation and that it is their destiny to be poor.

Facilitators who are community workers act as catalysts to improve the human resource base of *pokmas* members, improve the capabilities of their committees, and promote savings and the economic and entrepreneurial skills of members. Women's participation is significant and in many places *pokmas* members are predominantly or all women. Most of them draw on IDT funds for income-generating activities such as small trading activities, raising goats, and operating a newly purchased fishing boat with their husband.

It is important to recognize that the vast majority of the populace survives through the people's economy. All too often, however, both the government and private sector undermine this economy by supporting large business enterprises that actually compete with the myriad small-scale activities sustaining the majority.

All in all, the most effective strategy for enhancing participation of low-income people in development in the broadest sense is to improve their access to economic activities and let them make their own decisions. The economy is the most realistic entry point of all empowerment efforts because achievements there will cultivate the sense among the poor of "having power." Social-sector efforts complement this thrust.

Other programs of poverty reduction have focused on vulnerable groups: the poorest, isolated indigenous communities, the disabled, elderly, destitute children, poor women, and slum dwellers. Still others involve supplementary feeding for elementary school children and income-generating programs. Not all these programs have proven successful. They have flourished in some regions and floundered in others. Prior local economic growth apparently did not serve as a precondition for the success of the poverty-reduction programs.

Local institutions, or what Dr. Dasgupta calls nonmarket institutions, played a more important role in the successes. Local facilitators contributed greatly by promoting empowerment of the poor. Clearly, both equity and efficiency figure in the equitable distribution of the fruits of development. Reducing income and wealth inequalities cannot be limited to local communities, but must be pursued within every subregion, then every province up to the central level.

The Crisis and the New Poverty

Until the crisis, Indonesia was praised by the World Bank as one of the eight economic miracles, defined as experiencing rapid and sustained growth with equitable income distribution. In reality, Indonesia did not deserve this designation considering its very unequal wealth distribution

In any event, an unexpected monetary crisis attacked the Indonesian economy in August 1997, and soon turned into an economic crisis and then a total crisis (*krisis*). In 1998, the economy contracted and the modern industrial sector collapsed. This resulted in serious unemployment in the larger cities and an increase in poverty. Urban areas have been harder hit than rural areas, with Java more severely affected than other areas.

Many of the hardest-hit areas were relatively well off in the booming modern economy before the crisis. The modern sector, which used to enjoy the most benefits of growth, has suffered most from the present contraction. At same time, while two thirds of the rural population apparently did not report suffering unduly from the crisis, one third stated they had indeed been negatively affected. The outcome of the crisis will be still less work and lower earnings for all workers in the overcrowded informal sector of the economy.

Contrary to some economists' predictions, the economy is not collapsing. However, panic in the first half of 1998 influenced government officials and policymakers toward unhealthy management decisions to address the crisis. Looking to set up safety nets, they hastily applied macrostudy findings to local situations and did not accurately target the poorest until 1999. This led one writer to comment:

Without any intervention by outsiders, the people can and will survive under constantly changing and difficult conditions, but with ignorant and misguided intervention by government, NGOs and international agencies, the people may not survive. Their culture can and will be destroyed and they will be impoverished.²

By 1999, the state of the economic crisis in Indonesia, which has virtually doubled the number of poor people, was not the result of a scarcity of natural resources or the failure of antipoverty programs, but the insensitive management of development resources that has left the weaker segments of the community outside the mainstream.

Although the trilogy of development—stability first, growth second, and equity third—guided Indonesia in the past, the situation has now become an abuse of power that cannot control itself and cannot be controlled by the people. The national assets are concentrated in the hands of a few. The May 1998 riots were the result of the widening gap between the haves and have-littles.

The present management of development resources involves a top-down approach in planning and implementing development programs. As a consequence, development funds have been spent to finance projects that have no clear benefits for the people. Land acquisition for projects has taken place without social preparation and does not provide fair compensation. This has created new poor groups who are consumed with anger and feelings of revenge.

² Jilinek, Lea, and Bambang Rustanto. 1999. Survival Strategies of the Javanese during the Economic Crisis. Survey Report. Jakarta: World Bank.

Prospects for Poverty Eradication in Indonesia

The present Indonesian administration needs to pursue a more participatory approach in every step of every development program and policy. This entails people's participation in planning, implementation, and evaluation of development projects. Local NGOs must be provided with broader opportunities to participate because they perform a critical balancing role to ensure that government is managing development resources for the greatest possible prosperity among the people.

Other appropriate programs for accelerating poverty alleviation are microcredit, nutritional improvement for school children, and expanding health care cadres like the village midwife program. An educational system that promotes skills training for children from poor families will enable these people to enter labor markets with a better chance of earning good salaries.

Conclusion

The financial and economic crisis has taught two hard lessons. First, globalized capitalism may also mean the globalization of poverty unless developing countries like Indonesia develop national economic systems based on their own ideologies. Second, as a religious nation, Indonesia should try hard to build and promote a moral economy in line with the Qur'an according to which wealth "may not (merely) make a circuit between the wealthy among you." (Al Hasyr, Article 7).

Finally, the Government's mandate under the law to create a broad base of small- and medium-scale enterprises, including cooperatives, as the main pillars of national economic development should be supported with as many incentives and as much assistance as possible. It goes without saying that large-scale business and state enterprises must likewise come into the picture for joint mobilization toward reducing and eventually eliminating poverty in Indonesia.

THE DISCUSSANTS

A. T. Ariyaratne

In no country of the world have poor people themselves initiated a process of trying to understand why they are poor and powerless and decide how they are going to overcome that situation in cooperation with the government, the private sector, NGOs, and international institutions. Through 40 years of working intensively with poor villagers in Sri Lanka, *Sarvodaya*³ has helped to establish the “nonviolent total transformation process.”

This model embraces a vision of the kind of society villagers want, in which the concept of an affluent society is meaningless because not everyone can become affluent. Equally intolerable is a predominantly poor society. These extremes must instead give way to a nonaffluent, no-poverty society. It is achievable because there are enough resources, technology, and intelligence to make it happen. What is needed is to bring into the village the kinds of organizations and institutions capable of working effectively with their counterparts in local communities.

Building a social infrastructure. First, a vision or psychological atmosphere must be established that motivates people to improve their conditions. Everyone should be involved in this process. If children are malnourished and in poor health, children themselves should play significant roles in programs to reduce child malnutrition, illness, and death. In this way, all kinds of groups—mothers, farmers, youths, and others—organize around their interests and take advantage of the skills and know-how we can make available to them.

Second, to counteract negative elements, especially those in the government responsible for corruption and other evils, the people themselves must be enlightened. This entails developing their own legal self-help institutions to carry out their decisions in democratic and effective ways. Some 3,000 legally registered community organizations in Sri Lanka are now providing credit through 3,000 village development banks, essentially through pooling and managing their own monetary and nonmonetary resources. While these banks are subject to national banking rules, like any commercial bank, they can set their own interest rates, depending on local circumstances. Repayment levels are consistently at or near 100 percent.

In addition to gaining greater financial autonomy, legally registered community groups have enabled people to go to court and to sue (and be sued) when they have grievances to settle. Rural people have thus become politicized, not in the sense of party politics or election contests, but through participating in decisions affecting their village and themselves as members of it.

Engaging in social progress. As the basic vision, technical know-how, and institutional support framework fall in place, people move on to more complex ventures. With capable managers, their capital in banks has in some villages increased twenty fold. Where once they would dwell on unemployment as a local problem, they now refer to “full engagement” as representing some form of contribution to society. In this perspective, even a child in the womb is fully engaged by growing

³ The *Lanka Jatika Sarvodaya Shramdana Sangamaya* is a people’s movement for universal awakening through sharing of labor and resources. The quest began at grassroots level in a remote village, where poverty and illiteracy were rampant. *Sarvodaya* now has 10 legally independent umbrella organizations covering *Sarvodaya* development programs in 11,600 self-governing villages. Recognition has come in the form of numerous honors and awards, including the Mahatma Gandhi Peace Prize, the Ramon Magsaysay Award for Community Leadership, and the Nuano Peace Prize, Japan.

in the right way, while the mother, family, and community engage in supporting that process through ensuring the good health, nutrition, and overall well-being of the mother. A pensioner is not viewed as “retired”, or idle, as he or she is engaged in processes linked to progress in the community.

There are income-poor children in Sri Lanka who are more secure and therefore happier than rich school children in the United States. Developing-country leaders accepted the western standard of development—one wife, two children, a three-room house, and a car—which resulted in our trying to solve other people’s problems, when we should instead be handing over the problems to the people and encouraging them to assess their needs and identify the specific resources or responses required. Development should be in their hands. They should determine the right path, then tell those with the information and technology what is needed.

Talking with and empowering villagers. Despite literacy levels of over 90 percent in Sri Lanka, many planners act like they are the only literate people in the country. National and international planners rarely talk to and listen to villagers. While statistics and quantifiable information are important, the quality in development lies in the people. If large institutions like ADB understand that, they can find ways and means of reaching people. Certainly poverty reports are not going to accomplish that. No one among the poor will read them. Instead, let us ensure that they get the tools and they will carry out their own development.

Anita O. Kelles-Viitanen

The much-appreciated presentations offer the opportunity to review the comprehensive poverty reduction strategies suggested by the presenters. They reveal a growing consensus that poverty is multidimensional and that single-sector efforts or projects cannot address effectively a complex issue like poverty. Calls are being heard for a holistic approach or one that brings together various sectors for more synergistic outcomes. ADB has always highlighted this perspective and is in that light developing a comprehensive poverty reduction strategy, as is the World Bank. Other more modest efforts, attempting to link only a few sectors, are also underway.

Highlights of the presentations. Richard Jolly’s discussion of the HDR, annually issued by the United Nations Development Programme, emphasizes that poverty reduction should not be seen only as a technocratic issue. Indeed, it can become the starting point in a mobilizing process bringing together many groups, including the poor themselves, to improve their life situations. Development indicators allow annual monitoring of progress along those lines, and make possible comparisons of progress across and within nations. Another notable contribution has been the Human Poverty Index, which focuses on deprivation through assessments of longevity, knowledge, and decent living standards. However, as the 1998 HDR points out, quantification of other important dimensions has been more elusive, like the lack of political freedom and personal security, inability to participate freely in the life of a community, and threats to sustainability.

Partha Dasgupta has over the years drawn attention to institutional linkages related to rural poverty. He has emphasized interconnections among poverty and population growth, undernourishment, the degradation of the local environmental resource base, and the erosion of civil society and social capital. Yet, conventional living standard indicators relate to commodity production rather than to the environmental resource base upon which all production ultimately depends. If national product is to function effectively as an index of social well-being, it should include the value of changes in the environmental resource base. He, too, underlines the complexity of poverty, and the need for careful institutional and historical analysis along with policies to address poverty simultaneously.

Christine Wallich emphasizes the role of the private sector in poverty reduction and advocates a more enabling and better governed environment as necessary for ensuring that poor people participate in the private sector. While this is a welcome proposal, it should also be recognized that in some cases, the private sector has been more a part of the problem than the solution. Inequalities created or heightened by privatization, as described by Dr. Dasgupta, or the environmental damage brought about by beef or cattle production in fragile ecological settings are cases in point.

Martodinoto Mubyarto highlights the need for more focused poverty reduction programs. Without public action directed at the poorest and most vulnerable groups, economic growth, even if combined with improvements in human indicators, will not reduce the more obstinate forms of poverty. Better management of poverty reduction programs calls for better targeting, avoiding leaks, responsible governance, and improved links at the macro level, along with a focus on better managing natural resources, stability, growth, equity, and people's participation. Also crucial is economic growth to promote industrial development and employment.

Toward synergy. The call for synergy among the factors underlying sustainable growth is important but not easily addressed because the linkages are not yet clear. A number of ideas are emerging, but they are still tentative and at a formative stage. In tracing connections between economic growth, poverty reduction, and human development, one study points out that policies that focus on human development but ignore growth and income-poverty reduction produce unsustainable human development outcomes in the long run (Kerala and Sri Lanka).⁴ Policies that focus on income-poverty reduction and human development without regard to macroeconomic imbalances or constraints that limit growth (Cuba), run the risk of reversal in situations of external shocks. Policies that focus largely on economic growth with little regard for income-poverty reduction or human development (most of Latin America) are doomed to unequal income distribution or low levels of human capabilities, which dampen economic prospects in the long run.

Another study analyzing the links between sociopolitical institutions and economic growth confirms important associations between economic growth and various social and institutional indicators. The indicators included measures of regime instability, violence, political and civil rights, corruption, inequality, political and ethnic splintering, separatist and discriminatory pressures, family instability, and an array of cultural characteristics. The social indicators most significantly and meaningfully associated with economic growth were those relating to levels of rights, political stability, and efficiency of social institutions.⁵

Conclusion. In the long run, a comprehensive theory on the exact linkages and order of interventions is needed. It would have to consider historical legacies, country-specific economic trajectories, and a variety of institutional and sociocultural contexts. As economic development is guided both by economic and social institutions, and as some institutions block the poor from gaining access to resources and power, any theory of development would have to be sufficiently compelling to mobilize people and NGOs around the attack on poverty.

Another new challenge appears in globalization, a process that in itself appears neutral but is capable of generating positive and negative impact, as in the Asian financial and economic

⁴ Taylor, Lance, Santosh Mehrotra, and Enrique Delamonica. 1997. The Links Between Economic Growth, Poverty Reduction, and Social Development: Theory and Policy. In *Development with a Human Face: Experiences in Social Achievement and Economic Growth*, edited by S. Mehrotra and R. A. Jolly. Oxford: Clarendon Press.

⁵ Fedderke, Johannes, and Robert Klitgaard. 1998. Economic Growth and Social Indicators. *Economic Development and Culture Change* 46(3): 455-489.

crisis. The question is whether the crisis has changed the earlier fundamental dynamics of poverty and whether it calls for a new strategy in addressing poverty. One postcrisis challenge emerging clearly is the need for a poverty prevention strategy related to managing future social risks. Risk analysis will be useful in countries with social and political frailties or ethnic fault lines. Severe hardships can bring serious social consequences, as already seen in the social and political unrest in the region. Risks will need to be shared more equally, with the wealthy assuming their share of the burden.⁶

Equity in the globalization process is also seen in the realization that many people will not be able to integrate themselves into the global information age if present disparities persist. Since about 80 percent of the world's population lack access to the most basic communication technologies, they are now also "information poor." The need to turn the new information and communication technology into a force supportive of poor people's development initiatives becomes more urgent than ever.

⁶ Stiglitz, Joseph. 1998. Responding to Economic Crises: Policy Alternatives for Equitable Recovery and Development. Presentation at the North-South Institute Seminar, Ottawa, Canada, 19 September.

GENERAL DISCUSSION

The main points raised by participants during discussions following the main presentations, and the responses by panelists and discussants, are summarized here.

Development Refugees

“Development refugees” may result from development projects involving resettlement. ADB’s record in this regard and its policies on assisting such persons were queried. ADB’s policy since 1994 is basically to avoid resettlement if possible. If inevitable, the policy requires that compensation must be offered along with the prospect of a better life in the new sites, or at the very least, a life at the same level as in the previous site.

Economics versus Sociocultural Concerns

It is reassuring to note that economists are discussing concepts and findings about people’s behavior and values that have long been recognized by anthropologists, political scientists, sociologists, and NGOs. A broader and more holistic understanding of how and why societies operate is surely needed. At the same time, this new synergy may be cause for alarm. Noneconomic social scientists rightly fear that concepts and data representing dynamic situations of social reality may all too easily turn into the narrow economic categories of market economics at its worst and distort the validity of the sociocultural data. Two examples come to mind: social capital and the nonmarket sector.

Sociologists and anthropologists have traditionally studied the norms, reciprocal ties, and trust built up among community members that stem from and result in mutual benefits and cooperation. They have also analyzed what disrupts these systems or leads to changes in their structures. Economists have now encapsulated these concepts as social capital, a term that sits comfortably with them, but which risks transformation from a dynamic representation of complex social reality to a static economic categorization of reality.

The same goes for nonmarket institutions. If the behavior, values, social structure, and institutions of people living in communities generally outside the market mainstream are incorporated into tightly integrated economic models showing no signs of *people* in the numbers, then there is cause for worry. Dynamic concepts drawn from other disciplines cannot simply be add-ons to economic theory; rather, they need to be reconfigured in a more holistic framework that allows for specific economic and other social science analyses.

Ethnic Minorities

No discussion of poverty can be complete without considering the poorest groups worldwide. Ethnic minorities are a case in point. They are denied access to education, to employment, and to the information they need for their own development. When they do obtain these benefits, it is often at the cost of their own language and traditional cultures.

Globalization

One participant noted that globalization, rather than being neutral, appears to be undermining any real attempt at poverty alleviation. Another pointed out that it can be considered to be neutral if it is defined simply as the opening of markets. Certainly it can have negative consequences, like serious competition between differently endowed countries, or where markets are not really open, or where large numbers of the population remain marginalized. However, a distinction should be made between structures, processes, and impact for sharper analysis.

Importing New Institutions

Meriting some caution is Dr. Wallich's assertion that the entry into developing countries of new institutions brings new standards of efficiency and profitability. The exact opposite may be true. Take the Indian bank scam of 1991-1992, in which Rs60 billion disappeared into thin air. The primary initiators turned out to come from the largest transnational banks. Because an institution originates in an industrial country and operates there according to proper norms does not mean that when it moves to a developing country it will sustain those norms in the face of corrupt local practices. Privatization is a process that needs to be closely monitored, as Wallich also emphasized.

Nonmarket Institutions

Some political scientists and sociologists have implied that when the state and market fail, it is automatically assumed that civil society institutions will move in to fill the vacuum as the new "saviors of humanity." In reality, longstanding social institutions may turn out to benefit only a few groups, trapping the rest in old exclusionary structures. Unless institutions outside the state and market are carefully analyzed in terms of their capacity to optimize society as a whole, reliance on civil society to right the wrongs of state and market may only invite social disorder. Collusion between corrupt politicians and self-serving businesspersons may then get free reign and the poor become more deprived than ever.

Participation

ADB staff are encouraged to visit areas where project activities will take place and get the views of people there about proposed programs. However, this is insufficient, as people often say things to visiting strangers that do not really represent their (the people's) views. The results are nonworkable programs built around inaccurate statements. ADB is very much aware of this problem and is studying new procedures that may be instituted to ensure proper participation of affected people, as partners rather than beneficiaries, in the early stages of project design.

Pro-Poor Growth and Environmental Concerns

Another contradiction appears in pro-poor growth and people as managers of their natural resource base. If fast growth is a priority, how can it be integrated with people-centered initiatives at the community level? In this regard, it was stated that the links between people managing the environmental resource base and poverty were established over a decade ago. In the communal management of local common property resources, there have been many failures as well as notable successes. Communities have allocated benefits and burdens and have managed their systems reasonably well through internal understandings and sanctions for erring members with no involvement of third-party, nonmarket legal institutions.

Recognizing the fragile nature of these nonmarket arrangements, analysts try to ascertain the impact on them of alternative institutions developing outside the community. Roads may attract the better-off people to migrate, thereby unraveling certain implicit agreements that had sustained them in their communities over hundreds of years. Nepal irrigation systems, for example, have existed for about 1,000 years. But even there, the poor are being hurt more and more as their resource base is denuded. It may become very reasonable to tax ourselves on the basis of environmental resource consumption in future, an option that needs serious consideration.

Redistribution of Wealth

Social development through investments in education, health, and nutrition represent gradual encroachments on concentrations of power and wealth. Although they take time before they show results, they offer sustainable ways of reducing poverty. Thus, social development policies are crucial to poverty alleviation.

Religious Globalization

In all the discussions of globalization, there is one form rarely mentioned: religion. To what extent did the spread of religions across the globe contribute to poverty? Religion needs to be studied as a social force in itself and not be disguised under the category of ethnic groups. It was pointed out that globalization is certainly often driven by fundamentalism: an economic fundamentalism that does not admit many doubts. A process of globalization that is more sensitive to human needs must start with different values and take a long view.

Simple Steps to Alleviate Poverty

While comprehensive frameworks and improved coordination among national and international development programs provide an important basis for poverty reduction, this optimal framework need not be in place before taking action as Dr. Ariyaratne has clearly demonstrated. The Grameen Bank in Bangladesh is another example of an institution that has reinforced people's sense of empowerment. Mr. Hernando de Soto of Peru has shown in a number of countries that by turning over land titles to the poor people occupying the land, the new owners quickly transform their assets into multiple benefits and an expanding economy. These are only a few of the measures that do not cost much but that enable huge numbers of people to obtain a new lease on life.

Finally, a panelist commented on an interesting point that came out strongly. How do we listen more to poor people? How do decision makers in ADB or other international organizations find opportunities to meet seriously with poor people? At one time, the United Nations Children's Fund was considering requiring all staff members to spend several days living in a village or a slum. The United Nations Development Programme under Robert Chambers set up a training program in India in which international staff could spend several days in a village, with the villagers being the experts and the internationals the students. We need more such initiatives.

WHAT'S NEXT? EVOLVING ISSUES AND NEW DIRECTIONS

Many thought-provoking ideas and issues emerged during the session with intriguing possibilities for contributing to poverty reduction and even elimination in ADB's developing member countries and beyond. Indeed, some of these possibilities are the result of positive developments since the recent financial crisis began. They remain, therefore, very timely as we enter a new century.

The Asian Crisis, Social Safety Nets, and Pro-Poor Growth

The Asian financial and economic crisis that peaked in 1997-1998 changed the image of East Asia from a robust growth area maintaining steady progress in poverty reduction, to a beleaguered region vulnerable to the onslaught of unrestrained international capital and technology flows. The "transitional poor" emerged as a new category in Asia. Having once been better-off skilled workers in manufacturing and construction, they now plunged below the poverty line in the face of severe economic shocks. Indeed, entire countries, notably the Central Asian Republics, became "transitional economies" experiencing for the first time the widespread and grinding poverty that seemed to accompany global integration.

Although the transitional poor are gradually working their way back into the mainstream economy from their temporary informal haven, the chronically poor are requiring much more time to recover. Bearing the brunt of the continuing "silent crisis" are poor youth taken out of school, unvaccinated children, the elderly unable to obtain health care services, and poor men and women desperately seeking supplementary income or loans for sheer survival. Masses of affected poor people have worked out their own ways of coping with multiple setbacks, relying on extended family systems, traditional community support mechanisms, and alliance networks.

While these informal institutions offered them some protection, the experience was not without serious, longer-term consequences for many poor families. Some of their coping responses, like working longer hours, substituting cheaper foods for more expensive ones, and delaying purchases of consumer durables, appear relatively harmless and pose little risk to future welfare. Other actions, however, presage grave consequences by passing on the negative impact of today's crisis to future generations. They include borrowing to maintain current consumption, selling productive assets, delaying needed medical care, and withdrawing children from school. Studies show that with more limited options open to the poor, substantially more damage is done to them by economic crises than is the case for affected middle- and upper-income families. Government social safety nets should, therefore, target those least able to cope with the adverse effects of a crisis, rather than those most affected.⁷

Hastily developed government social safety nets proved inadequate to help crisis victims overcome their severe hardships.⁸ Poorly targeted and managed, these formal attempts at social protection were at times further undermined by political favoritism in the choice of beneficiaries. In the wake of credibility problems, some programs collapsed or had to be withdrawn. If this chaotic situation is a harbinger of globalization scenarios, it is time that policymakers pay attention

⁷ Knowles, James C., Ernesto M. Pernia, and Mary Racelis. 1999. Social Consequences of the Financial Crisis in Asia: The Deeper Crisis. Economics and Development Resource Center Briefing Notes, No. 16. Manila: Asian Development Bank.

⁸ *Ibid.*

to people's patterns of behavior and their ideological underpinnings, favoring a just and equitable society. In so doing, government leaders will come closer to devising culturally acceptable policies that can cushion the poor from external shocks and generate sustainable initiatives. This imperative renders pro-poor growth and institutional reform even more urgent if countries are to move from advocacy to action.

New Ways of Understanding Poverty and Poverty Reduction

The concept of poverty itself has acquired a broader meaning than previously, with income no longer its sole defining feature. Rather, social exclusion, powerlessness, and deprivation now share the multifaceted definition of poverty. Distinguishing between groups just below the poverty line and those in abject or absolute poverty also reveals the need for new and more targeted programs and monitoring schemes. Vulnerable groups making up large portions of the poor merit particular attention, among them, women, children, older and disabled persons, and ethnic and religious minorities. Getting to the core of why and in what ways certain categories of society are socially excluded from asset acquisition, services, information, and decision making allows the identification of strategic approaches toward inclusion. These approaches should recognize and benefit from the resiliency of the poor, who must cope every day with serious impediments to their happiness.

Should societies aim for poverty reduction or attempt outright poverty elimination? While, realistically, countries should prioritize poverty reduction in the short and medium term, this strategy must deliberately and systematically integrate poverty eradication schemes into a long-term trajectory. But this can happen only with a political commitment to installing pro-poor policies and programs, and the encouragement of organized people's participation in governance. Likewise needed are goal setting, targeting, low-cost approaches, people-managed solutions, and close monitoring of outcomes. Dramatic reductions in infant and child mortality in some of the poorest countries over the past two decades demonstrate that poverty eradication is a realistic goal. The human development paradigm offers a framework for assessment and comparison to ascertain whether a particular society has indeed succeeded in "enlarging people's chances to live long, healthy and creative lives." Nonetheless, some voices advise caution in utilizing human development measures, owing to the difficulty of sustaining basic data collection for cross-national or intra-country comparisons.

People's Empowerment and Participatory Governance

People's participation in governance has proven that organized communities can discard the sense of powerlessness and dependency that excludes them from community and national decision making. By mobilizing around issues of concern to them, they learn to negotiate access to assets like land or income, and to basic services like education, health, housing, water, and sanitation. The struggle to make their voices heard and the resulting triumphs imbue them with the confidence to tackle increasingly complex challenges.

People who have lived together for decades in closely-knit communities may not support the competitive framework promoted by many development specialists. Indeed, they often resist strategies that appear to create extremes of poverty and wealth, preferring to share benefits in a less disparate distribution pattern. In such situations, planners would do well to avoid the standard income-poverty index, and instead assess overall well-being through a happiness index. While income-poverty indicators would certainly figure in this assessment, they would not necessarily command center stage in communities favoring a nonaffluent, no-poverty society. National

planners instituting pro-poor growth policies need to come to terms with this nonmarket trade-off mode.

In order to adopt the participatory governance that accompanies community empowerment, political figures must learn to listen to and interact with their poorer constituents on their own grassroots turf. Here, residents feel comfortable and confident. It is also here that government officials get a better sense of the strengths inherent in people, even as the officials begin to comprehend the levels of deprivation that disadvantaged groups face. Women, in particular, require greater attention. Although they carry out many production, reproduction, and community-integration roles, too often they are excluded from decision making.

The commitment of bureaucracy officials to participatory governance is built up through open communication, transparent and efficient management, and joint problem-solving activities undertaken with community residents and their support NGOs. As both parties periodically review progress, the results build up strong bonds of trust and specific recipes for action. This accountability to people rather than to projects will move governments away from the practice of measuring their performance by the number of project loans they obtain from foreign donor agencies. Support in dealing with community groups can often be obtained from NGOs engaged in grassroots organizing and development or, more broadly, in advocacy and education programs. At the same time, NGOs and other civil society organizations need to keep re-examining their own structures, programs, and mandates to ensure that their activities remain relevant to the changing needs of their poor rural or urban partners. Failing to do periodic self-examinations may render them too weak to contain, dispute, or monitor government corruption and inefficiency.

Nonmarket Institutions: Social Structure and Social Relations

Achieving pro-poor growth calls at the very minimum for serious attention to institutional and policy constraints that hamper poor people's efforts at overcoming poverty. Nonmarket institutions that generate and maintain implicit contractual agreements, including social networks, gender roles, cultural values, and norms, play central roles in a working and viable society. However, when severely disrupted by sudden and massive changes stemming from unrestrained global financial flows, warfare, extended drought, political instability, or external threats, these social contracts can unravel and bring disaster to already disadvantaged families. For those who falter or actually lose out in the accelerating pace and scale of change, targeted programs can help, provided they include the affected poor stakeholders as partners.

Economists admit that crucial though the sociocultural relations of nonmarket transactions are for understanding how economies and societies work, they know little about them. Just as economists have only recently become comfortable with building the workings of the state into their analyses, so too are they now struggling to come to terms with sociocultural data and concepts that have traditionally been the domain of anthropologists, sociologists, and social psychologists.

This cautious convergence masks strong basic disagreements, however. Economists may view the operation of certain culturally valued social institutions as malfunctioning, while their behavioral counterparts tend to resist such judgmental approaches. Thus, even though sociologists and anthropologists may welcome the new interest taken by their economist colleagues in sociocultural phenomena, the former nonetheless regard with apprehension the transformation of their dynamic behavioral concepts and analyses into what to them look like sterile frameworks and static categories making up the equilibrium and efficiency models of formal economics.

A Pro-Poor Private Sector: Popular Capitalism?

The private sector likewise has an important role to play in defining a pro-poor orientation, or as Wallich puts it “a capitalist system that works for the poor.” In this formulation, government’s task would be to facilitate increased production among disadvantaged groups, thereby affording them a firm stake in the market economy. While employment creation remains the business community’s domain, small and medium enterprises offer additional opportunities for minicapitalists to become stakeholders in the formal sector. Into this category of current and future promise fall the entrepreneurial poor, operating at low levels of capital, skills, and technology.

By reforming financial institutions to attract venture capital for microequity loan schemes and to enhance managerial capacity among poor groups, the private sector is reinforcing and building on the vibrant “people’s economy” for wider dissemination. Moreover, ensuring the inclusion of poor groups in benefit packages ranging from pension and training schemes to housing and health insurance, affirms the concept that people embody the human resource dimension of society. For the neediest and most vulnerable groups in absolute poverty, who also have rights, alternative strategies combining welfare, organizing, and educational approaches give promise of boosting them up the income-and-well-being ladder to bring them abreast of their upwardly-bound entrepreneurial counterparts.

The private sector’s pro-poor prescriptions potentially go well beyond direct assistance to protecting the public interest. This is done by ensuring that legal institutions and regulating structures and frameworks in the free market protect rather than further marginalize poor groups. Another important approach involves reducing or eliminating corruption through, for example, transparent public procurement and effective tax administration, and zero tolerance for wrongdoing in multinational or domestic corporations. Other ways of pro-poor planning include influencing government priorities in the direction of larger funding allocations to social services over infrastructure, and skilled labor over capital-intensive public works. While reformed privatization and market mechanisms show good potential for reducing poverty, observers nonetheless caution that positive results emanating from industrial societies may not be easily transferred with the same results to developing countries possessing differing institutional, historical, and sociocultural attributes.

New Directions for the Asian Development Bank

As ADB moves toward the goals of poverty reduction and eradication in Asia, its comparative advantage becomes clear. Key lending and technical assistance functions place it in an especially pivotal position to influence the kinds of policy development and program implementation conducive to pro-poor growth. The first imperative is a workable definition of pro-poor growth that offers a clear set of guidelines for societies committed to achieving it.

The insights of noneconomic social scientists, NGOs, networks of organized poor communities, and cooperatives into the workings of nonmarket, or sociocultural institutions, values, and norms, can contribute greatly to portraying the world through the eyes of the major stakeholders, namely, the chronically poor and the entrepreneurial poor. Listening to their views on the kinds of constraints that keep even minimally acceptable levels of well-being beyond their reach represents a promising starting point. Further, by understanding the workings of overarching informal institutions, one is better placed to realign formal state institutions to respond more appropriately and construct a better fit. Meeting the complex challenge of integrating formal and informal institutions to reinforce their respective strengths and eliminate their respective weaknesses is

long overdue. Such an attempt will necessarily have to build in wide-ranging options true to the heterogeneous character of communities and community institutions. Participation by people in this process is crucial.

Working from the bottom up, we can start by identifying the poor and understanding their lives, then examine nonmarket or sociocultural institutions and how they sustain or overcome poverty. Next comes the move up to formal government, business, and other civil society institutions in that same light, concluding with a corresponding examination of national and global policy constraints to poverty eradication, and resulting policy options. In this way, ADB can take the lessons learned as to “what’s new and what’s different” and connect them meaningfully to efforts underway in the countries themselves. In taking these initiatives, ADB itself can make a genuine difference in the lives of poor people in the 21st century.