Agents into Principals

Democratizing Development in South Asia†

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Abstract and Keywords
This chapter seeks to provide substance to Amartya Sen's lifelong struggle to end poverty across South Asia by seeking to enhancing individual freedoms. It argues that to end poverty and enhance freedoms we need to correct the structural injustices which constrain freedom and thereby create poverty. The chapter points out that the intergovernmental as well as the national poverty alleviation strategies of the South Asia countries have not given serious attention to the structural dimensions of poverty. Addressing the issue of injustice demands a qualitative change in the design of poverty alleviation strategies which should move beyond the prevailing programs for promoting income gain for the poor and enhancing their agency role. The challenge before South Asia's policymakers is to elevate the deprived and marginalized into the role of principals where they may aspire to own corporate assets, become major players in national and global markets, and eventually emerge as
political masters in the institutions of governance in each country of the region.

Keywords: poverty, structural, injustice, agency, agent, principal, society, development, distribution, growth
I. Introduction: Scope of the Chapter

This chapter attempts to integrate two abiding concerns which have characterized Amartya Sen's work—his commitment to ending poverty and hunger and his belief in the need to build an equitable and just society (Sen 1981; Sen and Drèze 1989; Sen 1999). Since much of the empirical content of Sen's work has been inspired by his ongoing love affair with the people of South Asia, the discussion is contextualized within the specific experience of this region.

The argument underlying this chapter is that the persistence of poverty across South Asia is due to the incapacity of its policy-makers to address the structural sources of the problem. Poverty originates in unequal command over both economic and political resources within society and the unjust nature of a social order (p.543) which has created and perpetuates these inequities. We may term these inequities “structural injustice” (Sobhan 2006). Such injustice remains pervasive across the countries of South Asia. The poverty reduction strategies of South Asia have largely failed to address these injustices, so that the region is not only home to the largest number of poor people across the world but its society remains deeply divided, mired in deprivation and riven with tension (Sobhan and Akash 2006). This injustice has compromised the working of its political institutions, so that the crisis of poverty is compounded by the malfunctioning of its democracies.

The prevailing institutional approach to poverty reduction has focused on strengthening the agency role of the poor. South Asia is something of a world leader in non-governmental organizations (NGOs) such as the Grameen Bank (which is actually a commercial bank), BRAC, SEWA and many other such globally recognized institutions which have strengthened the agency capacities of the poor. Government interventions have also supported such initiatives directly or indirectly (see Narayan and Glinskaya 2007). This chapter argues that the poverty reduction strategies across South Asia now need to move beyond strengthening the agency role of the poor through designing policies and building institutions which serve to promote the poor from agents into principals in the development process, through broadening opportunities for asset ownership and enhancing their scope for sharing in the
value-addition process (Sobhan 2006). I draw upon the experience of five countries of South Asia: Bangladesh, India, Nepal, Pakistan and Sri Lanka. The remainder of this chapter will be structured around three main topics:

1. South Asia's approach to poverty alleviation
2. The South Asian Poverty Reduction Strategy Papers (PRSPs)
3. Democratizing South Asia's development

II. South Asia's Approach to Poverty Alleviation
II.1 Development Outcomes and Shared Structural Features of the South Asian Countries

There have been some indications of poverty reduction across South Asia in the last two decades but progress is modest and levels of poverty in all countries except Sri Lanka remain unacceptably high (SAARC 2004). The social indicators for the region, as reflected in the trends in the human development indicators (HDIs) as prepared by the United Nations Development Programme (UNDP) in their Human Development Reports (HDRs), are also poor but indicate quite significant reductions in almost all of the countries (Sri Lanka is an exception but its HDI rank was already quite high compared to its neighbors) (HDR 2005). Some explanation for this apparent paradox is provided by the qualitative content of the social outcomes and indicators of each country as well as their socio-economic policy regimes. In this context it will be instructive to draw upon HDR South Asia 2003, which notes the following commonalities in the development experiences of the South Asian countries:

- Mixed GDP growth rates across the region, with some acceleration in the last ten years except in Nepal (see Sobhan and Akash 2006).
- Increasing inequalities of income in all the economies of the region.
- A deceleration in employment generation.
- Modest reduction in poverty, as defined by the headcount ratio of poverty.
- A relative decline in manufacturing growth rates, especially in the small-scale sector.
- Quality, as well as terms and conditions, of employment has, in general, deteriorated in all South Asian countries.
• All these countries have converged more or less on a common set of policies within the framework of the so-called Structural Adjustment Reforms (SAR) sponsored by the Bretton Woods institutions (BWIs).

These commonalities in South Asia's development experience originated in certain shared structural features of their economy, polity and society, which may be summarized as follows:

• Highly unequal distribution of physical, financial and human assets.
• Political instability originating from various forms of ethnic or communal conflicts as well as regional and interpersonal inequalities in income.
• A high degree of dualism between the organized and unorganized sector.
• The continuing importance of the agricultural sector as a major source of employment.
• The early emergence of a large service sector as one of the largest employers, often acting as the last refuge of the unemployed poor.
• A major segment of the assetless poor engaged in self-employment based on low-productivity micro-activities.

The above evidence on trends in growth and poverty across South Asia indicates that growth remains a necessary but hardly sufficient element in the reduction of poverty. We therefore need to know much more about the sources and quality of this growth to track the causality which links growth to poverty reduction. It may therefore be more useful at this stage to diagnose the development strategies of the respective governments of South Asia and the specific emphasis they have given to poverty reduction. It should be kept in mind that the goal of poverty reduction has been a central concern of South Asia's governments since independence. However, (p. 545) political and policy commitments to remove poverty have not proved particularly fruitful, so poverty has persisted and, in some countries of the region, has been aggravated (Sobhan and Akash 2006). We will initially look at the response to poverty taken by the South Asian governments acting collectively. We will then review the most recent national
strategies reflected in the respective PRSPs of Bangladesh, Nepal, Pakistan, Sri Lanka and the Tenth Five-Year Plan of India.

II.2 The SAARC Agenda for Poverty Alleviation

The First SAARC Initiative on Poverty

The first attempt to address the issue of poverty within the framework of a regional governmental body, the South Asian Association for Regional Cooperation (SAARC), was initiated during the SAARC summit in Colombo in 1991. On the basis of the Colombo Summit decision, the Independent South Asian Commission for Poverty Alleviation (ISACPA) was formed in November 1992, with the following terms of reference (SAARC 1993):

- To diagnose what had gone wrong with past attempts at poverty alleviation.
- To learn positive lessons from the grassroots, where the poor have been mobilized to contribute to economic growth and human development.
- To identify the critical elements in a coherent overall strategy of poverty alleviation in South Asia.

The main findings of the first report of ISACPA, produced in 1993, identified quite a few structural constraints inhibiting the eradication of poverty in this region. The report started with the recognition that South Asia is caught in the trap of low economic growth and poverty perpetuation. It then identified certain forces that perpetuate poverty:

- Population growth.
- In all South Asian countries there are remote undeveloped areas where cost-effective poverty alleviation programs are difficult to implement.
- The growing foreign debt burden for the whole region.
- The emerging global economic environment, as the globalization process is opening up opportunities only for the few while posing a threat for many.
- The reluctance of the developed countries to open up their markets. (ISACPA 1993)
In light of the above diagnosis of poverty the Commission suggested that agricultural development and food security must be maintained because of their relatively greater direct positive impact on the lives of the low-income groups. The report also pointed out that the government's involvement in the development process was excessive and should be replaced by the participation of the poor in the development process. This recognition of the importance of strengthening the agency role of the poor reflected the strong presence on the Commission of members from organizations engaged in working with the poor at the grassroots. The report recommended that the poor should be mobilized and empowered socially, economically, culturally and politically. A strategy of forming community-based organizations (CBOs) and mobilizing the poor was also launched in various SAARC countries on a pilot basis. But the program, inspired by the ISACPA report, did not originate from any national government or from the SAARC secretariat but was sponsored and coordinated by the UNDP through its regional office in Kathmandu through a cross-country pilot project known as the South Asian Programme for the Alleviation of Poverty (SAPAP). Such an externally sponsored effort at reducing poverty proved unsustainable in most of the SAARC countries and was eventually discontinued by the UNDP (Sobhan 2002). Some features of SAPAP, however, were incorporated in programs sponsored by the government in Andhra state in India (Aiyar et al. 2007) and in Pakistan through the National Rural Support Project (Rasmussen et al. 2007).

The ISACPA report was adopted at the SAARC summit in Dhaka in 1993, which made a commitment to eliminate poverty across South Asia by 2002. However, following the Dhaka summit, no government made a concerted effort to give substance to the ISACPA report, let alone honor their summit commitment to end poverty (Sobhan and Akash 2006).

During this period, whilst poverty persisted across South Asia, its prevalence across much of the developing world was also emerging as a global concern. More than a decade of structural adjustment reforms (SAR), largely sponsored by the Bretton Woods Institutions, the World Bank and the International Monetary Fund (IMF), had done little to sustain growth or reduce poverty except in the regions of East Asia (Lipumbo 2001). The new development discourse, inspired by the policy failures and the limited impact of development aid
over the past two decades, inspired the Millennium Summit of 2000 at the United Nations. The Summit moved on to proclaim the Millennium Development Goals (MDG), which seek to halve extreme poverty across the world by 2015 and also to attain a number of other related social goals (HDR 2005).

**Poverty Alleviation Revisited**

In view of the changed global perspective on poverty and in view of South Asia’s own melancholy progress in reducing poverty, the South Asian heads of states, meeting at the Kathmandu SAARC Summit of 2002, reconstituted the ISACPA and entrusted a new commission with the task of preparing a report outlining a fresh poverty reduction strategy (PRS) for South Asia more attuned to the external realities of the new millennium.

(p.547) Naturally the following question arose: what specific changes have occurred in South Asia and the world during the 1990s that have made a new strategy necessary? Some of the major changes during the decade of the 1990s, along with a set of new recommendations, were summarized in the 2003 ISACPA report (SAARC 2004). These changes include:

- **Trade liberalization:** South Asia’s average tariff level declined from 65% in the late 1980s to about 30% at the end of the 1990s, and had been further reduced in the last seven years. However, in spite of the extensive reduction in the tariff rate the share of exports from South Asia in global exports had barely increased, from 0.6% in the late 1980s to around 1% at the end of 2005. Most of this incremental rise in exports was contributed by labor-intensive manufactures, which at least brought about some positive diversification in the traditional structure of South Asian exports to other countries.
- **Direct foreign investment (DFI) in South Asia** had risen significantly during the last two decades. However, its distribution was highly skewed in favor of India, with relatively little going to the smaller countries of the region.
- **Remittances from migrant workers** had increased exponentially. This had enhanced foreign exchange
earnings and personal income in many countries of South Asia.

- New technological breakthroughs, especially in the ICT sector. Again, these gains were mostly concentrated in India, which had emerged as a globally competitive exporter of IT services.

According to the 2003 ISACPA report, these positive opportunities for an outward-looking South Asia created prospects for exploiting the ongoing globalization process for the development of the whole region. At the same time, the BWIs and other development institutions had also begun to change their approach towards poverty. The international agencies had gradually begun to move towards giving priority to poverty reduction rather than growth as the focus of their development assistance. The BWIs now made it mandatory for all recipients of development assistance to prepare Poverty Reduction Strategy Papers (PRSPs), which had both to reaffirm the country’s prioritization of poverty reduction in their development agenda and to demonstrate strong domestic ownership over their planning process.

The 2003 ISACPA report ultimately suggested three strategic priorities:

1. Mobilizing the power of the poor
2. Prudent macroeconomics
3. Mainstreaming the informal sector

The various policies and programs within these three strategic areas involved the following partial departures from the strategy proposed in the 1993 ISACPA report: (p.548)

- The new approach recognized that the fruits of globalization are unequally shared between the rich and the poor, but saw some prospects of the poor capturing a greater share of the benefits given an increase in the efficiency and productivity of the backward regions and the countries as a whole.
- The new approach especially emphasized rural development so that the benefits of globalization would not remain concentrated in the urban areas.
• The new report emphasized regional cooperation in the field of trade and investment, and urged the South Asian countries to work together to reduce tariffs for better market access to the developed countries, along with seeking increased aid and further debt relief.
• The new report called for prudent macroeconomic policies to ensure higher growth as well as stability. This actually involved a set of policies more in line with the earlier generation of structural adjustment reforms of the Bretton Woods institutions, put in place across South Asia in the 1980s and '90s.
• The report proposes reforms to improve the investment climate.
• The report recognizes that liberalization and deregulation may have various negative consequences for the poor but, according to the new strategy, liberalization is to be accepted. What is required is not trying to stop or reverse liberalization but establishing some safety nets and social protection measures to compensate the short-term losers.
• The report calls for greater investment to ensure more effective education and improvements in socio-economic indicators. Such measures for social improvement and the accompanying safety net measures would be sufficient to ensure higher participation of the poor in the growth process.
• Particular policies were also put forward for supporting informal-sector workers through development of their skills and literacy, ensuring a minimum level of wages and health and safety measures, along with provision for maternity benefits, child care, insurance against old age, illness, etc.
• Various macro-policies were suggested, such as preferential tax and tariffs to support the informal sector; technology and market support, and new laws to facilitate entry into the formal sector.
• To empower people at the grassroots level, the report proposes measures for improving local democracy by delegating real power to local bodies, holding regular free and fair elections at the local
level, and eliminating the under-representation of the underclasses in these local bodies.

How far the recommendations of the latest ISACPA report will be operationalized remains to be seen. Three of the five governments which approved the report—Bangladesh, Nepal and Pakistan—are either no longer in office or are mired in political turmoil. In all such moments of political transition SAARC, and particularly its secretariat, tend to lose momentum and less pressing initiatives are put on hold.

(p.549) III. PRSPs in South Asia
III.1 PRSP Exercises in South Asia

In any case, SAARC as a regional organization can do little to tackle poverty, which remains an exclusively national project. The 2003 ISACPA report was thus intended as a challenge to the respective SAARC governments to demonstrate their commitment to reducing poverty. It also offered suggestions as to how they might share some of their experiences. Both of the ISACPA reports drew upon the national agendas for poverty alleviation in the respective member countries of SAARC. The 2003 ISACPA report was obviously influenced by the PRSPs which were being prepared in various member countries. In the more recent five-year plans of some of these countries, explicit goals and programs for reducing poverty have been incorporated.

The BWI-initiated PRSP process was, at best, a continuum of various ongoing programs of poverty alleviation inherited from the successive five-year plans of the SAARC countries (Helleiner 2000). The point of departure of the PRSP process in South Asia was therefore its explicit focus on poverty reduction and donor influence in the design of the PRSPs. Five out of the seven countries of South Asia have already published their PRSPs: Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka. India declined to participate in the PRSP exercise, arguing that its Tenth Five-Year Plan (TFYP) document (2002-7) provided a sufficiently comprehensive national strategy for poverty reduction.

III.2 A Comparative Analysis of the South Asian PRSPs

The PRSP Process

If we look carefully into the procedures for formulating PRSPs in four of the South Asian countries we can identify some common features (Sobhan and Akash 2006):
• In all four of these cases the national government undertook the PRSP exercise at the behest of the donor agencies. This experience was common to the PRSP process in most countries in other regions (Lipumbo 2001; Blett and Plant 2002).
• In all these cases the process was initiated from the top under the general guidance of the finance ministry, where bureaucrats and technical experts played a very significant role in preparing the PRSP.
• The donor’s inputs were exceedingly crucial in finalizing the PRSP. In all cases the PRSP had been submitted to the donors for their critical approval before it (p.550) was given its final shape. This too was common to the PRSP process across the world (Ames and Klugman 2002).
• Contrary to the original mandate laid out by the BWIs (IMF 2001; World Bank 2000) the degree of political commitment and domestic ownership of the PRSP document naturally remains quite low, due to its external inspiration. The PRSP process also suffered from inadequate nationwide participation by the grassroots. To be sure, some civil society organizations (CSOs), community-based organizations (CBOs) and groups of poor people were selected, but numbers were limited. Nor were the participants given any opportunity to share in the decision-making process for finalizing the PRSP. As a result, it was far from clear how much of the grassroots inputs were actually incorporated in the PRSP. The final document thus remained beyond the control of the grassroots contributors and its content largely depended on the preferences and interests of those who selected these participants for the dialog.
• Nowhere in South Asia was there a transparent and serious discussion in the parliament about the premises and the outcome of the PRSP exercise. Nor was it approved (as was the tradition with five-year plans) in the elected parliaments of any country of South Asia.
• In Nepal, Pakistan and Sri Lanka there was a more or less explicit attempt to integrate the PRSP process with the old or ongoing practice of five-year
development plans. In Bangladesh the PRSP replaced the five-year plan.
• In all these PRSP exercises hypothetical three-year rolling budgets were prepared, though the future financing of these budgets remains uncertain and tentative.

A Shared Approach to Macroeconomic Reforms
Prior to their PRSP exercise, almost all of the South Asian countries had long been following the BWI-sponsored reform agendas known as Structural Adjustment Reforms (SARs). The PRSPs of the four South Asian countries did not actually constitute any decisive break with their ongoing reform processes (Sobhan and Akash 2006). The three PRSP documents of Nepal, Pakistan and Sri Lanka had explicitly recognized their external policy inheritance. Although the Bangladesh document did not categorically recognize this truth it actually incorporates the old, unfinished or remaining reform agendas of the BWIs in the PRSP whilst the government persists with ongoing SARs outside the PRSP. Though India did not undertake a separate PRSP exercise it is also following a SAR-oriented reform agenda. However, successive regimes in India persist in emphasizing the homegrown nature of their reform process and can afford to do so because of the inner strength of their national economy.

By the turn of the millennium most of the economies of South Asia had either initiated or completed the following macroeconomic reforms in their economies: (p.551)

• Substantial reduction of state control in terms of price controls and regulation of economic activities.
• Reduction of tax rates in general, with a special emphasis on import duties.
• In order to reduce the fiscal deficit the general policy was to cut public expenditure, especially subsidies to farmers and state-owned enterprises.
• Increasing the domestic prices of utilities, oil/gas, and user fees for various social/public services.
• Liberalization of foreign trade, allowing entry of imported goods/services and capital into the domestic market without any restrictions.
• Financial liberalization and the freeing up of interest rates, as well as reduction of subsidized targeted credits.
• Movement toward market-determined exchange rates.
• Liberalization of the capital account, e.g. easing rules for FDI and access to foreign commercial borrowing by domestic firms.

All the above elements of the SAR process were incorporated into the PRSPs of the four countries as the core macroeconomic basis of their PRSP process. Since most of the above reforms are only tangentially related to the reduction of poverty, the SAR ancestry of the PRSPs is all the more evident.

From PRSP to MDG

All four South Asian PRSPs have also more or less aligned their poverty reduction targets with the Millennium Development Goals, which are to be achieved by 2015. These commonly accepted MDGs, which are also applicable to all the South Asian PRSPs, are as follows:

• Eradication of extreme poverty and hunger: reducing by half the population in poverty by 2015.
• Achieving universal primary education.
• Promoting gender equality: eliminating gender disparity in primary and secondary education.
• Reducing child mortality: reducing under-5 mortality by two-thirds.
• Improving maternal health: reducing maternal mortality by three quarters.
• Combating HIV/AIDS, malaria and other diseases.
• Ensuring environmental sustainability: reducing by half the proportion of people without access to safe water.
• Constructing a worldwide partnership of development.

A detailed discussion on the status of MDGs in the different countries of South Asia is available in the 2003ISACPA report, Road Map Towards a Poverty Free South Asia. Its main conclusion is that, except for Sri Lanka, none of the countries of South Asia would be able to achieve the MDGs by 2015 if the current pace of poverty reduction continued and the
PRSPs remained confined to “business as usual”. It has been \( (p.552) \) further calculated that given current trends, the MDG target date for South Asia will have to be reset at 2025.

**High Growth Rate**

All four South Asian PRSPs aspire to accelerate present growth rates. These different growth targets are then used to project corresponding macroeconomic scenarios for the country, depicting the behavior of broad macro-variables such as rates of investment, savings, government expenditure, foreign aid, inflation rates, employment, etc. No attempt has been made in any of the four countries to link these macroeconomic variables causally to poverty reduction or income-distribution outcomes. Nor is there any attempt to spell out the poverty-reducing impact of specific programs and policies incorporated in the PRSPs or the growth process itself.

**Human Resource Development**

All of the PRSPs aim to invest in enhancing the human resource base of their countries. In Bangladesh the main mechanism for investing in human resource development is to increase budgetary expenditure in the health and education sector. The two issues of the quality of the health service and education and the shortage of funds for these public services are recognized explicitly in the Bangladesh PRSP (Government of Bangladesh 2005). However, no attention is paid to the economic significance and socio-political implications of the widening disparity in quality of education between the deprived majority and a privately educated elite (Sobhan and Akash 2006). Poor management of public education and health is recognized as an important feature of the public institutions in the human development sector. However, the PRSP does not go beyond supporting the involvement of NGOs and CBOs to ensure better accountability of teachers and doctors and thereby better quality of public services. It is also suggested that current public spending in the education sector be increased from the present level of 2.2% of GDP to 4.4%.

In Nepal elaborate plans were presented for both the health and education sector, with a much greater emphasis on increasing adult literacy to 63% with the help of CBOs and NGOs (Government of Nepal 2003). However, Nepal too does
not take into account the issue of growing social disparity in their own human development.

In Pakistan the main goal in the education sector is to ensure the implementation of the ongoing Education Sector Reforms Action Plan (2001–5), which is embedded in the national PRSP (Government of Pakistan 2003). This required an increase in public spending on education from 1.8% of GDP in 2001/2 to 2.5% by 2007/8. In the health sector the main aim is to fight certain diseases such as TB, malaria, Hepatitis B, polio, HIV and AIDS. A program to immunize children against six communicable diseases and a new community-based maternal and child health (p.553) program is also to be implemented. Here again, the PRSP is largely silent on the chasm which divides a small, privately educated elite and a large majority served by public services or religious institutions, particularly in the area of education. In Pakistan, this gap is perhaps the most extreme in South Asia and is now contributing to the politically explosive alienation of a poorly educated, impoverished underclass.

For Sri Lanka the main goal for human resource development under the PRSP is to reduce regional and class disparity through enhancing the quality of both education and health services uniformly across the country and across classes (Government of Sri Lanka 2002). Sri Lanka's PRSP has also set the relatively more ambitious target of attaining universal secondary school enrollment by 2010. In the health sector Sri Lanka also aims to ensure better services by introducing more modern and superior technology as well as automation into its public health centers.

**Safety Net Provisions**

All four South Asian PRSPs have their own safety net programs (Sobhan and Akash 2006):

- Bangladesh has a four-fold approach to its safety net program, aimed especially at those sections of the population who face poverty due to shocks emanating from natural disasters, sudden changes in market prices, changes in government policy, retrenchment policy, etc.
- In Nepal the safety net programs consist of a large number of target-group- oriented...
expenditure/transfers by the government. The delivery mechanism, however, is dependent on NGOs, CBOs and local government.

- In Pakistan a micro-finance bank has been established to serve the very poor. Other social safety nets currently available to the vulnerable groups in Pakistan include a variety of welfare programs targeted to the poor.
- In Sri Lanka the main issue is to reform Samurdi, the largest welfare program in Sri Lanka, to ensure better targeting, fewer leaks and increased efficiency.

**Good Governance**

All four PRSPs recognize, at least in words, the necessity of good governance as well as increasing agency through the voice and participation of the poor in the overall process of poverty alleviation (Sobhan and Akash 2006).

- In this regard the position of the Bangladeshi PRSP is quite explicit. It suggests the promotion of good governance through improving implementation capacity, promoting local governance, tackling corruption, enhancing access to justice for the poor, and improving the service delivery mechanism.

  *(p.554)*

- The Nepalese PRSP proposes increased decentralization, civil service reforms, improved financial management and accountability, and various anti-corruption measures for ensuring good governance. Nothing much is said about increasing social mobilization or participation, or the voice of the poorer classes of society.
- Improving governance and devolution is one of the four pillars of the Pakistani PRSP. The elements of this pillar are: devolution, fiscal decentralization, access to justice, police reforms, civil service reforms, pay and pension reform, capacity-building, an anti-corruption strategy, procurement reform, freedom of information, fiscal and financial transparency, and the improvement of statistics. As regards the agency role of the poor, the PRSP
confines itself to suggesting the enabling of the community participation of the poor through the legal framework in the village and neighborhood councils and Citizens Community Boards (CCBs).
Structural Issues in the PRSPs

None of the five South Asian countries have addressed the structural dimensions of poverty in their PRSPs or in their recent five-year plans (FYPs) (Sobhan and Akash 2006). All the plans acknowledge the inequitable nature of their respective societies but attempt to deal with the problem through emphasizing the need to enhance the agency role of the less privileged sections of society. The issue of broadening asset ownership has been addressed largely through programs for distribution of public lands, where available, to the landless, improved land-titling as well as reforms, and modernization of the land administration system.

In spite of the inequitable distribution of land and the exploitative nature of tenancy arrangements, no country has introduced provisions for land redistribution or tenancy reforms. In Bangladesh, India and Nepal, lands, bodies of water and forests under the control of the state have traditionally been earmarked for distribution to the resourceless, landless and poor fisherfolk or forest dwellers, some of whom have traditionally enjoyed usufructory rights over particular natural resources. However, much of the public land, water or other natural resources have been illegally appropriated by local elites with access to political patronage (Barkat 2001; Saha 2007). Attempts by the state to recapture these public resources have been frustrated by the same elites.

Asset ownership by the poor has been encouraged in the PRSPs through programs which build upon ongoing initiatives to promote micro-credit. Most of these micro-credit initiatives have originated in actions outside the government through organizations such as the Grameen Bank or the plethora of micro-finance institutions (MFIs) around the region (Zaman 2007). The PRSPs/plans have sought to extend the coverage of micro-credit through public interventions promoting the development of wholesale credit institutions such as the PKSF in Bangladesh or (p.555) the Pakistan Poverty Alleviation Fund (PPAF). Such programs have been initially funded by the World Bank or the Asian Development Bank (ADB). In India, national and state-level programs have been designated to direct micro-credit to particular segments of the rural poor either through NGOs or CBOs (Aiyar et al. 2007). Attempts to expand the scope of micro-credit to lending for bigger investments, including small business enterprises with a
capacity to employ labor as well as to expand agricultural credit to small farmers, have also been emphasized in the PRSPs and the FYPs. Other financial products for the poor, such as insurance against personal loss or crop loss, as well as housing credit for slum dwellers and assetless rural citizens, have also been promoted.

All these initiatives to expand the financial capabilities of the poor have served to enhance their asset base marginally and widen their business opportunities through micro-enterprise. But the level and direction of such lending have never been sufficient, or even intended, to confront the inequities which divide South Asian society between a privileged elite and a resource-poor majority. The inherited structural arrangements, which concentrate ownership of land, corporate assets, access to financial assets in the formal sector, command over the market, and control over the value-addition process have barely been recognized and have thus been left unaddressed in the policy agendas of South Asia. In this respect, the South Asian PRSP process is no different from PRSPs across the world, which reflect the astructural approach to poverty driving the aid/lending programs of the international development agencies such as the World Bank and the ADB (Sobhan and Akash 2005).

IV. From Agents to Principals: Democratizing the Development Agenda
IV.1 Promoting Agency

We have noted that the approach to poverty in South Asia has evolved significantly over the years but that it still remains pervasive across the region. A reduction in poverty has been registered in every country, though how much of this is due directly to conscious public design or the impact of policy reforms remains debatable. The role of non-governmental initiatives in both delivering resources to the poor and promoting their agency role has been one of the conspicuous features of the poverty reduction process in South Asia (Narayan and Glinskaya 2007). (p.556) The international development agencies have in recent years taken cognizance of the importance of enhancing the agency role of the poor or resourceless and have incorporated this approach into their policy agendas, where they have emphasized the importance of the role of governance in reducing poverty (see e.g. World Bank 2002). It has been argued that making the poor participants in the design of development projects, the oversight of public expenditure, and the implementation and management of these programs will not only ensure more effective implementation but will alleviate the disempowerment which characterizes their lives (World Bank 2003).

The contemporary approach to poverty reduction has thus moved towards focusing on policy reforms that promote agency through the empowerment of the poor. The objective is to raise the individual consciousness of the poor whilst equipping them with credit or education to enhance their capability to participate in the market economy. These programs have been inspired by the ongoing efforts of various NGOs. Micro-credit is a typical example of promoting agency through focusing on the fiduciary responsibility of the individual poor. This approach to enhancing the agency of the poor at the individual level has been contested by various reformers, who argue that the empowerment of the poor demands collective action through institutions such as cooperatives or self-help groups (SHGs). These reformers argue that in an unequal society, empowerment demands ending the isolation of the poor and encouraging them to draw strength from their numbers (Khan 1998; Sobhan 2002). This is the only way to sever the vertical ties of domination and dependency which characterize their social and working lives.
Development agencies initially gave little recognition to the importance of collective action in the promotion of agency. The collective efforts of the cooperative movements of the 1950s and ‘60s in South Asia had been largely discredited and superseded by the individual-centered programs of the micro-credit era of the 1980s, which was more in keeping with the belief in individual enterprise and market-centered reforms of the 1980s. Unfortunately, the individual-centered approach to agency was not very useful in promoting investments in local infrastructure projects such as roads, irrigation channels, rural market-places, school housing, etc., which are also essential to poverty reduction. Such projects generate public goods for the community, and so demand collective oversight in their design and management. If the poor are to benefit from such projects through the exercise of their agency function, it is best that they act collectively. The World Bank and other development agencies had for some time been critical of the waste and mismanagement of public agencies who were entrusted with implementing such infrastructure projects (World Bank 2004). These development institutions were persuaded that public investments would be better managed by the exercise of agency by the intended beneficiaries (World Bank 2004). The recognition of social capital as a development variable has also encouraged aid donors to suggest that public service delivery could be improved by enhancing the agency role of the beneficiaries acting as a collective body.

This transition from the individual to the collective exercise of agency, however, is still to be incorporated into the institutional design of poverty programs as part of a more generalized policy transition. This tension originates in the challenge to the existing hierarchies of local and national power inherent in any moves for collective action by the disempowered, at least in South Asia. Hierarchies are built around the distribution of economic and political power. The power relationship between those who control employment opportunities and those who seek work, between those who own land and those who lease land, or those who sell their primary produce and those who add value to it, cannot be democratized just by building community organizations. Ownership and control over land is profoundly unequal in South Asia. For example, over 50% of rural households in Bangladesh are landless (Saha 2007). Access to cultivable land
has an impact both on the functioning of the tenancy market and commodity markets and influences access to formal credit as well as public resources.

Access of a poor woman to micro-credit to buy a cow does not address the problem of who controls the milk market or the distribution chain or value addition associated with the processing of milk. Investing milch cow owners with a sense of agency to seek a better price for their milk may help to improve the price they receive from milk traders. But the primary producer still remains at the bottom of the value chain for milk products and enhancement of their agency role within a market-driven system will not significantly enhance returns on their supply of milk. It is only when the woman as an agent can graduate to the position of a principal, as a possible shareholder in a milk-processing enterprise, that the original microcredit beneficiary will not only be able to enhance their income but also acquire a stake in an important industry and share in its growth. The circumstances of a member of the Amul Dairy Cooperative in Gujarat, the biggest dairy enterprise in India, and a woman in Bangladesh with a micro-credit loan from BRAC which has enabled her to buy a cow, are qualitatively different (Khandker 2007; Kurien 2007).
IV.2 Emphasizing Principalship

The central message of this chapter is to suggest that the transformation of the position of the poor and resourceless in the social hierarchies of South Asia will be substantively realized when a policy agenda is put in place which enables them to graduate from the role of agents into principals. Such a transformation will require a measure of structural change in the relations of production and distribution. Such a transition from agent to principal will contribute to democratizing the patron–client relationship which prevails between the individual poor and the asset-owning elites who control their lives and livelihoods. By changing the incentive regime (p.558) for agents, whether as workers in enterprises or sharecroppers/wage laborers being provided with a permanent stake in the land, will enhance productivity at least as much as transforming public into privately owned enterprises (Sobhan 1993).

Such a process of transformation will require an agenda for change which will need to focus on broadening opportunities for asset ownership by the resourceless and enhancing the share of primary producers in the value-addition chain. Such an agenda need not limit itself to broadening ownership of such assets as land and bodies of water. The scope for substantive income gain and accumulation of wealth is provided by the modern sectors of the economy controlled by corporate entities. The poor should be encouraged to graduate from the ghetto of the micro-sector into the modern economy through provision of opportunities to acquire ownership of corporate assets (Sobhan 2006). These opportunities should be extended not just to collectives of the resourceless but also to workers in corporate enterprises. Poverty and injustice in South Asia will not end just by creating more employment opportunities for young women in Bangladesh to spend the rest of their lives earning $30 per month as casual labor in the export-oriented garment industry. These women too deserve to be provided with a direct stake in the growth of Bangladesh’s most dynamic industry. Providing incentive structures as well as financial resources for private entrepreneurs should also be extended to transform their workers into their partners so that the promotion of private enterprise can be a fully inclusive process.
The PRSPs of South Asia should accordingly suggest financial sector reforms which can channel credit from the formal sector to underwrite the acquisition of corporate assets by organizations of the resourceless or workers. Such loans would not be unsound investments. It should be kept in mind that the poor of South Asia have persistently established their creditworthiness through the high recovery rates reported by the MFIs of the region. This may be contrasted with the relatively higher default rates by elite borrowers from the formal financial sector (Sobhan 1992). Specialized equity funds or mutual funds, underwritten by resources from the development agencies, could also be created to channel equity loans to these groups of the resourceless. These equity loans could also be used to leverage the savings of organizations such as Grameen Bank, the more mature NGOs, or federations of SHGs such as have emerged through the Velegu project in Andhra Pradesh (Aiyar et al. 2007), to subscribe to initial public offerings (IPOs) of blue chip companies in the corporate sector across South Asia (Sobhan 2002). Dedicated mutual funds specially designed to mediate the saving of the resource-poor can be designed to perform such a role (Sobhan 2006).

Any agenda for building a stake for the resource-poor in the corporate and other growth sectors of the economy would need to build the institutional architecture necessary to empower the weak and marginal through collective action. Some of the bigger NGOs, for example, should consider progressing from aid-driven service delivery organization to market-competitive corporate organizations owned (p.559) by their client base of the resourceless. The Grameen Bank is a good example of such an organization, which is largely owned by 7 million resource-poor women. The Grameen Bank has now been able to acquire a 38% equity stake in Grameen Telecom, which provides cellular telecom services to over 20 million subscribers and is the largest corporate enterprise in Bangladesh, with an estimated capitalized value of $3.5 billion (reported by the CEO of Grameen Telecom, Daily Star, Dhaka, 21 November 2007).
IV.3 Democratizing Development

Expanding the role of the poor from agent to principal obviously needs to extend into the political arena. The poor of South Asia are particularly disempowered within the prevailing democratic process, where electoral contestation has largely been a rich man’s game (Sobhan 2000). The resource-poor as well as women, who between them account for more than half the voting population, have rarely been represented in the legislatures of the region, nor have their concerns been adequately registered by successive elected governments. The privilege of voting out incumbent governments, which has been the case in Bangladesh, India, Nepal, Pakistan and Sri Lanka whenever such opportunities have been provided to voters, has done little to change the social alignment of politics to accommodate the concerns of the less privileged, even though these constituencies constitute a plurality of the electorate. In a democratic process, it is the citizens as the electorate who should play the role of the principal. And it is the elected representatives who should be assigned the role of agents entrusted to act in the interests of their principals. In South Asia, this process appears to have been reversed. Legislatures have increasingly been captured by elites who have appropriated the role of principals through their command over power and patronage. It is the electorate who have been reduced to clients with little capacity or encouragement even to exercise their agency role.

The failure of South Asia’s democratic institutions to ensure that the poor and underprivileged, including significant voting constituencies such as women and minorities, exercise their role in the political process as principals reflects the asymmetries in economic power and social influence in these societies. These inequities originated in the injustices of the past and are hardly related to issues of market competitiveness or inherent talent. The dominant influence in perpetuating wide disparities originates largely in the accident of birth into the appropriate family, caste or class and the capacity to convert these inherited privileges into political resources within an undemocratic society.

I have argued that a credible and sustainable agenda for ending poverty must seek to challenge effectively the asymmetries in power which lie at the source of poverty and injustice in South Asia by democratizing development as well as the (p.560) institutions of governance. Such a process
obviously cannot ignore the underlying political realities of South Asian societies. Nor should it be seen as an argument for disregarding the many successes in reducing poverty and promoting agency across the region (Narayan and Glinskaya 2007; Nayaran and Petesch 2007).

The spirit underlying this essay is to encourage those who are attempting to give substance to Amartya Sen's lifelong struggle to end poverty across South Asia by seeking to enhance individual freedoms and demonstrating the social commitment to do so (Sen 1999). I have argued that to enhance freedoms we need to correct the structural injustices which constrain freedom and thereby create poverty. Such an approach will demand a qualitative change in the design of poverty alleviation strategies, which should move beyond the prevailing programs for promoting income gain for the poor and enhancing their agency role. The challenge before us is to redesign the institutional architecture so that it can elevate the deprived and marginalized to the role of principals, where they may aspire to own corporate assets, become major players in national and global markets, and eventually emerge as political masters in the legislatures and institutions of local governance across South Asia. Such concrete manifestations of structural change will truly enhance those freedoms so cherished by Amartya Sen.

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