



Vulnerability Traps and Their Effects on Human Development

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ABSTRACT

This paper explores asymmetrical risks that leave some people more vulnerable than others, and relates these asymmetries to the structurally derived variations in socioeconomic circumstances. It focuses on vulnerabilities originating in inequitable opportunity structures, examining their nature and how they may trap particular segments of the population in poverty. It goes on to relate these traps to the unjust socio-economic circumstances that create and perpetuate them. Particular areas of disadvantage that condition the vulnerability of people include educational disparities, health disadvantages, inequitable ownership of productive assets, asymmetrical exposure to market forces and unjust governance. An agenda for correcting some of these disadvantages could include universalizing social protection through social provisioning that minimizes vulnerability by guaranteeing the right to work, food, education and health care. A second essential element is moving beyond the resort to social provisioning by initiating structural changes that elevate the excluded from living out their lives exclusively as wage earners and tenants. A concluding section of the paper argues that all change, including a more structurally focused programme of social protection, needs to address political economy issues that will underwrite advancements.

Introduction: understanding vulnerability

Due to exposure to asymmetrical risk, the income poor or resource deprived are compelled to live precarious lives that leave them permanently vulnerable to a variety of shocks. These limit their capacity to save, constrain their livelihood options and bind them in a state of poverty or near poverty. This level of poverty is not measured by their location slightly above or below an arbitrarily constructed subsistence line, but by their degrees of vulnerability to a variety of risks that are part of the human condition in a globalized, market-driven world.

Table 1 shows that large numbers of households in a range of developing countries hover between \$1.25 and \$2 a day poverty lines. A recent reclassification of the poverty line in India from \$1 to \$1.25 a day moved 189 million people below the poverty line. It is arguable that the quality of life and the existential insecurities dividing those who live on \$1 versus \$2 a day are not significantly differentiated in their vulnerability to risk.

This paper sets out to explore asymmetrical risks that leave some people more vulnerable than others in coping with risks. It aims to relate these asymmetries to the structurally derived variations in socio-economic circumstances. It will focus on vulnerabilities originating in the inequitable opportunity structures that create differentiations in exposure to risk. Initially, the paper will examine the nature of such vulnerabilities and how this may trap particular segments of the

population in poverty. It will then relate these traps to the unjust socio-economic circumstances that create and perpetuate them. It will finally identify a variety of policy and institutional interventions that may contribute to reducing vulnerability.

Table 1: Poverty situation in selected regions and countries

Country	Reference year	% of population below \$1.25 a day	% of population between \$1.25 and \$2 a day
<i>East/Southeast Asia</i>			
Cambodia	2007	28.3	28.2
China	2005 ^a	15.9	20.4
Indonesia	2009 ^a	18.7	32.0
Lao People's Democratic Republic	2008	33.9	32.1
Philippines	2006	22.6	22.4
Thailand	2009	12.8	13.7
Viet Nam	2008	13.1	25.3
<i>South Asia</i>			
Bangladesh	2005 ^b	49.6	31.7
India	2005 ^a	41.6	34.0
Nepal	2004	55.1	22.5
Pakistan	2006	22.6	38.4
Sri Lanka	2007	7.0	22.1
<i>Sub-Saharan Africa</i>			
Angola	2000 ^c	54.3	15.9
Democratic Republic of Congo	2006	59.2	20.4
Ethiopia	2005	39.0	38.6
Ghana	2006	30.0	23.6
Kenya	2005	19.7	20.2
Liberia	2007	83.7	11.1
Mali	2006	51.4	25.7
Mozambique	2008	60.0	21.6
Nigeria	2004	64.4	19.5
Senegal	2005	33.5	26.9
South Africa	2000	26.2	16.7
Tanzania	2007	67.9	20.0
Uganda	2009	37.7	26.8
Zambia	2004	64.3	17.2

Zimbabwe		-	-
Latin America			
Bolivia	2007 ^d	14.0	10.7
Brazil	2009 ^d	3.8	6.1
Colombia	2006 ^d	16.0	11.9
Nicaragua	2005 ^d	15.8	16.1

Notes: a. Population weighted average of urban and rural estimates. b. Adjusted by spatial consumer price index data. c. Covers urban areas only. d. Based on per capita income averages and distribution data estimated from household survey data.

Source: World Bank 2012.

Since the objective is to search for policy responses to deal with asymmetrical risk, it will be useful to understand the nature and dynamics of human vulnerability. To this end, we need to identify particular areas of disadvantage that condition the vulnerability of people. While such a list can be enlarged, this paper will focus on:

- Educational disparities;
- Health disadvantages;
- Inequitable ownership of productive assets;
- Asymmetrical exposure to market forces; and
- Unjust governance.

Subsequent discussion will delve into what may be done to correct some of these disadvantages:

Sources of vulnerability

EDUCATIONAL DISPARITIES

Education is critical for enhancing earnings opportunities and thereby reducing the vulnerabilities of all people. It, however, does not always follow that a person with little or no education, at the lower end of the income scale, is more vulnerable than a person with five years of schooling. The less educated person is readily available for all forms of manual labour, which expands and provides flexibility in their earning opportunities. Wages, however, remain so low as to keep such a person below or close to the poverty line.

Better educated people, now endowed by higher levels of expectation, may exclude themselves from the ‘indignity’ of manual labour. But the low level and in most cases quality of their education also narrows their market opportunities for work they consider more appropriate to their qualifications. Moving up the educational scale to 10 years of schooling and the attainment of qualifications associated with graduating from secondary school further expands a person’s horizon of expectations. However, employment opportunities in the higher tiers of the market are much more selective in relation to the quality of knowledge and skills derived from a particular level of education.

Inequality remains an important outcome of the educational process. Those without education are exposed to perennial insecurity due to the large numbers of their kind competing for work and their resultant low earnings. Those with some education, possibly of low quality, face their own special insecurities in a market-driven system. The issue of levelling educational opportunities is thus considerably important, although educational inequities were originally less recognized in the human development discourse. The Human Development Reports rightly refocused public policy priorities towards education and health, given their essential roles in human development. Lack of education and ill health severely disadvantage the life chances of large numbers of people in the developing world, and condemn them to lives of poverty and insecurity. In the two decades since the Human Development Report was launched in 1990 under the leadership of Mahbub ul Haq and the intellectual inspiration of Amartya Sen, we have witnessed significant improvements in most countries in some of the key indicators associated with human development.

Table 2 presents trends in these indicators. In virtually every country, whether denominated by region or development category, significant advances in human development have been reported. The most backward region in the world in 1980, South Asia, registered the fastest rate of improvement by 2012. Since the Human Development Index (HDI) includes a limited set of variables such as life expectancy and years of schooling as proxies for health and education status, juxtaposed to gross national income per capita, the HDI indicators are hardly a definitive measure of improvements in health and education. The index does however serve its purpose of facilitating inter-country comparisons.

What the HDI does not capture is inequitable access to human development within countries where the less privileged have been least able to improve their health and education status. This problem at the aggregate level has been usefully addressed through the introduction of the inequality-adjusted HDI index, which attempts to capture asymmetrical access to health, education and income. Table 3 estimates the reduction in the value of the HDI index measured through the extent of the loss attributable to inequality in access to years of schooling, health outcomes and income.

Table 2: HDI trends

HDI groups	1980	1990	2000	2005	2007	2010	2012	Annual average HDI growth				
								1980-1990	1990-2000	2000-2012		
Regions												
Arab States	0.443	0.517	0.583	0.622	0.633	0.648	0.652	—	—	1.56	1.21	0.94
East Asia and the Pacific	0.432	0.502 c	0.584	0.626	0.649	0.673	0.683	—	—	1.51	1.51	1.31
Europe and Central Asia	0.651 c	0.701 c	0.709	0.743	0.757	0.766	0.771	—	—	0.74	0.12	0.70
Latin America and the Caribbean	0.574	0.623	0.683	0.708	0.722	0.736	0.741	—	—	0.83	0.93	0.67
South Asia	0.357	0.418	0.470	0.514	0.531	0.552	0.558	—	—	1.58	1.19	1.43
Sub-Saharan Africa	0.366	0.387	0.405	0.432	0.449	0.468	0.475	—	—	0.58	0.44	1.34
Least developed countries	0.290 c	0.327 c	0.367	0.401	0.421	0.443	0.449	—	—	1.22	1.15	1.70
Small island developing states	0.530 c	0.571 c	0.600 c	0.623	0.658	0.645	0.648	—	—	0.75	0.50	0.65
World	0.561 c	0.600	0.639	0.666	0.678	0.690	0.694	—	—	0.68	0.64	0.68

Source: UNDP 2013, table 2.

Table 3: Inequality-adjusted HDI, 2012

HDI groups	HDI	Inequality-adjusted HDI value			Inequality-adjusted life expectancy index		Inequality-adjusted education index		Inequality-adjusted income index	
		Value	Value overall 100%	Loss in %	Value	Loss in %	Value	Loss in %	Value overall 100%	Loss in %
Regions	Value	Value	Loss in %		Value	Loss in %	Value	Loss in %	Value	Loss in %
Arab States	0.652	0.486	25.4	—	0.669	16.7	0.320	39.6	0.538	17.5
East Asia and the Pacific	0.683	0.537	21.3	—	0.711	14.2	0.480	21.9	0.455	27.2
Europe and Central Asia	0.771	0.672	12.9	—	0.716	11.7	0.713	10.5	0.594	16.3
Latin America and the Caribbean	0.741	0.550	25.7	—	0.744	13.4	0.532	23.0	0.421	38.5
South Asia	0.558	0.395	29.1	—	0.531	27.0	0.267	42.0	0.436	15.9
Sub-Saharan Africa	0.475	0.309	35.0	—	0.335	39.0	0.285	35.3	0.308	30.4
Least developed countries	0.449	0.303	32.5	—	0.406	34.6	0.240	36.2	0.287	26.1
Small island developing states	0.648	0.459	29.2	—	0.633	19.2	0.412	30.1	0.370	37.2
World	0.694	0.532	23.3	—	0.638	19.0	0.453	27.0	0.522	23.5

Source: UNDP 2013, table 3.

In the area of education, table 3 indicates that the highest degrees of inequality are in South Asia and sub-Saharan Africa. Significantly, South Asia has recorded the fastest rate of improvement in its

human development indicators, with sub-Saharan Africa recording the second fastest rate, at least during the 21st century. What is common to each of these regions is the prevalence of wide disparities in access to education, due to disparities in the number of years of schooling available to the income deprived, and the salience of quality education for the elite. In contrast, Europe and Central Asia, which include states once part of the socialist system, report the least degrees of inequity, largely because of the wider scope for more years of schooling through ready access to quality public education. East Asia and Latin America fall in between these two extremes, but demonstrate significantly greater opportunities for more years of schooling than South Asia or sub-Saharan Africa. In South Asia, for example, significant inequality prevails in India (45.4 percent index loss), Pakistan (45.2 percent), Nepal (43.6 percent) and Bangladesh (39.4 percent), compared, for example, to China (23 percent), Thailand (18 percent) and Viet Nam (17.1 percent) in East Asia.

The inequities in education in South Asia are further accentuated by the prevalence of segmented educational systems, with quality private schools as well some state schools in Bangladesh and Sri Lanka. The elite schools mostly serve better-off households, while the majority of the population, particularly in rural areas, remains captive in poor quality state or private schools. The inequitable nature of the education system in India is captured by Amartya Sen and Jean Drèze in their recent publication about India's development, *An Uncertain Glory*. They state, 'The Indian educational system is extraordinarily diverse in a peculiar way, with a comparatively tiny group of children from privileged classes enjoying high often outstanding educational opportunities and the half of the population being confined to educational arrangements that are in many different ways poor or deficient'.

Many students in India have certainly improved their educational status in terms of school enrolment and years of schooling. But these improvements conceal significant disparities in the quality of education as measured by the global Programme for International Student Assessment (PISA) tests of educational performance. Thus, for example, if we compare India's two top performing states in terms of educational status, Tamil Nadu scores 361 in the math literacy scale and 348 in the scientific literacy scale (Walker 2011). In the PISA scale, this places Tamil Nadu at one above the bottom state, Kyrgyzstan. This may be compared with the PISA score of 600 for math and 575 for science for Shanghai in China, which places the city at the top of the global scale, well ahead of Finland, which has the best performing scores in the developed world. What is also significant about the school system in Shanghai is the uniformly high quality of schooling available to all classes of children. The fact that Shanghai has the best quality educational outcomes in the world does not indicate that all provinces of China boast similarly high standards, but it does indicate that the highest possible standards can be attained within a developing country.

The importance of realizing greater equity in the education system through both increasing years of schooling and upgrading the quality of public education serving lower income families cannot be overemphasized. Quality education is important in its own right, but it is also of instrumental importance in influencing the opportunities available to the income deprived. One of the more severe poverty traps originates in the lack of access to sufficient education, since this may perpetuate itself intergenerationally. A recent study of the World Bank, *Measuring Inequality of Opportunity in Latin America and the Caribbean* (2009), reports on the significance of the education of parents in influencing the levels of disadvantage of their children. A part of the study, focusing on inequality of opportunity in educational achievement in five countries, Argentina, Brazil, Chile, Mexico and Peru, points out that poor educational performance, measured under the PISA scores for reading and mathematics, was strongly linked to *mother's lack of education* and *father's occupation*. The latter tended to be rural, as an agricultural or fishery worker. These disadvantaged students were also likely to be attending schools located in a village or small town (less than 15,000 in population). The location, education and occupation of the parents is itself a measure of their level of income, which remains the all encompassing deficiency in influencing educational outcomes, just as the poor education of the child eventually will go on to influence their lifetime opportunities.

The Latin America study does, however, also point out that investments and policy interventions targeted to improved educational competencies can compensate for children's adverse inheritance. The consequent improvement in educational skills of the disadvantaged narrows gaps in educational attainment, and improves subsequent earning opportunities. Thus, for example, Brazil, which recorded the second lowest levels of competence in the PISA tests among the five countries, has also been the most effective in narrowing the attainment gap between the most and least advantaged groups. This improvement originated in substantial investment by the Brazilian Government in improving schools and education quality in backward areas and/or serving low-income communities.

In an increasingly knowledge-oriented world, the educationally disadvantaged will remain more vulnerable to risk that originates not just from their absolute but also their relative deprivation in a competitive market-driven economic universe. In such a world, the critical policy intervention will be to narrow educational disparities and level the playing field of opportunity. The approach in most European and some East Asian countries, including Singapore, of establishing a common schools system, may be more appropriate for reducing educational disparities. In a society where children of all classes have to attend public schools, the elite themselves become stakeholders in raising the quality.

A common schools system, where opportunities for privileged private education are minimized, may not be possible today in most countries in Latin America, South Asia and sub-Saharan Africa,

however. High levels of social disparity prevail where the ruling elites in these countries prefer to send their children to better quality private schools that perpetuate their head start in life. In such circumstances, large investments, as in Brazil, will have to be made in massively upgrading the quality of public and even private schools serving lower income households. In many cases, public education expenditure/gross domestic product (GDP) ratios, particularly in South Asia, will have to be doubled, mostly through investments in public education, with a corresponding transformation in the quality of governance of those state schools. Bringing about such a transformation in public education may be more politically feasible than a move to a common schools system. However, all states genuinely committed to democratizing opportunity may look towards a common schools system as an aspirational goal.

HEALTH DISADVANTAGES

All people remain at risk of ill health. However, vulnerability to such risks is largely a function of income and the levels as well as efficacy of public provisioning likely to compensate for income deficiencies. The Human Development Reports have reported *life expectancy* as the aggregator of health status for a country. As in the case of education, the indicators for health point to significant interregional and inter-country variations. Table 3 presents information on the downward adjustment in the health index on account of inequity in health status. Across the world, the inequity-adjusted losses are the most severe in sub-Saharan Africa, followed by South Asia, with Europe and Central Asia reporting the lowest losses. However, the South Asia region as a whole reports a lower level of loss compared to India, which not only has a higher per capita income and better HDI rank, but also higher per capita public expenditure on health than most of its neighbours.

Narrowing health disparities within both Bangladesh and Nepal has helped to improve the average health indicators of both countries compared to India. Sen and Drèze have adversely compared India's health status to that of these two countries. For under-five mortality, India has a rate of 66 per 1,000 live births, compared to Bangladesh's figure of 52 and Nepal's of 48. Such mortality rates for most South Asian countries are considerably higher than rates in their East and Southeast Asian neighbours, such as Thailand (14), China (19), Viet Nam (24) and Indonesia (39), and are well behind South Asia's outlier, Sri Lanka (15) (UNDP 2013).

Inequalities in health outcomes, measured as a single HDI indicator of longevity, are further reflected in nutritional outcomes, where South Asia lags behind other regions, including sub-Saharan Africa. Here the largest country in South Asia, India, appears to have a higher proportion of children under five who are undernourished (43 percent), compared to the region's average of 42 percent, and a higher proportion of infants with low birthweight (28 percent) compared to the region's average of 27 percent (Drèze and Sen 2013). This poor average performance of a country

that today reports the world's third largest GDP (in purchasing power parity or PPP terms), in relation to its health indicators, demonstrates that neither aggregate wealth nor high growth rates ensure better or more equitable health outcomes.

India's high GDP growth and enhanced public revenues have enabled its Government to offer, on average, much higher per capita public expenditures on health than was possible for governments in Bangladesh and Nepal. Higher expenditures should have yielded superior health outcomes compared to its neighbours. The country outcomes suggest that public expenditures in India are less efficiently used and governed than in its neighbours, which would occasion some surprise in these countries, since their poor governance is occasion for robust domestic debate.

Health care disparities in India are also more inequitably distributed both across the country and in delivering services to lower income households. These inequities are captured by looking at the disparities in health indicators within India and between states (Drèze and Sen 2013). This is less satisfactory than measures based on income or social indicators, but it does capture the wide dispersal of health outcomes within India. Here again the states vary according to their ability to deliver health services to a large segment of the income poor within their domain.

Health outcomes appear to originate in the policies/programmes, expenditure priorities and quality of governance of health programmes. Bangladesh, which invests a much lower volume of public expenditure per capita on health care than India, has, for some years, benefitted from more effective and equitably dispersed public health programmes. Based on household data for 2010, 96 percent of under-five children were categorized as *fully immunized* (World Bank 2013a). More significantly, 95 percent of poor children were reported as *fully immunized*. Full immunization covers access to BCG, DPT 1-3, polio 1-3, hepatitis B and measles. Coverage in these respective areas remains in the range of 95 to 98 percent with virtually no disparity in coverage between *poor* and *non-poor* or between boys and girls.

In contrast, India's overall immunization coverage is as low as 44 percent (Drèze and Sen 2013). Coverage rates for DPT (72 percent), BCG (87 percent), polio (70 percent), measles (74 percent) and hepatitis (37 percent) are also well below those for Bangladesh. This is largely due to inequitable dispersal of immunization coverage between states, and between the poor and less poor. Thus, for example, India's best performing states, Tamil Nadu (81 percent), Kerala (75 percent) and Himachal Pradesh (74 percent), are all well below the Bangladesh average of 96 percent, but far ahead of states such as Bihar (33 percent), Rajasthan (27 percent) or Uttar Pradesh (23 percent) in full immunization coverage (Drèze and Sen 2013).

Bangladesh's strong and universal coverage in immunization and its outcomes are not necessarily matched by gains in dietary outcomes or in more equitable levels of nutrition. Levels of

moderate calorie deficiency declined from 44.3 percent in 2000 to 38.4 percent in 2013, and severe deficiency declined from 20 percent to 16 percent in the same period (World Bank 2013a). However, dispersal of the proportion of underweight children for the lowest income quintile in 2011 was 50 percent compared to 20 percent for the highest quintile. What is significant is that Bangladesh's proportion of underweight children in even the second lowest income quintile in 2011 was 42 percent, below India's national average of 43 percent.

Health insecurity has declined over the years in most countries with the spread of public health interventions. The incidence of a variety of popular illnesses originating in deficient preventive and protective measures has fallen. Thus, for example, malaria-related deaths have been substantially reduced, if not eliminated, in East and Southeast Asia, South Asia and Latin America (UNDP 2013). In contrast, many countries of sub-Saharan Africa remain highly vulnerable to death by malaria. Similarly, deaths due to cholera have been virtually eliminated across much of the world except in Haiti and sub-Saharan Africa, where it is present in some countries such as Guinea Bissau, Sudan, Senegal, Somalia and Sudan.

The advantages of protective public health measures through immunization interventions can be universalized, reaching across income groups, and spatial and identity divides, if governments are willing to prioritize and invest in them. However, preventative public health measures to ensure access to uncontaminated drinking water and improved household sanitation are more problematic in terms of cost and administration. For all the improvements registered through immunization initiatives, access to uncontaminated water is still limited in South Asia, although it is significantly worse for sub-Saharan Africa. In Bangladesh, 81 percent of households report access to safe drinking water; 63.6 percent had access to sanitary facilities in 2011 compared to 38.9 percent in 2001 (UNICEF 2013). Such improvements have occurred through the spread of public health and interventions by non-governmental organizations (NGOs) to extend sanitation to households among the income deprived.

Health risks originating in popular diseases have been significantly reduced for all classes. Sixty years ago, even families in well-off households in Bangladesh and India died of cholera, tuberculosis and even malaria. With medical advances, such diseases were relegated to the poor, who died in episodic epidemics. Public health interventions, backed by advances in epidemiology, have largely served to change risks to the poor in many countries, although, in a number of countries including India, these popular diseases still remain a source of greater risk to the poor. It is now recognized that moderate enhancements in investments in public health care and some measure of improved governance of the system can greatly reduce if not end such health risks, thereby diminishing an important source of vulnerability for the poor.

What remains unsatisfactorily addressed is the growing need for and costs of tertiary health care. Public health deficiencies are more likely to afflict the less affluent, who may thereby be exposed to illnesses that require hospitalization. It is in this area that public provisioning remains seriously deficient and keeps the poor vulnerable to health risks.

More modern afflictions such as cardiovascular diseases, diabetes and cancer have become more democratic in their incidence. In an earlier era, perhaps many poor, overworked peasants died of cardiac arrest without their illness ever being diagnosed. Today, such a possibility of death from unknown causes is less likely. This may not minimize the risks associated with cardiovascular diseases and diabetes, however, which have been on the increase across the developing world. While higher rates for heart disease remain in Europe and Central Asia (492 deaths per 100,000 people), sub-Saharan Africa (447) and South Asia (260) are not far behind (UNDP 2013). The high rates for Europe and Central Asia are greatly enhanced by the higher rates for Central Asia and the Russian Federation. In all of the countries in these regions, life style factors would be the main source of the disease, but improved and affordable tertiary care in most of Europe has mitigated the risk, in contrast to lower quality tertiary care in Central Asia. In South Asia and sub-Saharan Africa, the rising death toll indicates that many of those afflicted with this ‘rich man’s’ disease die because they do not have access to quality care or in most cases cannot afford such care. Those with less means who do access a cardiac care facility and survive may be bankrupted by the costs.

The no less significant risk for the poor, whether from traditional or modern causes of ill health, is the resultant incapacity to contribute income from the sparse budget of the family, so that episodes of ill health add to household expenses and reduce income. Episodic ill health emerges as one of the principal sources of poverty traps, where poverty is perpetuated, in the absence of public provisioning or publicly supported insurance that can relieve the cost burden of the poor. The second part of this paper discusses the nature and extent of such public provisioning, drawing upon the Asian experience.

INEQUITABLE OWNERSHIP OF PRODUCTIVE ASSETS

Productive assets provide the main currency enabling people to participate in the market economy. In recent years, the international development community and policy makers have given much attention to the importance of the market in promoting development. However, much less attention has gone to those who participate in the market and on what terms. In all countries faced with endemic poverty, and indeed many middle-income countries, inequitable access to wealth and knowledge disempower the excluded from participating competitively in the marketplace. Such inequities are particularly applicable where the excluded have little command over productive assets. Asset poverty remains a significant source of income poverty. Rural poverty, for example, originates

in insufficient access to land, water and water bodies for the less privileged segments of rural society (Sobhan 2010). Those of the land poor who live in urban areas command little in the way of urban property and have virtually no access to corporate assets.

Inequities in titles and access to agrarian assets do not derive from the competitive play of the market, but from the injustices of history. In many countries, land titles were mostly appropriated through the exercise of power or access to political patronage rather than obtained in the market. Ownership of land has thus been used as a source of social authority as well as a political resource. Retention of land, in such circumstances, is not just about its income-earning potential, but about its symbolic value as a measure of political power and position in the social hierarchy (Hussain 2008). These inequities in the right to land are perpetuated through the malfunctioning of land and capital markets, which do not make land readily available to those who most need it, or provide them with capital on affordable terms to buy such land. Within such a socio-economic context, the concept of freely functioning markets for the sale or lease of land remains of limited policy relevance.

Landlessness and land poverty remain ubiquitous across much of the developing world, where the bulk of the poor originate in rural areas. Inequitable access to land forces many poor households to enter into tenant relations with landowners, which reinforce relations of domination and dependence, and aggravate the insecurities of the landless.

Such inequitable access to productive assets in the rural economy has kept agricultural performance in many developing countries well below full productive potential. For example, small and even subsistence farmers in South Asia have proven to be both more productive than larger farmers, and have played a major role in stimulating the growth of crop production over the last four decades (Bayes and Hossain 2009). Moreover, most of the expenditure of these small farmers, drawing upon income derived from their meagre assets, serves to stimulate secondary activity in the rural economy (ibid). This has contributed to the significant growth of the non-farm economy, which has reportedly contributed to the reduction of income poverty in some South Asian countries (World Bank 2013a). Neither markets nor public priorities have adequately recognized the contributions of these small farmers, however; they remain exposed to a variety of risks condemning them to lives of insecurity.

Where there is a dichotomy between the owners of land and the actual tiller of the land, this serves as a disincentive to both investment of capital and more productive effort on the land (Sobhan 1993). In such circumstances, the prevailing dispensation governing access to land lacks not just economic justification but moral as well as social legitimacy. Furthermore, the prevailing structures of land ownership are inimical to the construction of a functioning democratic order, which remains contingent on reducing the relations of domination and dependence that, in turn, define relations between the land rich and land poor.

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

Hernan de Soto has addressed the issue of rights to land in his widely cited work, *The Mystery of Capital* (2000). De Soto argues that large volumes of congealed capital remain within the control of urban squatters and slum-dwellers across the developing world. This can be converted into economically serviceable capital by vesting these powerless communities with legal title to the sites occupied by them. Legal title to such untitled land can be used as collateral to raise capital from the market to enhance the productive capacity of these communities, which could have a transformative impact on poverty and economic growth. De Soto, drawing on his ideas, was instrumental in the United Nations setting up the high-level Commission on the Legal Empowerment of the Poor, which he co-chaired with former US Secretary of State Madeleine Albright. Work of considerable merit came out of the commission, which made a variety of recommendations on enhancing the power of the poor (2009). Unfortunately, neither De Soto's advocacy at the national level nor the United Nations report has done much to operationalize these ideas.

One of the practical problems associated with the De Soto argument is that investing formal legal title in a poor person occupying high-value real estate or even exercising usufructory rights over agricultural land can be a double-edged weapon. Once a legal title to such land is assigned to the squatter, they immediately become vulnerable to takeover by the same property developers who would seek to buy out the squatter. The poor or those with limited assets are always vulnerable to the pressure of market forces and may end up landless where they once enjoyed occupancy rights. The market thus emerges as one of the principal sources of risk for the asset poor.

While the De Soto agenda for investing the poor with legal title is well taken, it should be recognized that an even larger proportion of the poor have no access at all to land over which they could claim any entitlement. The increasing trend towards landlessness in South Asia, for example, is driven by market forces that compel those owning below-subsistence holdings to sell or lease out their lands because they need alternative sources of livelihood to survive. Across South Asia, landless, sub-marginal (below 0.2 hectare) and marginal (below 1 hectare) holdings account for 87 percent of holdings in Bangladesh, 75 percent in Nepal, 60 percent in Sri Lanka, 43 percent in India

and 41 percent in Pakistan (Sobhan 2010). This large proportion of rural households owning little land and fewer means to exploit its full potential live lives of great insecurity, and remain vulnerable to the forces of demography, inheritance laws and the market.

Within this community of the rural poor, the most insecure remain those without any land, whether for a homestead or for cultivation. These households reside and work occasionally as the tenants at will on the lands of bigger landowners, under varying tenancy arrangements. In much of Latin America, the land poor now mostly work as wage labour on corporate plantations or the estates of the elite (Sobhan 1993). In contrast, in South Asia, the landless or land poor work, mostly as tenants at will, on the lands of bigger landowners, or are ‘minifundist’ landowners who lease out their small holdings and seek wage employment for survival.

In much of South Asia, such tenancy arrangements remain impermanent, since landowners, big or small, are reluctant to assign anything that could be identified by prospective agrarian reformers as permanent tenancy rights. Land-based poverty is, thus, a permanent form of insecurity where the land poor stay trapped in a downward spiral. Their marketable surpluses remain small. When they enter the market, they do so on unequal terms, where they sell their products at the lowest tiers of the value chain. They are vulnerable to weather-induced risks resulting in poor harvests or loss of working capacity due to ill health. The most severe shocks experienced by the land poor originate from the vagaries of the market, where even a good harvest can become a source of impoverishment due to low prices, which then expose them to indebtedness as the first step towards total landlessness.

ASYMMETRICAL EXPOSURE TO MARKET FORCES

Within the prevailing property structures of society, the resource poor remain excluded from the more dynamic sectors of the market, particularly where there is scope for benefiting from the opportunities provided by globalization. The fast-growing sectors of economic activity are usually located within the urban economy, where the principal agents of production tend to be the urban elite, who own the corporate assets that underwrite the faster growing sectors. Even in the export-oriented rural economy, in those areas linked with the more dynamic agro-processing sector, a major part of the profits generated through the chain of value addition accrue to those classes who control corporate wealth.

The poor, therefore, interface with the dynamic sectors of the economy only as primary producers and wage earners, at the lowest end of the production and marketing chain, where they sell their produce and labour under severely adverse conditions. This unequal relationship exposes the primary producer to lives of great insecurity, where they are vulnerable not just to market induced shocks but also rent extraction from those above them in the market chain. Extortion from

non-market predators such as corrupt officials, political bosses and local criminals remains a further hazard.

Primary producers are captive in these poverty traps at the bottom of the chain because they have little scope for sharing in the opportunities provided by the market economy for value addition to their labours, largely due to institutional failures. As long as primary producers are isolated individuals who interface with economically more powerful or better organized buyers as well as manufacturers, they will remain condemned to participate in an unequal relationship at the bottom of the production chain. The incapacity of primary producers to come together through collective action, to enhance their bargaining capacity in the marketplace, represents a form of institutional failure.

FAILURES IN THE CAPITAL MARKET

Capital markets also fail the poor and thereby limit their capability to participate in the more dynamic segments. A notable example is the failure to provide credit to the poor even though they have in recent years demonstrated their creditworthiness. Their default rates in the microcredit market are low despite high rates of interest charged by microfinance institutions. The microcredit market originated from the nonprofit sector as a response to the failure of the formal credit market and has remained segmented from the formal capital market. Microcredit has helped to meet the subsistence needs of the poor and reduced some of their vulnerability to risk, but is not designed to empower them to participate in the macroeconomy or to withstand the hazards of the market. The poor therefore remain in the ghetto of the microeconomy. Structural constraints in the way of market injustice leave the resource poor with little scope for graduation into a level of entrepreneurship where they could compete with those who dominate the macroeconomy.

Nor do formal capital markets provide the financial instruments needed to attract the savings of the poor and transform these into investment assets in the faster growing corporate sector. This market failure extends to the failure by insurance companies to provide appropriate insurance products to meet the specific needs of the resource poor in the urban and rural sector (UNDP 2007). These and other market failures originate in institutional failure on the part of formal corporate financial institutions to restructure their organizations to respond to the effective demand for capital and financial services by the poor.

MARKET INJUSTICE

In most developing countries, markets adversely impact opportunities for the poor, whether they are small farmers, landless labourers, microentrepreneurs or wage workers in garment factories. The market is not some abstraction working neutrally between all competitors, rich and poor. Markets in any country work according to the prevailing institutional arrangements, which include

asymmetrical access to information, resources and interface with the political economy governing the country.

The poor participate in the market economy largely as producers and service providers at the lower end of the production and market chains, where they sell their produce and labour under severely adverse conditions. In contrast, those who buy the produce of the poor, whether as traders or agro-processors, tend to be more affluent, with stronger bargaining power in the market.

In such circumstances, as globalization widens the market opportunities for both agricultural products and manufactures of the developing world, little of its benefits percolate to the poor. Today, for example, a rapidly expanding global market for garments has opened up opportunities for the textile and garment manufactures of Bangladesh, India, Nepal, Pakistan and Sri Lanka. Yet, the small cotton growers of India and Pakistan, or the young women working in the garment factories across many countries in the developing world hardly share in the rewards from the growth of this market. Table 4 shows that wage levels, in real terms, have declined over the last decade, in 10 out of 15 exporting countries. In 4 of the 5 countries, China, India, Indonesia and Viet Nam, where real wages have increased, their economies and exports have tended to be more diversified, so that higher growth across a broader cross-section of the economy has pushed up real wages (UNRISD 2010).

Bangladesh, in contrast, has a less diversified economy, where readymade garment manufacturing accounts for 75 percent of total commodity exports. It is not surprising that the trend in real wages of its garment workers has been downwards, falling from \$94 per month in 2001 to \$91 in 2008, the lowest wage rate in the world. More detailed studies show that between 1994 and 2008, real wages in this sector have contracted across all seven grades of pay, at rates ranging from 42 percent to 5 percent per year (Jassin-O'Rourke Group 2009).

The gains from value addition generated by the close to 4 million workers in Bangladesh's garment industry have not brought them lives of more security. These workers, mostly women, have no service contracts, can be fired at will whenever there is a business downturn and work under highly unsafe working conditions. In Bangladesh recently, around 1,300 women, working in four garment factories in a building known as Rana Plaza in Dhaka, died when the poorly constructed, eight-storey structure collapsed over their heads. On the morning of the disaster, many of the workers did not want to enter the building, sensing it was unsafe, but were compelled, under threat of being fired, do so by their employers, who had to meet export deadlines. The insecurity and poverty traps that circumscribed the lives of these women can be summed up in the words of one, who, crippled for life, said, "What could I do, I have to go to work or how would my children be fed?"

Table 4: Monthly real wages in 15 of the top 21 apparel exporters to the United State, in 2001 currency

	Monthly real wages in 2001 currency				Percent change
	2001		2011		
	Local currency	PPP \$	Local currency	PPP \$	
Bangladesh	2,083.00	93.67	2,033.60	91.45	-2.37
Cambodia	51.00	161.89	39.78	126.26	-22.01
China	480.00	144.86	1,076.57	324.90	+124.29
Dominican Republic	2,698.00	293.52	2,057.45	223.83	-23.74
El Salvador	162.00	332.44	143.34	294.14	-11.52
Guatemala	1,414.00	397.62	1,230.10	345.75	-13.05
Haiti	1,014.00	104.42	1,502.99	154.78	+48.22
Honduras	2,514.83	359.47	2,294.53	327.98	-8.76
India	2,019.55	150.20	2,281.27	169.67	+12.96
Indonesia	421,958.00	134.90	583,786.75	186.64	+38.35
Mexico	4,766.00	755.14	3,386.54	536.57	-28.94
Mexico (minimum wage)	1,258.00	199.32	1,297.31	205.55	+3.12
Peru	487.50	335.93	570.94	393.43	+17.12
The Philippines	4,979.00	249.25	4,662.19	233.39	-6.36
Thailand	5,748.50	360.33	5,378.25	337.12	-6.44
Viet Nam	731,167.00	182.43	1,019,766.50	254.78	+39.66

Source: Center for American Progress/Worker Rights Consortium.

While Bangladesh's garment entrepreneurs may be able to enjoy first-world life styles at the expense of their vulnerable women workers, the principal gains from the value addition process are appropriated by global retail giants such as Walmart and J.C. Penney, who source their products from these insecure enterprises. The same shirt exported to Walmart from Bangladesh at \$5 is eventually sold in US stores for \$40. In a highly competitive global market, even the \$5 offered to Bangladesh's garment entrepreneurs is under perpetual downward pressure.

THE POOR AS PRIMARY PRODUCERS AND PRICE TAKERS

The most numerous and weakest players in the market tend to be the rural poor, whether as subsistence farmers or landless workers. The concentration of poverty in rural areas originates in the vulnerabilities of its rural population. The logic of the market for the smaller farmers is universal, whether they produce subsistence or cash crops. Isolation, ignorance and poverty delimit the market opportunities of the small farmer. Debts incurred during the growing season have to be repaid to input suppliers, traders, shopkeepers and landlords as well as generous friends and relations. Isolation and the pressure of time make it difficult for growers to explore wider market opportunities or ascertain the best available price offered by the market. The cost of delivering the output to more distant markets is problematic, particularly for those living in remote areas or serviced by a weak transport infrastructure. In such circumstances, for small and marginal farmers, the most proximate market remains the local trader.

In case of cash crops such as cotton, oilseeds, sugarcane or tobacco, or even marketed food grains, a local agro-processing industry may be the most ready source of procurement. But these local enterprises can exercise monopsony power to set unfavourable terms of trade for the farmer or to even contract the crop from him in advance. In landlord-dominated areas, producers may be obligated by debt or sharecropping compulsions to deliver their produce to their landlord who exercises monopsony power over their credit and input markets. Traders may also manipulate the local market to deprive small primary producers of a fair price.

This unequal relationship is further accentuated by the uncertainties of the marketplace. Price fluctuations, driven by market forces, may drive prices below remunerative levels for small farmers. The small producer's compulsion to generate incomes for their subsistence as well as their lack of holding power, due to inaccessibility of credit or storage capacity, drives them to sell at whatever price is offered by the market. The small producers are driven back to the same market at a later date as buyers, when market prices may have risen. Many small and marginal farmers end up in bankruptcy and are forced to sell their lands due to the vagaries of the market. When prices rise, their unequal exposure to the market rarely permits them to reap its full rewards, which are largely appropriated by the trading intermediaries.

A study of the trade regime facing small and marginal farmers in Pakistan provides a clearer idea of the injustices inflicted on them through the political economy that underwrites their market regime (Hussain 2008). All trades remain unequal. The small and marginal farmers have to accept whatever the trader, landlord or mill owner offers, which tends to be well below the procurement price, where this is offered by the Government or public agencies for such crops. The small and marginal farmers can rarely avail of these support prices because of their dependence on the traditional buyers, whether out of debt obligations or social ties or merely lack of information. The Pakistan study estimates that these market distortions reduce the income of extremely poor farmers by 7.4 percent and of poor farmers by 6.4 percent. Even non-poor farmers face an income loss of 5.6 percent.

Market distortions do not just impact output markets, but also procurement of vital inputs, including access to credit, where the market tends to serve farmers in general, but the poorer farmers in particular, under inequitable terms. The Pakistan study shows that 28 percent of the extremely poor farmers are compelled to buy their inputs from the landlord, compared to 2.7 percent of non-poor farmers. The extremely poor pay relatively higher prices compared to the non-poor for a variety of inputs such as fertilizer, pesticides and irrigation water, so that, on average, they pay 12 percent more than they would had they been able to access the least costly suppliers.

The Pakistan experience is replicated in other South Asian countries and across the world. In India, the National Commission for Enterprises in the Unorganised Sector reported on the vicious

circle of poverty that holds small and marginal farmers captive. Their poverty originates in lack of land. The marginal farmer owns less than 0.4 hectare of land. The small farmers own less than 1 hectare. Small and marginal farmers account for 80 percent of ownership holdings in India, but own only 43.5 percent of the land, though it contributes the lion's share of farm output (51 percent). The small and marginal farmers are, indeed, more productive than the medium and larger farmers. However, the average income per capita of the small farmer is Rs. 1,659 (\$37.86) per month compared to Rs. 4,626 (\$105.57) per month for the medium farmer and Rs. 9,667 (\$197.79) for the large farmer, according to the National Commission for Enterprises in the Unorganized Sector. These inequities represent the outcome both of lack of ownership of assets as well as unequal participation in the market. Above all, the most elemental limitation on the range of options available to small producers is their staying power, which is constrained by debt, contractual obligations, health care or other mandatory needs, but above all, by the compulsions of hunger and survival for their family.

UNJUST GOVERNANCE

UNDEMOCRATIC DEMOCRACIES

In a more just world, market distortions could be corrected through a justly governed society. Unfortunately, social and economic injustice and inequity are compounded by unjust governance that discriminates against the income poor and other socially vulnerable groups, and effectively disenfranchises them from the political benefits of a democratic process. The excluded, whether they tend to be women, the resource poor or minorities, remain excluded from the policy concerns of the ruling elite, voiceless in the institutions of governance, and hence, underserved by available public services. Where such services are at all accessible to the excluded, they pay high transaction costs. The agencies of law enforcement insufficiently protect the excluded and frequently oppress them for personal gain as well as on behalf of the elite. The judicial system, in most countries, denies the excluded elementary justice because of their poverty as well as social biases. The institutions of democracy remain unresponsive to the needs of the excluded, both in the design of their policy agendas as well as the selection of their electoral candidates.

The excluded remain tyrannized by state as well as money power, and have to seek the protection of their oppressors, within a system of patron-client relationships, which perpetuates the prevailing hierarchies of power. Where the democratic process prevails, the excluded are denied adequate access to office in political parties or representation in the systems of democratic governance from the local to the national level. Representative institutions tend to be monopolized by the affluent and socially powerful, who then use their electoral offices to enhance their wealth and perpetuate their hold over power.

In some cases, particular communities such as the Dalits of India have recognized their voting power in states such as Bihar and Uttar Pradesh, and have used this to capture a greater share of political power. This has to some extent reduced the more egregious forms of social discrimination they once faced, and has somewhat improved their access to public services and economic opportunities. These social gains, however, have not translated into correcting the structural injustices in the distribution of opportunities that have not only constricted the lives of the Dalits but of the poor across India. Access to power by Dalit-led political forces has merely created new hierarchies, even within these communities, with a new elite emerging from within to harvest the fruits of Dalit power.

In such an inequitable and politically unjust environment, the benefits of democracy remain the privilege of the elite, supported by small collectives of sectional power exercised by such groups as trade unions of public employees providing some essential public services. In contrast, the needs of the excluded, whether for decent work or improved human development, remain unrecognized. Even where the excluded register their disenchantment at the polling booths by voting a succession of incumbent regimes out of office, as happens frequently across South Asia, political parties tend to remain largely unresponsive in heeding the political voice of what may be the largest segment of their voting population (CSDS 2008). In such circumstances, parties contesting for power should be offering a new set of policies and a new style of governance to their respective voters. In practice, government after government across South Asia has continued to offer a broadly unchanged set of policy prescriptions that are today in some discredit across much of the developing world and, recently, even the developed world.

DEMOCRATIC RESPONSES TO THE VOICES OF THE POOR

It is not surprising that in most South Asian countries with a functioning democratic process, there has been a high turnover of regimes through the polling booths. In India, at least, incumbent regimes exposed to periodic risk of eviction have become more sensitive to the needs of the excluded. Investments in major projects to address demands for work, better education and, most recently, food security have inspired the Mahatma Gandhi Rural Employment Guarantee Programme, the Compulsory Education Act and imminent legislation guaranteeing food to around 80 percent of the population. These developments represent greater sensitivity to the rights of the less privileged, but fail to address the more deep-seated structural injustices that divide Indian society. It remains to be seen if such measures as employment guarantees can transcend the anger and frustrations of the people of India at the corruption and injustices permeating their society, and ensure the re-election of the ruling coalition.

In recent years, there has been growing political awareness of social injustice and responsiveness to the concerns of the poor and excluded in Latin America. This region still reports

the world's highest levels of inequity. Table 3 shows that the loss on the inequality-adjusted income index in 2012 for Latin America and the Caribbean was 38.5 percent, higher than in sub-Saharan Africa at 30.4 percent, and double that of South Asia at 15.9 percent. A range of countries, including Argentina, Bolivia, Brazil, Chile, Ecuador, Paraguay, Uruguay and Venezuela, have now witnessed significant political changes through the electoral process. Political leaders and parties, drawing largely on the support of constituencies of the hitherto less privileged—or at least, as in the case of Chile, having been persuaded to be more responsive to the needs of the less privileged—have been elected. These regimes have attempted to reach out to neglected groups by reprioritizing policy and resource allocation agendas. This change in priorities is reflected in the improvement in the inequality-adjusted index for life expectancy (13.4 percent) and education (23 percent), where Latin American numbers are significantly better than for South Asia and sub-Saharan Africa—deprivations of the poor in both remain more pronounced.

In most cases, the political changes in Latin America have yet to transform the structural parameters of societies and economies sufficiently to realize a significant narrowing in disparities. But in certain countries, such as Bolivia and Venezuela, there has been a discernable shift in the social balance of power, with the ascendancy of working class and indigenous communities who have acquired a voice in policy-making.

In most countries of the developing world, people facing the greatest deprivations, including the income deprived, tend to be women or minorities defined by their caste, religious or ethnic identities. They remain the most vulnerable to unjust governance, including risks from political upheaval, weak law enforcement and social predation. In many countries, broader coalitions of the poor have used their voting power and collective action to assert their rights. In contrast, smaller, marginalized communities of ethnic or tribal minorities or residents of less accessible areas have been largely excluded from the mainstream of development. The voting and collective power of such groups tends to be weak so they remain voiceless, more exposed to oppression and least able to grasp development opportunities. These groups remain captive in the most inflexible poverty traps.

Such marginalized groups are now making themselves heard mostly by resorting to violence. The most backward areas of India, inhabited largely by indigenous communities, have become the epicentre of armed insurgencies led by Maoist groups that have led to escalating violence and loss of life. There has been some response by the successive elected regimes in India to correct the deprivations of these groups through both enhanced public investment and affirmative action. The structural sources of their deprivation—which include appropriation of their lands by big corporate entities to exploit natural resources—and their sense of alienation remain unaddressed, however. Unjust societies, or even pockets of particularly unjust governance that contribute to the

perpetuation of poverty are likely to remain sources of potential unrest until action is taken to correct structural injustices that create and reproduce these conditions.

Building secure futures: agendas for change

The second part of this paper examines corrective actions needed to reduce the vulnerability of the deprived to life's risks and to thereby move them not just out of but beyond poverty. The approach here challenges the traditional emphasis on reducing vulnerability through expansion of social protection underwritten by social provisioning for those most at risk. As we have argued earlier, vulnerability is not just an issue of income poverty or even insufficient access to health care. Vulnerability and its attendant by-product of poverty remain symptoms and not the source of a problem, which originates in the unjust nature of societies that create and perpetuate these ills. Our suggested approach to attacking vulnerability will be to explore agendas for:

- *Universalizing social protection through social provisioning.* Structural change will involve a drawn out, more intractable process. While this gets underway, we must continue to address the symptoms of injustice that perpetuate poverty and enhance insecurity, through greater measures of social provisioning.
- *Moving beyond social provisioning.* This entails initiating structural changes that elevate the excluded from living out their lives exclusively as wage earners and tenants, forever exposed to the tension of dependency on the bounty of employers and landowners.

The goals will be to:

- Invest the excluded with the capacity to own productive assets;
- Minimize market risks associated with their position at the bottom of the market chain by enabling them to move upmarket through sharing in the value addition process;
- Democratize access to assets and markets backed by more equitable access to education and health care;
- Ease tension by empowering the excluded through 'democratizing' democracy and providing them with greater access to the institutions of governance such as justice, public services and law enforcement; and

- Tackling their isolation, which within a highly inequitable society enhances their vulnerability to both market forces and unjust governance. Any move to reduce vulnerability must, therefore, be built upon strengthening their capacity for collective action. Institutions for promoting asset ownership and realizing a higher share of value addition by the excluded must be designed to build and sustain their capacity for collective action. Similarly, enhanced participation of the excluded in the democratic process and in sharing the benefits of governance must be built around their capacity for collective action.

UNIVERSAL SOCIAL PROTECTION

PHILOSOPHICAL FOUNDATIONS OF SOCIAL PROVISIONING IN EUROPE

One of the central features of the social revolutions that transformed much of Europe and North America was to minimize the insecurities that kept significant segments of the population vulnerable to risks. The post-war Labour Government led by Clement Attlee set out to slay five ‘giants’ identified by Lord William Beveridge in his historic report inspiring the United Kingdom’s welfare state. The ‘giants’ were want, disease, ignorance, squalor and idleness (Timmins 2001). Each originated in insufficiency of income and the structurally derived injustices of a society that condemned a segment of the population to live in conditions of deprivation and insecurity.

The urge to end these insecurities of life by overturning the unjust social order that created them also informed the revolutions that established the Soviet Union in 1917 and swept across Eastern Europe at the end of the Second World War. Whatever may have been the undemocratic features and weaknesses of the development model associated with these revolutions, what they did provide to all their populations was an element of livelihood security. All these post-revolutionary societies guaranteed a liveable income, regular employment, basic health care, education and housing to all their people. The levels and quality of social protection may not have been high, but no one, at least in the post-war period, was left vulnerable to destitution. Universal quality public education transformed opportunities for members of the working class, who could aspire to become university professors, doctors, engineers and cabinet ministers.

These elements of human security were unfortunately not compounded by a sense of security in relation to the state. Risks of arbitrary detention, unpredictable justice and unaccountable governance introduced their own tensions, which ultimately culminated in the collapse of the socialist system itself.

In contrast, more durable social transformations, under the rubric of social democracy, were initiated across much of Western Europe (Khilnani and Malhoutra 2013). Agendas for slaying the

giants of want, disease, ignorance squalor and idleness were universalized in these countries. Programmes of social protection, social insurance, universal quality education, public housing and full employment were put in place across much of the region. The social revolution transformed the opportunity structures of the poor and the working class no less substantively than in the Soviet bloc, and in the process, expanded the role of the state. Through such a process, European society provided security and predictability to the lives of its citizens at least for the first three decades of the post-war period. The European welfare state is today facing new challenges that have introduced levels of employment insecurity and degrees of want once inconceivable in Europe.

In these earlier years, most developing economies outside of the East Asian socialist states were far less preoccupied with social protection, which was viewed as something of a luxury. Social provisioning was provided largely through public investments in health and education, where East Asian countries including the Republic of Korea, Singapore and Taiwan Province of China, and Sri Lanka in South Asia made sizeable investments. Today, the progressive deepening of democracy has made the East Asian regimes more sensitive to the concerns and deprivation of their voters. Economic development across the developing world has enhanced public revenues and expanded opportunities for reducing the vulnerabilities of those most at risk. This section briefly discusses the expansion of social protection in the developing world, drawing largely on the Asian experience. It will also address some significant interventions for social protection in Latin America.

SOCIAL PROTECTION IN ASIA

The Asian Development Bank has identified three components of social protection: social insurance, social assistance and labour market programmes (Asian Development Bank 2013).

Social insurance, as it was originally conceived in the European model of social protection, is designed to mitigate problems for particular groups vulnerable to common risks such as illness, unemployment, workplace injuries and old age, and for issues such as maternity care. In the European model, social insurance was recognized as a universal right. In the Asian models, those covered by social insurance were drawn from the ranks of those who were at work and could contribute to such programmes. Most such beneficiaries were not poor in the statistically recognized use of the term, at least before they were exposed to a particular risk. These programmes covered health insurance, pensions, unemployment benefits, severance payments and payments from provident funds.

Social assistance was conceptually designed as safety nets provided in the form of transfer payments to vulnerable groups of the poor who were unable to qualify for social insurance or otherwise would not receive adequate social benefits. Programmes include social transfer payments for child welfare, health assistance, assistance to the elderly and disabled, and disaster relief.

Labour market programmes were designed to generate employment for those in need of work, providing them with assistance for securing employment and support for skill development through training programmes. Safety nets included cash-based or food-for-work employment programmes.

Based on the above three components, and taking account of the depth (calculated on the basis of the ratios of social protection payments per capita to per capita income) and breadth (calculated on the basis of the ratio of the extent of coverage in relation to the population of specific target groups in need of assistance and/or work), the Asian Development Bank computed the Social Protection Index for the Asia-Pacific region. These computations were used to compile table 5, covering selected Asian countries. The table attempts to relate the index to the country's per capita income and HDI ranks. The first of these comparisons provides a crude estimate of how far a country's social protection programme is determined by its income levels. The second indicates whether or not a country's human development indicators are related to its social protection interventions. The a priori assumption would be that the high-income countries with their enhanced capacity to underwrite social provisioning would be more effective in improving their HDI ranks and in providing social protection to those most in need.

In practice, HDI ranks are not always commensurate with GDP ranking, so that some countries, with lower levels of income, can record higher HDI scores. Correspondingly, the evidence in table 5 indicates that social protection interventions can transcend income levels. There is also no necessary correlation between the HDI and the Social Protection Index. Countries with better HDI ranks may perform poorly in relation to the latter. This suggests that the HDI, which is a composite of measures for the outcomes from economic growth and social provisioning for health and education, may not fully capture a government's prioritization of investments in social protection.

The evidence in table 5 establishes these relationships through the relative ranking for per capita income, the Social Protection Index and the HDI. The only consistent evidence is that the three high-income countries, Japan, the Republic of Korea and Singapore, maintain the same rank in all three categories. Countries that have given considerable priority to social protection despite lower income levels include Mongolia, with a Social Protection Index ranking 9 places above its income ranking; Viet Nam, 10 places; Sri Lanka, 8 places; Nepal, 7 places; and the Philippines, 5 places. For these countries, the HDI rank is also superior to income rank. In all except Sri Lanka, the Social Protection Index rank is also better than the HDI rank, suggesting a positive contribution from social protection expenditure to human development. Sri Lanka's better HDI rank indicates its longstanding commitment to higher levels of public provisioning in health and education.

Table 5: The Social Protection Index and the HDI

1	2	3	4	5	6	7	8	9	10	11
					Unweighted Social Protection Index 2009					
	Country	Social Protection Index rank	Overall Social Protection Index score	Social insurance	Social assistance	Labour market programmes	HDI rank	HDI index score 2012	Social Protection Index related to income rank (1-3)	HDI related to Social Protection Index rank (3-8)
	High-income countries									
1	Japan	1	0.416	0.523	0.213	0.067	1	0.912	0	0
2	Republic of Korea	2	0.200	0.216	0.181	0.059	2	0.909	0	0
3	Singapore	3	0.169	0.282	0.025	0.031	3	0.895	0	0
	Average		0.262	0.341	0.140	0.052				
	Upper-middle-income countries									
4	Malaysia	5	0.155	0.281	0.026	0.004	4	0.769	-1	+1
5	China	6	0.139	0.172	0.075	0.048	7	0.699	-1	-1
6	Thailand	9	0.119	0.154	0.082	0.025	8	0.690	-3	+1
7	Maldives	11	0.073	0.052	0.131	0.011	9	0.688	-4	+2
	Average		0.122	0.168	0.083	0.013				
	Lower-middle-income countries									
8	Bhutan	19	0.036	0.025	0.055	0.001	16	0.538	-11	+3
9	Fiji	13	0.060	0.083	0.051	0.007	6	0.702	-4	+7
10	India	14	0.051	0.019	0.044	0.250	14	0.554	-4	0
11	Indonesia	17	0.044	0.028	0.073	0.015	12	0.62	-6	+5

1	2	3	4	5	6	7	8	9	10	11
1								9		
1 2	Lao People's Democrat ic Republic	20	0.026	0.043	0.018	0.001	15	0.54 3	-8	+5
1 3	Mongolia	4	0.206	0.239	0.166	0.141	10	0.67 5	+9	-6
1 4	Pakistan	15	0.047	0.104	0.017	0.012	17	0.51 5	-1	-2
1 5	The Philippine s	10	0.085	0.182	0.022	0.055	11	0.65 4	+5	-1
1 6	Sri Lanka	8	0.121	0.227	0.036	0.037	5	0.71 5	+8	+3
1 7	Viet Nam	7	0.137	0.231	0.044	0.043	13	0.62 2	+10	-6
	Average		0.096	0.135	0.070	0.046				
	Low- income- countries									
1 8	Afghanist an	16	0.046	0.003	0.050	0.096	19	0.37 4	+2	-3
1 9	Banglades h	18	0.043	0.020	0.038	0.164	17	0.51 5	+1	+1
2 0	Cambodia	21	0.020	0.013	0.024	0.035	14	0.54 3	-1	+7
2 1	Nepal	12	0.068	0.098	0.055	0.014	18	0.46 3	+7	-6
	Average		0.061	0.055	0.071	0.054				

Sources: Asian Development Bank 2013, UNDP 2013.

At the opposite end of the spectrum, countries such as Bhutan, Cambodia, Fiji, Indonesia and Lao People's Democratic Republic have demonstrably weak social protection interventions that have earned them lower ranks than would be indicated by their income level and HDI rank.

High Social Protection Index scores do not automatically indicate that social insecurity has been significantly reduced along with the numbers vulnerable to risk. Table 6 shows that some of the higher income and also higher GDP countries, such as China, Indonesia, Japan, the Republic of Korea and Singapore, have managed to protect quite large segments of those in need. Relatively lower income countries, such as Mongolia, Sri Lanka and Viet Nam have also covered a sizeable share of their target groups. In contrast, some relatively higher GDP countries, such as India and Malaysia, report rather narrow coverage.

Table 6: Social Protection Index depth and breath, 2009

Country	Social Protection Index	Overall depth	Overall breadth
East Asia			
China	0.139	0.174	0.798
Japan	0.416	0.460	0.905
Mongolia	0.206	0.274	0.752
Republic of Korea	0.200	0.225	0.886
South Asia			
Afghanistan	0.046	0.431	0.108
Bangladesh	0.043	0.237	0.181
Bhutan	0.036	0.310	0.117
India	0.051	0.215	0.238
Maldives			0.168
Nepal	0.068	0.444	0.154
Pakistan	0.047	0.590	0.080
Sri Lanka	0.121	0.224	0.541
Southeast Asia			
Cambodia	0.020	0.090	0.225
Indonesia	0.044	0.068	0.650
Lao People's Democratic Republic	0.026	0.089	0.296
Malaysia	0.155	1.088	0.143
Philippines	0.085	0.368	0.231
Singapore	0.169	0.211	0.802
Thailand	0.119	0.153	0.777
Viet Nam	0.137	0.205	0.671

Source: Asian Development Bank 2013, tables A3.7 and A3.8.

Not all countries with wider coverage ensure levels of provisioning consistent with their incomes. Thus, China's interventions reach 80 percent of the target group, but the provisioning index score is relatively low at 0.174. In contrast, some countries with greater depth of coverage, such as Afghanistan, Pakistan and the Philippines, have a narrow reach, suggesting some trade off between numbers covered and levels of provisioning. This tension is more easily resolved by richer countries such as Japan, which can cover all its citizens and assure them generous levels of protection.

The composition of social protections programmes varies significantly across countries. Table 5 establishes that richer countries such as Japan, Malaysia, the Republic of Korea and Singapore have largely provided protection through comprehensive social insurance programmes. Countries with lower levels of income use the instrument of transfer payments to groups vulnerable to greater risk.

In Bangladesh and India, the favoured intervention entails employment-generating programmes in place for over half a century. In recent years, India has scaled up its Mahatma Gandhi Rural Employment Guarantee Programme, which is legislatively mandated to guarantee the right to 100 days of employment per family, at a daily wage of Rs. 100 (\$2), to all those who seek work. This programme, in its latest phase (2012) provided work to around 50 million households, who were offered an average of 40 days of work in a year (Drèze and Sen 2013). The programme covers close to 50 percent of the potential target group across India. But for possibly political reasons, the breadth of coverage has been prioritized over depth. Just 40 days of work provides a five-member household with around Rs 4,000 or \$800 per year, translating to a per capita income of \$0.43 per day. This is well below India's average per capita income and the global poverty line of \$1.25.

India's employment programme hardly serves as the equivalent of a minimum guaranteed income programme on the lines of *Bolsa Familia* in Brazil. At best, the programme has enabled India to reduce exposure to extreme destitution due to labour market failures, but it has yet to cover all those in need of work or to ensure that it can keep them gainfully employed over the guaranteed 100 days. Since the programme is rights based, it cannot be exposed to budgetary cutbacks or changes in public expenditure priorities, as is the case with the corresponding programme in Bangladesh. Whether it can be sufficiently expanded to meet the basic subsistence needs of a family living in poverty remains to be seen.

The Bangladesh programme for employment operates on a more modest scale. Its breadth of coverage is as high as India's, but its compensation capacity is lower (World Bank 2013a). In contrast, countries such as Viet Nam and Pakistan, with rather limited coverage, ensure relatively higher payments.

SPECIAL FEATURES OF ASIA'S SOCIAL PROTECTION MODEL

Social protection interventions are specifically targeted to those households most vulnerable to specific deprivations such as ill health, old age, unemployment and malnutrition. In an ideal society, no citizen should be exposed to such deprivations. The primary source of protection should, however, originate in the capacity, through one's life cycle, to be guaranteed quality education matched by adequate effective demand for employment. Sudden shocks or risks originating in ill health, accidents or even some passing unemployment could be covered by various social protection programmes. Once a person is too old to work or is exposed to permanent disability, various insurance programmes can guarantee a decent level of living. This model, associated with the European experience and now extended to Japan, the Republic of Korea and Singapore, is contingent on supply side interventions through adequate public provisioning. This enables all citizens to have access to quality education that invests them with the capability of accessing a wide

range of opportunities, and ensures ready access to quality health care to reduce vulnerability to health shocks.

The original social protection model was contingent on post-war commitments, at least across Europe, to ensure full employment. This not only covered the Western European democracies but also the socialist states of Europe and the Soviet Union, which made guaranteed employment into a central part of their economic model. This model is now exposed to considerable risk, since the cost of the welfare state is becoming unsustainable, while full employment is no longer assured. The current levels of budgetary austerity being practiced within the European Union have not only threatened the sustainability of prevailing levels of social protection, but have led to levels of unemployment across Europe once deemed socially inconceivable and politically unacceptable.

The East Asian development model, which now includes, with their own variations, China and Viet Nam, remains dependent on high levels of employment-generating growth inspired by high levels of investment. This demands high levels of social investment not just in education and social protection, but also in state policy interventions to promote massive structural changes diversifying and greatly enhancing the global competitiveness of Asian economies. A strong state played an instrumental role in this model (Wade 2003). The state in China, Japan, the Republic of Korea, Taiwan Province of China and Viet Nam not only played a critical enabling role through the instruments of social investment and industrial policy in order to realize structural change in these economies, but it also invested heavily in infrastructure development (Amsden 1992). Where necessary, it further invested in the productive sectors. The state-owned Pohang Steel Corporation in the Republic of Korea and Singapore Airlines are recognized as world leaders in their respective sectors. In China and Viet Nam, drawing on their socialist inheritance, the state remains a major force in the productive sector. Some of China's state-owned banks and corporations in the energy and construction sector are today world leaders in their respective spheres.

COMPREHENSIVE SOCIAL PROTECTION IN LATIN AMERICA

Beyond Asia, in sub-Saharan Africa and indeed across large parts of Latin America, market-induced risks persist. Social upheavals in Latin America have rebalanced the political landscape. Greater sensitivity to the concerns of the region's dispossessed and the desire to challenge glaring injustices that permeate their societies have impacted the policy agendas of particular governments.

Argentina, Brazil and Mexico have made substantial investments in expanding social protection. Figures for 2004 indicate that Brazil invested around a quarter of its GDP in social protection (13.2 percent), social insurance (11.7 percent) and social assistance (1 to 4 percent). Argentina invested 18.4 percent of its GDP and Mexico 8 percent in such social provisioning (UNRISD 2010).

Brazil's social interventions have included the *Bolsa Familia* cash transfer programme. It provides a conditional monthly payment to 'poor' households (incomes of \$35 to \$70 per month) and an unconditional monthly transfer to 'extremely poor' households (below \$35 per month). In 2006, the programme offered payments of \$5 billion to 11 million household (ibid). By 2011, the programme covered 13 million families. It has reportedly lifted 22 million people out of extreme poverty, and lowered Brazil's poverty levels to 21 percent. 'Extreme' poverty fell from 14 percent in 2001 to 4.2 percent in 2011 (Financial Times, 13 March 2013). Brazil is one of the few countries in the developing world where income inequalities have declined, even though levels today remain far higher than in India.

A cash transfer programme in Mexico, *Oportunidades*, paid out \$3 billion in 2006 to 5 million families. In 2013, the programme paid out \$5 billion to 5.8 million families. Conditions for transfers involved compulsory school attendance and preventive health care. These interventions have contributed towards lowering the portion of people under the national poverty line to 17.4 percent.

These levels of provisioning in Brazil and Mexico are far higher than anything on offer in South Asia, and highlight the more comprehensive nature of their social protection programmes compared, for example, to India's.

LIMITATIONS IN THE SOCIAL PROTECTION MODELS

Unlike in Europe, the social protection models in both Asia and Latin America have, except in the case of Japan, Singapore, and to a lesser extent in the Republic of Korea, failed to have a transformative effect on the opportunity structures of their respective societies. Despite progress in some of the fast growing developing countries, such as Brazil, China and India, and some improvements in income distribution in Brazil, all of these societies remain unequal not just in terms of income but also opportunities. Insecurity and vulnerability to various risks remain facts of daily life uncorrected by the depth or breadth of their social protection programmes.

In Bangladesh, where social protection accounts for only 2 percent of GDP, studies of safety net programmes indicate that these are quite inadequate for the income poor to cope with shocks associated with ill health, climatic and economic factors (Santos et al. 2011). Less than 2 percent of those exposed to a variety of shocks can depend on social protection safety nets provided by either the Government or NGOs. To cope, most households have to turn to savings, loans and depletion of accumulated assets. Given the limited resources available for coping, close to 60 percent of affected households cannot contend with shocks and are further enmeshed in poverty traps (ibid).

In some countries in Asia and Latin America, high levels of investment-related growth and structural changes helped to reduce poverty and ensure higher public revenues that could be invested in both human development and social protection. In China, for example, as part of its

programme for responding to the global recession, the Government invested \$400 billion in substantially enhancing public provisioning to its hitherto neglected health sector, which now provides protection to close to 98 percent of households. Such levels of state-supported growth reduced poverty and vulnerability due to both access to employment and social provisioning, though it did not eliminate risk from unstable market forces. Market injustice, originating in the asymmetric terms on which various segments of producers and workers participate in the market, leave even countries like this with pockets of vulnerability. Such pockets, with greater exposure to risk, remain pervasive across the rest of Asia and particularly South Asia.

ADDRESSING THE STRUCTURAL SOURCES OF POVERTY AND VULNERABILITY

What may be done to address market-driven risks that have left large numbers of households vulnerable to poverty and insecurity? A possible agenda for change to correct some structural injustices originating in the market can be considered in terms of the following issues:

- Addressing labour market failures;
- Enhancing the productive capacity of the poor;
- Challenging market injustice; and
- Empowerment through collective action.

ADDRESSING LABOUR MARKET FAILURES

Full employment policies

Where markets fail to generate sufficient employment, the state must assume responsibility for providing it to all those who need work. In the original post-war European model for social change, full employment policies were seen as important weapons to slay the giant that Beveridge termed idleness. The main instrument to ensure full employment, however, was macroeconomic policy inspired by the teachings of John Maynard Keynes. Full employment was to be realized not just through fiscal and monetary stimuli, but also through direct public investments in employment generation. Such ideas proved serviceable even in the pre-war period. When the United States was in deep recession in the 1930s, as part of President Roosevelt's New Deal, the Government invested heavily in public works programmes. Adolph Hitler did the same in his attempt to stimulate the German economy in that period. The famous *autobahns* were a direct outcome of this German version of Keynesianism.

Today few countries, if any, pursue full employment policies in either the developed or developing world. High levels of employment are seen to be incidental to the growth and investment

strategies of a country. Despite the International Labour Organization's mission to promote decent work, the incorporation of full employment into contemporary policy reforms seems less visible. This omission, which has contributed to the paradox of jobless growth, inspired the World Bank's 2013 *World Development Report* on jobs.

The use of public works programmes

What currently passes for employment or labour market policies are social protection interventions to provide income or food security to the most vulnerable population groups. Such programmes are designed to deal with structural vulnerabilities originating in the seasonal nature of work, or to meet the needs of those segments of the work force most likely to be at risk by virtue of location or diminished capability to find work. As a result, poor rural women have often been a favoured target group. All such programmes have remained contingent on the availability of public resources and the priorities of national policy makers. As far back as the beginning of the 1960s, the Pakistan Government initiated one of what was then the world's largest rural employment works programmes to address seasonal unemployment in East Pakistan, now Bangladesh (Sobhan 1968). This massive programme was, however, exclusively underwritten by United States aid under its PL-480 programme designed to dispose of its large food surpluses. More recent food-for-work programmes have also tended to be sustained by donor funding (World Bank 2013a).

India's guaranteed employment programme departs from these episodic social protection-oriented workfare interventions by virtue of its universal rather than targeted coverage, and the legally mandated compulsion for the Government to commit revenues to meet its obligations (Drèze and Sen 2013). The architects of the programme were conscious of the need for eliminating wasteful expenditure through unsustainable make-work projects. The programme was thus calibrated to the actual investment needs of households, and also to meeting needs for rural infrastructure in such areas as irrigation, flood protection, land development, or drinking water and sanitation. In most rural communities, but more so in the more backward areas of India, there are massive unmet needs for such investments, which are rarely met by the market.

There are many hazards associated with such workfare programmes relating to the potential for inaccurate targeting, corruption, rent-seeking and use for political patronage (Sobhan 1968). If, however, a primary goal is to assure income security, less through transfer payments to compensate for market failures than through income generation derived from productive work, then such an agenda for providing employment remains crucial to take up the slack from broader national strategies for stimulating employment-generating growth.

Employment policies for structural change

It should be kept in mind that programmes such as the one in India cannot solve the problem of jobless growth. In the final analysis, governments need to recommit to maintaining full employment

as part of their macroeconomic policy agendas. But macroeconomic policies nowadays are designed to stimulate growth, not employment. Nor are there any macroeconomic policy agendas where employment generation is assigned the same priority as economic growth. A growth model needs to be designed where the measure of macroeconomic policy outcomes would incorporate not just estimates for economic growth and price stability, but also employment growth and levels of unemployment. Prevailing levels of unemployment would need to be assigned similar levels of concern as for keeping inflation under control.

For developing countries, however, unemployment or underemployment is not only more entrenched but has its own structural features. Thus, the stimuli of macroeconomic policy will not be enough to address the varieties of constraints that inhibit not just employment creation, but a level of employment ensuring an adequate livelihood. In such circumstances, employment generation must be incorporated as a standalone policy within a wider development agenda. This would need to address both demand and supply side constraints, and provide institutional interventions to address these. Here the responsibility of the government as a creator of work should be recognized. This does not mean hiring large numbers of civil servants who would mostly remain redundant, but implies promoting productive work.

The role of the government must accordingly be targeted towards addressing market failures in responding to the unmet demand for infrastructure, mostly in rural areas, but also in urban slums largely inhabited by those with lower incomes. The need for such investments is unlimited and ongoing, because once such investments are put in place, they will need regular maintenance. India's employment programme was designed to reconcile this unmet need for public infrastructure with the unmet need for work. It is suggested that this model be continuously refined so that in every country a clearly identified portfolio of investment projects, designed through local consultation where such needs are most readily identifiable, should be built and calibrated to the need for work both at the national and local levels. Public resources should underwrite these investments in the rural and urban sector, and skill development programmes should be established to address the need for more specialized skills in such projects. Within such a policy framework, employment generation would emerge as an integral part of any policy agenda to not only end poverty, but to permanently eliminate the insecurity of unemployment and want.

ENHANCING THE PRODUCTIVE CAPACITIES OF THE POOR

Responding to credit needs

Those most at risk are likely to be those without assets who depend exclusively on the employment-generating capacities of the market and on public investment. The asset-less and asset poor need to gain an autonomous capacity for income generation through access to both productive assets and credit to invest in such assets, and/or to underwrite various microbusiness initiatives.

Historically, the credit needs of the poor have remained unmet because of market failure. The poor need credit and have been willing to pay market competitive terms. But none of the established financial institutions were initially disposed to service this large, unsatisfied and potentially profitable market. As a result, the poor turned to moneylenders, who exploited them in closed, non-competitive informal markets. The isolation and vulnerability of the poor allowed moneylenders to extract punitive rents; this process perpetuated indebtedness and aggravated poverty.

The pioneering contribution of Nobel Laureate Mohommed Yunus, through the Grameen Bank, was to recognize the poor as potential microentrepreneurs with a capacity to save and invest in small-scale business activities (Yunus 2008). Yunus stepped outside both the formal and informal credit markets to create a segmented market for them.

Yunus knew that sustaining and reproducing such an enterprise depended on it becoming financially self-supporting. This required charging higher rates of interest than those offered by commercial banks. These high rates were based on the principle of cost recovery, rather than the principle of coverage for the risk of lending to economically weak clients, which had provided a superficial logic for rent extraction by moneylenders. Yunus sought to make these high rates of interest more palatable to his clients, who were mostly poor women, by inviting them to become the equity owners of the bank. Grameen Bank thus rejected the NGO mode of ownership and was constituted as a corporate commercial bank, owned largely by its own client base of 8 million borrowers, with a minority stake for the Government of Bangladesh.

In Bangladesh, microcredit grew rapidly. In 1996, borrower-members stood at round 8 million. By 2010, there were over 34 million, involving most of Bangladesh's population classified as living below the national poverty line (World Bank 2013a). Microcredit has served to reduce poverty but not end it, however. The pursuit of financial viability has enforced an element of selectivity in microcredit programmes that consciously excludes the extreme poor, whose vulnerability makes them less creditworthy. Both Grameen and BRAC, Bangladesh's second largest microcredit provider and the world's largest NGO, have recognized this omission and have specifically targeted programmes to reach the hard-core poor, including beggars. The Grameen Bank programme in 2013 reached 80,000 beggars, to whom it has so far extended \$2 million in grants (Grameen Bank 2013).

In most other programmes in Bangladesh and around the world, including the now increasing number of for-profit microfinance institutions, the extreme poor, who are most at risk and in need of such credit, remain excluded. The inability of microcredit to either end poverty or reduce risk for the more vulnerable is inherent in its one-dimensional approach to poverty. Microcredit does little to compensate for the low level of skills and the weak market competitiveness of poor clients, factors that deepen their vulnerability. The next two sections explore critical interventions that would need to go hand in hand with the use of microcredit to decrease poverty and vulnerability.

Insurance for the poor

Another area where the financial system has neglected the poor involves insurance. The insurance industry was designed to mitigate the risks and insecurities of life, whether from death, old age, ill health, natural hazards, fire or civil strife. Across the world, there is no group whose life is more insecure than the poor. Death or illness of a breadwinner can push a poor family into total destitution. Crop failure and resultant indebtedness have been driving farmers to suicide across India. Death of livestock due to disease or natural hazards has served as a source of poverty for poor rural families for millennia. In cyclone-prone areas in the coastal belt of Bangladesh, when tidal bores threaten to engulf the flimsy homesteads of poor inhabitants, many risk their lives to stay on to protect their livestock and other meagre possessions from the storm. In various public projects to provide security to Bangladesh's coastal populations through construction of community shelters, provision is made to also protect livestock.

In a world where the poor are exposed to such a variety of risks to life, health and livelihood, it remains a social as well as political obligation for the state to step forward, where the market has clearly failed, to cover these risks. Such interventions could extend to the introduction of a variety of insurance products covering risks such as life, health and old age, which are common to traditional social protection programmes recognized by the Asian Development Bank study (2013). But the goal should be to move beyond this and cover the specific risks of the poor, such as the loss of crops and livestock, bad weather, market fluctuations or civil strife. Such measures need to be designed as part of a holistic national policy, and should account for the social obligations of the state in ways that are affordable both to the state and the poor. The more extensive the insurance coverage, the more widely diffused the risk, which will thereby serve to reduce costs. In such circumstances, a state-led initiative would perhaps be the most cost effective and also socially just.

Ownership of assets

Critical to enhancing the security of the most vulnerable is their command over productive assets. Since a large segment of the poor and vulnerable live in rural areas, the most immediate option for promoting asset ownership should be through widening their access to land, water and forestry resources. Access to land, whether through rights of ownership or by ensuring more secure tenancy rights, will provide a degree of security to millions of landless/land poor households across the developing world. Those with insufficient land remain dependent on the patronage and whims of landowners and vulnerable to the insecurity of land markets where such exist.

To enhance not just the earning capacity of the poor but also to reduce their vulnerability, agrarian reform needs to be restored to the policy agendas of all governments across the developing world where landlessness remains endemic. Revisiting agrarian reform is justified both on philosophical and practical grounds. Available evidence suggests that in many countries a significant

proportion of large landowners remain absent or at least non-cultivating owners who rent out or sharecrop their land (Hazra 2006). In many of the corporate estates of Latin America, large tracts remain uncultivated or under-cultivated (de Janvry 1981). In the land scarce countries of South Asia, land poverty has expanded the tenancy market. In Bangladesh, recent evidence indicates that around 36 percent of agricultural land is rented out by 28 percent of households (Hossain and Bayes 2009). The land is rented out mostly by bigger farmers who account for 43 percent of the land in the tenancy market (ibid). In Nepal, 20 percent of the land is under tenancy, with a growing proportion of households operating some tenanted land (Banskota 2007). In Pakistan, 56 percent of extremely poor households and 37.5 percent of poor households operate their holdings as tenant farmers (Bayes and Hossain and Bayes 2009). In India, while tenancy is greatly diminished, in some states such as West Bengal, 26 percent of the land is operated under sharecropping arrangements, even though tenancy has been made permanent through an agrarian reform in the 1970s known as *Cooperation Barga*, carried out by a Communist Party-led regime just elected to power in the state (Hanstad and Nielsen 2004). Land poverty, however, remains high in India, with a growing volume of landless women workers who are today also competing for land (Agarwal 2008).

In prevailing circumstances, there is a strong argument, on grounds of both justice and efficiency, to at least ensure that those who rent land are given the right to own the land they cultivate or to at least be assured of secure tenancy. This is a much less radical intervention than to appropriate 'surplus' land above a pre-set land ceiling, as was legislated in an earlier generation of agrarian reforms in South Asia and other regions (Sobhan 1993). In other parts of the world, such as Latin America, where land ownership is more inequitably distributed than anywhere else, an agenda for agrarian reform would serve as an important intervention not just to reduce insecurity for the land poor, but also to narrow social disparities and strengthen the participation of the excluded in the democratic process.

Making agrarian reform more effective

Agrarian reform should not be perceived as an agenda to just distribute land, but as part of a wider process of poverty eradication through the empowerment of the rural poor. Such a policy agenda would need to rethink the institutions for managing land. Minfundist agriculture, where farmers are left to survive on unviable units of land in perennial danger of being bought out by the rich, should no longer be seen as the end product of agrarian reform. Small farmers, even those with unviable holdings, need to be empowered through collective action to realize the external economies available to bigger landholders. Groups of landless households could be incorporated to own and operate tube wells or farm machinery in order to market these services to other small farmers (Hussain 2008, Agarwal 2008). Farm households could collectively store crops, negotiate better prices with wholesale markets, own transport to deliver their crops to the market and use IT services to keep track of the market.

In South Asia, for example, where 70 to 80 percent of the farmers are small, and among them, an increasing number are women, a group approach could improve small farmers' access to inputs, credit, extension and marketing (Agarwal 2008). As a group, small farmers can pool land and thereby increase the area available for cultivation since field boundaries become redundant. Secondly, for women farmers in particular, joint cultivation could bring into the fold women with leadership qualities and scarce managerial skills. Most importantly, a group would be better placed to go for higher value crops that normally involve more risk (ibid).

In India, there are examples of gains for small farmers through collective contracts (ibid). In Punjab, the Mahindra Shubhlabh Services Ltd. followed a consortium approach, with contractual safeguards for risk protection for maize farming. The United Planter's Association in South India buys 90 percent of its tea from self-help groups of women. The women form a group and use loans to buy land. An acre is registered in each woman's name, but they pool the land for farming in groups of 8 to 10. Many groups are also jointly leasing land from the Development of Women and Children in Rural Areas programme. It has empowered women socially, enhanced the status of Dalit women and increased family food security (Sobhan 2010).

All the opportunities available to a large farmer can be accessed by small farmers acting together. How far these benefits can be accessed will depend on the ability to design collective institutions, whether as cooperatives or corporate entities, and manage them professionally yet transparently, with accountability to their owners. A major part of a reform strategy will therefore need to focus on the institutional arrangements for promoting collective action.

Some of the most insecure communities live in remote areas rich in forest and mineral wealth. This juxtaposition between natural wealth and impoverished communities is found across the world, from the Amazon forests in Brazil to the oil-rich delta in southern Nigeria, from the mineral-rich rural hinterlands of Orissa and Chhattisgarh in India to the water-rich highlands of Nepal. These communities are usually tribal/aboriginal minorities and/or extremely poor people with nothing but customary rights to the usufruct of the lands they occupy.

All such communities live in permanent threat of displacements from their land and homes by locally powerful people, corporate developers or state development projects. Insufficient compensation usually leaves them vulnerable to lives of want and insecurity. In all such cases, their rights to the land and resources within their ancient habitations should be recognized and treated as a form of equity that would assign them a permanent stake in the development of an area and the resources located within it. How such a stake would be defined, distributed and protected, in the context of a major development project or corporate investment, may be further explored.

CHALLENGING MARKET INJUSTICE

Minfundist farmers, artisans or street vendors who survive at the bottom of the value chain depend for their subsistence on the many intermediaries who add value to their products and services. Their livelihoods remain permanently insecure because they can do nothing to enhance their bargaining power at the bottom of the value chain. Addressing these insecurities requires connecting primary producers to the upper tiers of the value chain, whether as traders or as partners to those engaged in adding value to products and services. Such interventions may originate from the corporate sector, reaching down directly to the first link in their supply chain, or entail primary producers coming together in corporate/cooperative enterprises owned by them. The Indian experience with both models can be drawn upon to explore possibilities for reducing the vulnerabilities of millions of the rural poor to inequities in markets.

Adding value through the corporate sector

In India and many other countries, corporate enterprises remain an important resource for connecting primary producers to the upper tiers of the market. This relationship between primary producers and the corporate sector has contributed to the correction of information asymmetries that constrain the marketing options of small farmers and service providers. ITC's 'e-Choupal' programme provides a good example of such an initiative (Prahalad 2006).

The ITC group, one of India's largest corporate conglomerates, is engaged in a variety of businesses comprising tobacco, hotels, paperboard and specialty paper, packaging, agribusiness including edible oil production, branded apparel, packaged food and confectionary. In 1990 it began exporting agro-based products. In 2001, ITC launched its e-Choupal programme to source its purchases directly from farmers. By 2008, it had set up 6,500 e-Choupal Internet kiosks serving 36,000 villages across 9 states, and reaching 4 million farmers. Each ICT kiosk, available to around 10 villages, is located in the village home of a selected farmer. The kiosk is equipped with a computer and related IT equipment, and uses VSAT technology to provide accurate, up-to-date market information to local farmers.

Systems for connecting primary producers directly to the upper tiers of the market through direct procurement of their produce by major retail chains and agro-processing enterprises is now spreading rapidly across South Asia. Corporate retail chains in India, such as Reliance and Spencers, now connect agri-producers to the final consumer (Joseph et al. 2008). A corporate enterprise in Sri Lanka, Cargills, one of the largest retail chains in the country, similarly sources its produce from farmers by largely eliminating marketing intermediaries (Sobhan 2010). In Bangladesh, corporate retailers such as Nandan and Agora, which serve metropolitan markets, source produce directly from producers or wholesalers operating in local markets.

A variety of agro-processing businesses, producing edible oils, tea, coffee, bakery products, branded sugar and dairy products, have entered into contractual arrangements with farmers or have established direct procurement chains with growers. ITC has extended its links with farmers, beyond the e-Choupal intervention, by encourage them to sell their produce directly to ITC thorough procurement hubs located within the network of e-Choupal kiosks. ITC offers market competitive prices to farmers, and prompt payment without risk of being defrauded on grounds of grading and weight. ITC has used these hubs to source its supplies of soybeans, coffee, grains, black pepper, edible nuts, marine products and fresh fruits. These supplies are processed in its various agro-enterprises, which service both national and international markets. Fresh fruits and vegetables are also being directly procured from farmers and retailed through urban outlets established by ITC.

In return, ITC provides assistance to farmers in sorting and grading produce, timely agro-extension services for improving crop quality, and free advise on the latest trends in crop preparation. Such assistance has helped farmers to improve productivity and even diversify cropping patterns. ITC services extend to the provision of services by soil-testing laboratories, medical services including a tele-medicine facility, and even pharmacies. ITC also uses its procurement hubs as retail outlets to market supplies of agro-inputs and other retail products directly consumed by farmers who serve as a captive market whenever they come to the hubs to market their produce.

ITC and other corporate chains have been able to offer a better price to soybean, coffee, sugarcane, fruit and vegetable growers than they may have received from local traders or commission agents. But these farmers have not been able to share in the substantial gains from converting sugarcane into refined sugar, soybeans into soybean oil or cotton into yarn. The substantive rewards from value addition in the agro-economy are largely appropriated by the modern agro-processing sector through its direct interface with national and global markets. Nor has any effort been made by the corporation to link its supply chain to the value addition process.

Due to their vulnerability and isolation, small farmers interact with the corporate sector on highly unequal terms and remain captive in a monopsonist relationship. The enduring lesson from the Indian experience suggests that macroeconomic growth and poverty reduction can be best served by investing small producers with opportunities to move upmarket so as to share in the value addition process. If farmers are to be linked with the upper tiers of the market, they need to be institutionally empowered to interact with the market through various forms of collective action that aggregate their negotiating power. Such institutions may be fully owned by the small farmers, enabling them to make large-scale investments in both backward links, as in the farmer-owned fertilizer industry cooperatives in India (Sobhan 2010), and forward links, as in agro-processing industries. Alternatively, collectives of small farmers can also be linked to the agro-processing corporate sector through provision of equity shares in these enterprises.

The critical issue is how to reduce the vulnerability of small farmers to exploitative intermediaries and connect them to the value addition process. The option of using the cooperative route has, at least, in South Asia, proved serviceable. The Amul Dairy cooperative in Gujarat, India has emerged as a role model for the region that has been replicated by Milk Vita in Bangladesh and also in Nepal. In these cooperatives, dairy farmers/suppliers have emerged as the direct owners of the supply chain, which extends from agro-processing to marketing the finished products.

The Amul Dairy cooperative was originally conceived as a milk-marketing facility designed to counteract the exploitation of small dairy farmers in Gujarat by a monopsony of milk traders, through the instrument of collective action. Amul has grown into a globally recognized institution that is India's largest agro-processing enterprise, with a turnover of over \$2.5 billion in 2012 to 2013 and exports of \$25 million. Amul today serves and is owned by its 3.2 million members located in 16,914 village cooperatives. These village societies are federated in 17 district cooperative unions, which together constitute the Amul national cooperative. Amul has used its size to derive external economies by expanding its operations from milk marketing to value addition, and turns out a range of 23 milk-based products from its various agro-processing enterprises. The success of the Amul model has led to its replication across India, where around 120,000 village cooperatives with 13 million members aggregated in 15 federations have contributed to transforming India into the world's largest milk producer.

India's sugar cooperatives, owned by sugarcane growers centred in Maharashtra state, are even larger conglomerates than the dairy cooperatives, although they are far less profitable, particularly for small sugarcane growers. In Bangladesh, Milk Vita, a cooperative, and BRAC, with a heavy involvement in the microfinance sector, have invested in value addition through dairy enterprises. Milk Vita was modeled after Amul as a cooperative, and is Bangladesh's largest dairy enterprise. The BRAC project Aarong Dairy is designed to provide stable prices for milk supplied by thousands of its woman microcredit borrowers who have invested in the dairy sector. The scale and success of the Indian experience has not been replicated in Bangladesh or South Asia, however. BRAC, for example, has eschewed the Amul model of integrating its milk suppliers, through a cooperative institution, in favour of the Aarong approach, where the operation is fully owned by BRAC (Khundker 2006).

Adding value to microenterprise

The unorganized sector or informal economy is the principal source of livelihood for the poor in most parts of the developing world. In India, the National Commission for Enterprises of the Unorganized Sector observed that 50.6 percent of GDP from 2004 to 2005 came from the unorganized sector. While a large component of the sector is located within agriculture, it also accounts for 30 percent of value added for industry and 45 percent for the services sector, where microenterprises constitute the principal mode of production.

The commission's report indicates that 87 percent of these enterprises are owner or family operated. Among India's non-farm unorganized enterprises, the main areas of microenterprise involve artisans such as handloom weavers, potters, bamboo product makers and food producers, or service providers such as rickshaw operators, rag pickers and street vendors. The scale of their operations remains microscopic. In rural areas, 43 percent of these enterprises have fixed assets of less than Rs. 5,000 (\$120.90) while 51 percent of enterprises even in urban areas have assets of less than Rs. 25,000 (\$604.50) (National Commission for Enterprises of the Unorganized Sector).

The connections between microenterprises and poverty may have been partially addressed through provision of credit by microfinance institutions. Access to microcredit has certainly helped to reduce poverty, but a large proportion of its borrowers remain trapped in low-yielding microenterprises that keep them close to if not below the poverty line. The National Commission for Enterprises of the Unorganized Sector estimated that 57 percent of these microenterprises in rural areas of India earned less than someone working at India's national minimum wage of Rs. 45 (\$ 1.09). For many microentrepreneurs, low incomes stem from low prices received for products and services, attributable to poor quality, exploitative marketing networks and their exclusion from sharing in the further processing of primary products.

For slightly larger enterprises employing three or four wage workers, which would be classified as small-scale enterprises, there may be similar problems associated with participation at the lower end of the market chain. Access to the market is intermediated by traders who provide credit and market their products, or by those larger enterprises that subcontract work to them either as providers of an intermediate input or as part of a putting-out system to augment their own supply base.

The problems of non-farm unorganized enterprises are further accentuated by the very informality of their status. Most exist outside the law. While those in rural areas may operate from their own homesteads, in urban areas, their property rights often remain undefined. This leaves such enterprises perpetually at risk of eviction, persecution by the police and extortion by local musclemen who collude with the law enforcement agencies to extract rents. Without title to property or registration, these enterprises have no corporate or legal status, which often denies them access to institutional credit or many of the benefits on offer from various public support programmes. The report of the high-level Commission on Legal Empowerment of the Poor argues that positive interventions are needed at the level of the state, civil society and the international community to legally empower microentrepreneurs so that they can participate more productively in the economy with the protection of the law.

Most non-farm unorganized enterprises do not have the advantage of being linked within a supply chain to big corporate producers or retailers. They find it difficult to compete in the market

due to their individualization, low levels of skills, asymmetric access to information and lack of capital, factors exposing them to a perennial existential struggle. Some small entrepreneurs and even home-based enterprises have been integrated into the modern economy by corporations who have found it advantageous to use them as partners in their production process, and have accordingly invested in technological upgrading. At the end of the day, however, microenterprises, held captive in the unorganized sector, remain excluded from a major share of the returns accruing to corporate giants or even the handicraft shops and garment boutiques that procure their products. The operative issue remains how and whether or not these microentrepreneurs can be empowered to derive a greater share from the value addition generated from their labours.

Interventions to add value to microenterprises

The problems of isolation and scale, which have limited the share of microenterprise in value addition, have not gone unnoticed by the market or the state. In recent years, the nonprofit or NGO sector, as part of its agenda of alleviating poverty, has reached out to the microenterprise sector to assist in adding value. Large-scale retail chains such as Reliance or Spencers in India, or corporate NGOs such as BRAC in Bangladesh, are attempting to bypass trading intermediaries and connect directly to microenterprises. The corporations seek to substitute the traditional role of the trader by providing market information, technical guidance and quality control as services to the primary producers, in addition to offering a guaranteed market for their product.

In all such cases, the actual microentrepreneurs may benefit from regular orders provided by their prime contractors, who may even provide technology transfer or credit, and exercise quality control over the supply chain to ensure both quality and reliability. Despite such oversight by the parent company, however, reliability can remain a problem, particularly where a large number of small suppliers are involved. Linkages with corporate enterprises may be more beneficial to the primary producers and microentrepreneurs, at least compared to their dependence on the traditional trading intermediaries. While these direct linkages significantly reduce transaction costs for both buyers and sellers, it should, however, be kept in mind that the corporate entity always captures the larger share of the return from the value addition process.

Limited state outreach to microentrepreneurs has, since the 1970s, encouraged NGOs to come forward to fill the vacuum. In South Asia, NGOs have emerged as sources of credit, technical assistance and marketing outlets for the products and services of microentrepreneurs. BRAC has established a modern market outlet, Aarong, to retail handicrafts within Bangladesh and abroad. Aarong has 13 centres and 653 sub-centres across Bangladesh where artisans, mostly women, usually work an eight-hour day for 25 days a month at a monthly minimum wage of around Tk. 2,000 (\$30). Alternatively, artisans working at home or even in the Aarong Production Centres are paid at piece rates. Both salaried and contracted workers receive free medical checkups, legal advice, day care

services and schooling for their children, and contribute to a worker retirement fund. Many women are specially trained in particular skills. The centres altogether provide work for around 65,000 artisans, of whom around 40,000 are fulltime wage earners while around 25,000 are home-based piece-rate workers. Aarong has eight upscale retail outlets in the urban centres of Bangladesh and an outlet in London, and markets its handicrafts to fair trade outlets across the world.

EMPOWERMENT THROUGH COLLECTIVE ACTION

Collective action by women

Scope for adding value to microenterprises does not originate exclusively from the corporate sector or NGOs. Amul and the milk cooperatives of India have provided evidence that small dairy farmers, once living lives of insecurity, dependent on milk traders, can be empowered through collective action within a cooperative institution. There is further encouraging evidence on the advantages of collective action through empowering women from low-income households to come together to improve returns on their labour. Two examples from India deserve special attention, the Self Employed Women's Association (SEWA) and Lijjat. They demonstrate how collective action can improve the position of disempowered women in the value addition chain.

SEWA was established in Gujarat, India, under the leadership of a dedicated activist, Ela Bhatt. It is one of South Asia's great success stories. It has brought together 2 million of the most excluded women who have demonstrated that significant gains can be reaped by the poorest and most vulnerable communities of primary producers. SEWA has reached ragpickers, embroiderers, garment stitchers, street vendors and gum collectors, who once used to survive on the margins of subsistence, to obtain better returns for their work through collective action. These diverse groups are assembled in 103 state level cooperatives aggregated in the Gujarat State Cooperative Mahila Federation. The federation is served by a cooperative bank owned by 100,000 SEWA members; it has 400,000 depositors and has now graduated into a national bank.

To enable small producers to move upmarket requires strong professional back up. This is provided by an organization such as SEWA, which is better equipped to explore market needs, provide technical training to upgrade products to meet market specifications, and exercise quality control. The central message from the SEWA experience points to the importance of reducing vulnerability through ending the isolation of the most impoverished workers by bringing them together, through collective action, to negotiate better terms for their work and the sale of their goods. The most crucial support from SEWA came through empowering these diverse women's groups to enhance their organizational capacity to compete on more equitable terms in the market. These groups needed to be organized to come out of their dependency on middlemen and to directly connect with the upper tiers of the market. This process started by bringing together small groups of

women engaged in a single activity, and later federating these local groups into increasingly larger associations, which can access markets with much higher returns for primary products.

Aggregated producer groups have the capacity to enhance bargaining power, deal with the government at higher levels, draw on public services for training, mobilize credit, and invest in collective assets such as transport and storage facilities to promote access to wider markets. These factors have helped SEWA and its affiliated groups in realizing higher returns for workers' products and labour.

A different approach was pursued by Shri Mahila Griha Udyog Lijjat Papad, more popularly known as Lijjat. It produces a popular condiment, *papad* (Pandey 2007). Lijjat uses collective action to add value to household labour; it began as a cooperative of women in Mumbai in 1959, with 7 semi-literate Gujarati housewives as founder members and capital of Rs. 80. Today, it outsources its production process to 43,000 low-income women members who are both producers for and owners of the enterprise. As of 2013, Lijjat had captured 90 percent of India's *papad* market with a turnover of \$118 million. It exports 25 to 30 percent of its product.

What sets Lijjat apart from millions of home-based microentrepreneurs in South Asia is the value addition provided by delivering external economies at the corporate and branch level, which are available to a large enterprise. These economies include centralized procurement of inputs such as flour and condiments as well as their processing in order to ensure standard quality. Ingredients can then be distributed to women for final preparation at the household level. The central office also oversees packaging, sales, advertising, exports and financial management. A special packing division prepares packaging materials distributed to branches for products delivered by the household producers. Lijjat has further added value to the primary production process through investment in backward and forward linkage enterprises, such as flour mills as well as a printing and a polypropylene packing division. It has diversified its products and developed a significant share in the spices and detergent markets across India.

Lijjat is a success story of economic gains from collective action by the poor. The cooperative has generated substantial profits, which are used both for reinvestment and for dividends shared by all its members. Individual members have attained regular earnings of around Rs. 3,000 per month based on their daily home-based production and share of the profits.

Collective action through worker ownership

Some of the most insecure and vulnerable people are wage workers in the fast-growing export sectors of the developing world. One of the most dynamic sectors, readymade garments, is dominated by exports from developing countries. Global competitiveness originates in low wages, hazardous working conditions and insecure labour rights. In such circumstances, much time, resources and

political capital has been invested in seeking to at least improve working conditions and the collective bargaining rights of workers. Bangladesh, after the Rana Plaza tragedy, is in the middle of such negotiations with governments and corporate buyers from the United States and the European Union, the principal markets for its readymade garment exports.

Notwithstanding the good intentions of the international community, in an age of globalization, Walmart will continue to source its suppliers from exporters who provide the best value for money. As table 4 has shown, wages, which have declined in real terms in the readymade garment sector, for a number of exporting countries, including Bangladesh, may not improve significantly in the days ahead within an increasingly competitive global market. If Bangladesh aspires to take over market space in readymade garments now being gradually vacated by China, one of the few countries where real wages have risen, it may need to keep its wage levels repressed in order to stay competitive.

One of the ways in which workers in labour-intensive export sectors of Bangladesh and other such countries could both enhance their rights and bargaining power would be to have opportunities to form trade unions, a right hitherto denied to them. Their weak bargaining power has greatly enhanced their vulnerability and exposed them to unjust treatment by employers. In such circumstances, workers may feel compelled to resort to street actions to assert their rights; such protests, often degenerating into violence, have become endemic in Bangladesh. Collective bargaining may not be enough to counteract the pressure of global market forces, however. Worker's rights should, therefore, include sharing in the value addition to their labours. Opportunities may be initially provided through provisions for profit-sharing in enterprises. Eventually, workers should be empowered to become stakeholders in enterprises through provisions for sharing in company equity.

Investing workers with ownership rights in their place of work has been a time-honoured tradition in countries seeking to promote a more inclusive society, in both socialist and capitalist states. The idea can, therefore, invoke its ideological inspiration from both progressive and market-oriented schools of thought.

Worker ownership is widely practised in Europe. A European Commission study (2002) reported that among the largest 2,500 business groups, drawn from 29 European countries, with 31.5 million employees, 89 percent of the companies, on average, had some provision for employee ownership. It was estimated that 8.2 million employees, 26.2 percent of all employees in these large companies, held stock in their companies. The number was projected to increase to 16 million in the next 5 to 10 years, accounting for 40 to 50 percent of the labour force of the major European Union companies. The current capitalization held by employees in these firms is nearly 2.4 percent of their stock.

The United States also has a large exposure to worker ownership. The underlying inspiration appears more market driven and is provided mostly through employee stock option plans, where employees buy stock in the company where they work. Through 401-K plans, employers also award stock to their workers under a special provision of US tax law. In 2007, 2,200 401-K plans provided \$75 billion in assets to 4 million employees (Sobhan 2010). In 2008, 11,500 employee stock option plans provided share ownership rights to 10 million employees whose combined assets were estimated at \$800 billion in public and private firms. Employee ownership may range from 5 to 100 percent. Approximately, 4,000 companies with employee stock option plans are majority employee owned, and 2,500 are 100 percent employee owned. These include Avis, the world's largest car rental company, whose 20,000 employees purchased 100 percent of the company stock for \$1.75 billion (ibid.). About 7,000 of the 11,500 companies with employee stock option plans have plans large enough to be a major factor in company strategy and business culture (ibid.)

Among European and US companies where employees hold majority ownership, the largest is the Mondragon Corporation, a worker's cooperative in the Basque region of Spain. Mondragon is inspired by the progressive tradition and is 100 percent employee owned. The cooperative commands a stock value of €4.7 billion, which works out to €84,000 (\$104,695) of stock per employee. Another 100 percent worker-owned company is the United Kingdom-based department store chain John Lewis, with 63,620 employees. It has a capital value of €2.7 billion (\$3.4 billion), which works out to €67,000 (\$83,506.80) per employee (ibid.).

The Mondragon Corporation is the global leader and role model for worker ownership. The significant feature of Mondragon, founded in 1956, is that it is a cooperative owned by its workers. While the organization is designed to generate profits, its guiding philosophy is premised on the subordination of capital to the worker as part of a process of social transformation. Its mission accordingly remains committed to democratic organization, worker sovereignty, worker participation in management, wage solidarity, and cooperation between cooperatives.

Mondragon's progressive social mandate has not detracted from its business success. Thus, at the end of 2007, it commanded assets worth €33 billion (\$45.23 billion), which generated revenues of €16.4 billion (\$22.5 billion) and provided employment to 103,731 workers. Of these worker owners, 42 percent were women. This makes Mondragon the largest single business conglomerate in the Basque region and the seventh largest in Spain (ibid.).

Employee ownership in developing countries

Employee ownership is not unique to the developed world; it has spread to the developing world. In Mexico, for example, small farmers have organized themselves into smallholder agricultural corporations, where they hold shares based on the size of their land holdings. These smallholdings are farmed as integrated agricultural enterprises by the management of the corporation. Over 10,000

such farmer-owned corporations are growing sugarcane, oil seeds and cotton across Mexico. Similarly, in Malaysia, state-owned estates cultivating rubber and palm oil have been divested to their workers. In the Philippines, many plantations are being divested to their workers. Former President Corazon Aquino sold her shareholdings in her family estate, a large sugar plantation, to the workers.

In Argentina, when the national carrier, *Aerolineas*, was privatized, part of its share ownership was divested to its workers. In the Arab world, Egypt has taken the lead in experimenting with worker ownership. ATC, a major joint venture between one of the world leading tyre companies, Pirelli, and an Egyptian public sector company, TRENCO, with a capitalization of \$150 million, has assigned 30.5 percent of its founding shares to the ATC Employee Shareholders Association. The association is now the largest shareholder in the company.

South Asia can cite one notable example of successful worker ownership, the case of Tata Tea Ltd., one of the largest tea companies in the world. In recent years, it has decided to withdraw from the growing and production of tea in order to concentrate on marketing the product. Initially, the company decided to sell off its plantations in the Indian state of Kerala. In this process, it opted to transfer the gardens to a separate company owned by its employees, who had worked, over generations, in the gardens and had both a deep stake in, and knowledge of, the industry. In 2005, the company sold its 17 tea gardens covering 24,000 hectares in the Munnar mountain region to its workers, who were organized as a cooperative registered as the Kannan Devan Hills Plantation Ltd. Through this transaction, 13,500 workers became owners of a 70 percent equity stake, while Tata Tea retained a 19 percent equity interest. The worker's buyout was underwritten by ICICI Bank, India's largest private bank. The divestiture has had positive outcomes, with increases in productivity per worker as well as a rise in profitability (Pandey 2007).

Investing workers with ownership rights should not be pursued for exclusively instrumental reasons. The goal of reducing insecurity requires placing owners and workers in a more equitable and just relationship, where workers become stakeholders in their place of work, rather than being locked into an adversarial relationship with their employers. Transforming the worker from a subordinate to a partner may be seen as integral to the process of building a more democratic and harmonious society.

It is, however, not enough to build a case for worker's ownership on both business logic and moral principles. Any move to promote such ownership would have both financial and political implications. The critical issue will be to reduce the risks of political confrontation through a model where the worker's share is not appropriated but purchased through dedicated financing arrangements.

Employers may, as in the United States and Europe, be persuaded to offer their workers an equity stake in their companies and devise various measures to underwrite this buy-in. Governments may encourage such divestiture through tax incentives. Companies may, either on their own initiative or incentivized by public policy, as is the case in a number of countries, be persuaded or even mandated to offer a share of their profits to their workers. In Bangladesh, for example, there are legal provisions whereby a corporate enterprise must distribute 5 percent of its profits to its workers.

Financing the broadening of ownership stakes

To underwrite buy-ins for workers, whether under employee stock option plans, or through a more comprehensive acquisition of an equity stake in a company, a dedicated equity fund could be established by governments to financially empower workers to buy shares. The loan could then be repaid, on easy terms, from the dividends realized from workers' investments.

The equity fund could be underwritten from the national budget, supported, where needed, by funds from international development agencies committed to promoting poverty alleviation and greater equity in society. The growing enthusiasm for promoting social business, now being propagated by Muhammad Yunus, may also persuade global corporations to invest in such a fund (Yunus 2008).

Other financial instruments can be devised to underwrite worker ownership, such as through dedicated mutual funds owned by workers permitted to invest in their places of work. Instruments like mutual or equity funds could also be extended to farmers, who could be offered opportunities to draw on these to secure an equity stake in agro-processing enterprises adding value to their product, or to artisans whose products are marketed by NGOs or various fair trade initiatives. Mutual funds could also be devised to direct part of the large volume of savings being remitted by millions of migrants to their homelands towards investment in high-quality corporate assets. Large public infrastructure projects, such as toll highways, bridges and ports, that generate a secure revenue stream can be incorporated to provide an equity stake for small investors drawn from the local population, citizens across the country and migrants, whose small-scale investments can be further leveraged from the proposed equity fund, and aggregated into a significant stake in these mega-projects.

Critical to these interventions would be institutional mechanisms built upon collective ownership by workers/farmers/migrants/local communities, so that their shareholdings cannot be individually appropriated by larger players, as happened in the Russian privatization fiasco initiated by Boris Yeltsin. It culminated in the emergence of a class of robber barons who siphoned off massive rents extracted from the country's natural resources. Some effort will also need to be invested, particularly in the early stages, to insulate workers and small savers from risk. At the same time, workers and other small-scale investors should be entitled to individually exit from a given project by

selling off their share within the collective or mutual fund. Finally, much effort will need to go towards devising both instruments and training programmes in the oversight of such investments, so that principal-agent problems that subordinate worker-owners to the dictates of more educated managers can be avoided.

Conclusion: the political economy of structural change

As part of any agenda for providing sustainable security to the excluded and deprived, in order to reduce if not end their vulnerability, priority will have to be given to expanding ongoing programmes of social protection. As argued, however, if the goal is to locate such programmes within a broader agenda for structural change, then, as in the European model, social protection must acquire both depth and breadth to a level where it realizes qualitative changes in the lives of the vulnerable. Despite noticeable advances in providing social protection, nowhere in the developing world can it be claimed that the lives of beneficiaries have been qualitatively improved, whether under the employment guarantee scheme in India or even the *Bolsa Familia* programme in Brazil. A measure of such qualitative change would provide visible evidence that those most at risk of entrapment in poverty no longer feel vulnerable against the risks of want, disease, inadequate education and lack of earning opportunities.

Social protection programmes need to move beyond protection against individual risks to address the more substantive market-driven risks that originate from the structural injustices of society. This paper has put forward a body of ideas designed to reduce such vulnerabilities, which can provide the basis for further debate and elaboration. Individual countries may draw on these to calibrate their agendas for structural change to the specific institutional arrangements and underlying political economy of their respective societies.

All change, including a more structurally focused programme of social protection, needs to address the issues of political economy that will underwrite such a process of change. We will need to identify agents of change, whether among political parties, NGOs, the corporate sector or the poor themselves. We will also need to assess the willingness of governments to commit and engage themselves in realizing change, and their capacity to mobilize financial resources and invest political capital to underwrite such change. We will need to gauge the strength of the social forces and political constituencies who may oppose or can be mobilized to support change.

Agendas for change have acquired a new urgency in the wake of the ongoing crisis consuming the global economy. A world order that has elevated the values of the casino into the central dynamic of the capital market is threatening the livelihoods of millions of vulnerable people around the world. A development process could be pursued that is less dysfunctional, less unfair and more serviceable

to the needs of millions of ordinary people. Providing assets and enhancing the scope for income gain for millions of people at the bottom of the pyramid will strengthen the resilience of economies overall, including to cope with such global downturns. Liberating the productive potential of these millions, through the acquisition of resources and skills, will stimulate, internalize and sustain the growth process across the developing world. Transforming these millions into owners of wealth, equipped with the capacity to access the upper tiers of the market, will empower them in a manner they have rarely known.

Social orders are not sustainable where millions of people remain condemned to lives of insecurity, poised on the margins of subsistence; where the quality of their education condemns them to a life of toil; or where an episode of ill health can drive an entire family into destitution. An economic order where millions of young women are condemned to earn \$40 a month, while a handful of people can aspire to first-world life styles because such low wages make their enterprises more export competitive, is not sustainable. A political order, where those with wealth can use it to capture and perpetuate themselves in power, while those millions who vote them to power have no opportunity to either share this power or to determine how its fruits are consumed, is unsustainable. Such a world is exposed to its own societal insecurities, where particular countries with weaker coping capacities remain more vulnerable to political shocks that can destabilize the social order. Within our globalized world, such risk-prone societies can, in turn, become threats to regional stability and even global security.

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