

POVERTY, GROWTH AND GOVERNANCE IN SOUTH ASIA

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INTRODUCTION

South Asia today stands suspended between hope of a better life, and fear of a cataclysmic death. The hope emanates from the tremendous human and natural resource potential, the richness and variety of its civilizations. The fear arises from the fact that South Asia is not only the poorest region in the world, but also one, where the probability of an accidental nuclear war is perhaps greater than in any other region of the world.

Governments in South Asia have primarily pursued “national security” through increasingly destructive military apparatuses, rather than seek citizens’ security through actualizing their creative potential. For example, South Asia currently spends US\$14 billion annually on the military. Military expenditures by India and Pakistan have been growing at an average annual rate (in nominal terms) of about 12 percent. The human opportunity cost of this expenditure can be judged by the fact that half the military expenditure of South Asia for one year could have provided primary school education to 119 million children for one year, provided safe drinking water for two years to about 200 million people currently denied this facility, and provided essential medicines to 117 million people for two years who have currently no access to any health facility at present.¹

After fifty years of economic development we find that increasing numbers of people are suffering from hunger, illiteracy and preventable diseases. Children who embody our future are in a far worse condition. The majority are suffering from malnutrition, with 99 out of every 1000 children born dying before the age of one. Out of those who survive the one-year barrier, millions die due to water borne and preventable diseases; almost half the school age children do not get the opportunity of even primary education. Out of

¹ Estimated on the basis of data provided in Mahbubul Haq: Human Development in South Asia 1997, Oxford University Press, Karachi, 1997.

those too poor to go to school, millions of children are engaged in labour: Many are maimed, blinded, and struck with lung diseases and brain deformities related with poisonous emissions, and physical hazards at work places.² We are witnessing a massacre of the innocents. That inspite of this fact, South Asian governments are directing increasing resources to building weapons of mass destruction, raises the problematique of governance.

This chapter attempts to examine South Asia's poverty and locates its roots in the structure of the economy and of governance in South Asia. It is divided into three main sections, with section I analyzing the profile of poverty in South Asia in the context of the economic growth process. Section II explores the relationship between persistent poverty, macroeconomic policy and the nature of governance. Section III proposes the outline of an approach to overcoming poverty in terms of a new perspective on governance, which involves the building of grass roots institutions on the one hand and restructuring the macroeconomic growth process on the other.

I. POVERTY AND ECONOMIC GROWTH

South Asian economic growth rates have been low compared, for example, to the ASEAN countries, and it can be argued that accelerated GDP growth rates in South Asian countries could contribute to alleviating poverty, as they did in the case of South East Asia. Yet, the pace at which GDP growth reduces poverty, and indeed whether it is reduced at all, depends not just on the magnitude but on the structure of economic growth. Thus for example if higher economic growth of the kind that occurred during the "Green Revolution" in the late 1960s is associated with tenant eviction (in the Pakistan case)³, labour displacing mechanisation (in both Pakistan and some states of

² For an analysis of hazards faced by working children in Pakistan, based on a field survey, see Hussain, Akmal: Child Workers in Construction and Related Industries, ILO, Geneva, Mimeo. later published in the Lahore Journal of Economics, Volume 2, No. 2, July-December 1997, published by Lahore School of Economics, Lahore.

³ See Akmal Hussain: Impact of Agricultural Growth on Changes in the Agrarian Structure of Pakistan, with special reference to the Punjab. D.Phil Thesis, Sussex University, 1980.

India)⁴ and soil depletion due to over-use of soils⁵, then such growth could accentuate rather than alleviate poverty.

In the case of India there has been considerable debate about whether the incidence of poverty in rural India increased or decreased during the “Green Revolution” period. Studies by Bardhan⁶ and Rajarman⁷ respectively, estimate that the proportion of rural population living below the poverty line increased during this period. By contrast Minhas⁸ estimates that the proportion of rural population below the poverty line declined significantly during the same period⁹. Even though estimates of poverty trends in India based on consumption data are debatable, yet related evidence on growing proletarianization of the peasantry, declining employment elasticities associated with labour displacing mechanization and falling rural real wages suggest that poverty during

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- (i) J.D. McInerney and G.F. Donaldson: The Consequences of Farm Tractors in Pakistan, World Bank Staff Working Paper No. 210, February 1975.
 - (ii) In a study by Ahluwalia, of the six states in India which recorded a significant trend rise in per capita agricultural output between 1956 and 1973, after removing the effect of inter state variations in per capita agricultural output, there was a trend increase in the incidence of poverty in more than half the states. Labour displacing mechanisation was identified as one of the factors behind this rising poverty trend. See: M.S. Ahluwalia: Rural Poverty in India 1956-57 to 1973-74, reproduced in World Bank Staff Working Paper 279, Washington, D.C, 1978.
 - (iii) In a number of states including Punjab Haryana, during the period 1972 to 1978, total labour input declined in absolute terms inspite of a rise in production. See: A Vaidyanathan: Pattern of Labour Use in Rural India: A study of Regional and Temporal Variations (Madras Institute of Development Studies, 1986.
- ⁵ For a discussion on soil depletion due to over-use of soils in the Indian Case See Vandana Shiva, and for the Pakistan case see Akmal Hussain:
- (i) Vandana Shiva: Staying Alive, Chapter 5, Zed Books, London, 1990.
 - (ii) Akmal Hussain: Agriculture Growth and Employment in Pakistan’s Rural Sector: Policies for Institutional change: ILO, Mimeo, March 1999.
- ⁶ P.K. Bardhan: On the Incidence of Poverty in Rural India during the Sixties, Economic and Political Weekly, (Bombay), February 1973.
- ⁷ Indira Rajarman: Poverty Inequality and Economic Growth in the Punjab 1960-61 to 1970-71, Journal of Development Studies 2, No.4, 1973.
- ⁸ B.S. Minhas: Rural Poverty, Land Distribution and Development Strategy, Indian Economic Review, April 1970.
- ⁹ These divergent estimates are due to the fact that Bardhan and Rajarman use NSS data for estimating both the mean rural per capita consumption and the distribution of rural population around the mean, while Minhas uses Central Statistical Office data (CSO) for estimating the mean and NSS data for the distribution of rural population.

the Green Revolution period may have increased¹⁰. Thus, as Vaidyanathan points out “one cannot take for granted that moderate improvements in growth per se will make a significant difference (to poverty) unless effective steps are taken to prevent worsening of the distribution of operational holdings (whether due to land transfer or resumption of land by owners for self-cultivation) and to arrest the pace of labour displacing mechanisation.”¹¹

In this section we will present a brief profile of poverty in South Asia and then indicate the adverse structural features of economic growth in some of the South Asian countries that inhibit the capacity of GDP growth to alleviate poverty.

I.1. Poverty Profile of South Asia¹²

South Asia has the highest incidence of poverty not only in terms of absolute numbers but also as a percentage of the population, compared to any other regional group of countries in the world. Thus, in South Asia, as much as 43 percent of the population lives in absolute poverty,¹³ compared to 14 percent in East Asia (excluding China), 24 percent in Latin America and 39 percent in Sub-Saharan Africa. (See Table 1).

As economic growth in most South Asian countries accelerated during the 1980s, and targeted programs for the poor were adopted, the percentage of population in absolute poverty (on a dollar a day per person basis) has declined in recent years (although at differing rates) in all South Asian countries except Nepal. In India, for example, the percentage of population in absolute poverty has declined from 53 percent in 1970 to 35 percent in 1993; in Pakistan from 40 percent in 1965 to 30 percent in 1995; and in

¹⁰ On declining employment elasticities in crop production see: (i) W.A. Bartsch: *Employment and Technology Choice in Asian Agriculture*. Geneva: ILO, 1977, (ii) J.N. Sinha: *Employment in Agriculture in the Draft Plan 1978-83*, *Economic and Political Weekly*, 1979.
For a discussion on the increasing importance of rural wage labour and declining rural wages during the Green Revolution period See: A Vaidyanathan: *Agricultural Development and Rural Poverty*, in: Robert Lucas and Gustar Papanek (eds.): *The Indian Economy* OUP, 1988.

¹¹ A. Vaidyanathan, *op.cit.* Page 84.

¹² The data source used in this section is the *Report of Human Development in South Asia, 1998*, by Mahbubul Haq and Khadija Haq, The Human Development Centre, Oxford University Press Karachi, 1998.

¹³ *Report of Human Development in South Asia, 1998, op. cit.*

Bangladesh from 70 percent in 1973 to 46 percent in 1995. In Nepal, however, there has been an increase in the percentage of population in absolute poverty from 36 percent in 1976 to 45 percent in 1996.

There are three important aspects of the overall profile of economic deprivation in South Asia that has important implications for the quality of “human capital” in the future, and hence for growth policy:

1. Malnourished children as a percentage of total population are much greater in each of the South Asian countries compared to the percentage of their populations in poverty per se. As Table 2 shows, for example, in India malnourished children as a percentage of population is as much as 53 percent, compared to the overall poverty figure of 35 percent; similarly, in Pakistan the incidence of child malnutrition is 38 percent compared to the overall poverty figure of 29 percent; Bangladesh which has the highest incidence of child malnutrition, at 67 percent, has a poverty incidence of 46 percent; in Sri Lanka the incidence of child malnutrition is 38 percent compared to a poverty incidence of 22 percent. The overall weighted average in South Asia for the incidence of child malnutrition is 53 percent compared to a poverty incidence of 35 percent.

2. The percentage of children dropping out before grade 5 in South Asia is much higher than the average for all developing countries: The weighted average for South Asia is 41 percent compared to 31 percent for all developing countries. While in some South Asian countries the figure is very high (Pakistan 52 percent, Bangladesh 55 percent, Nepal 48 percent), in others it is commendably low (Sri Lanka 8 percent, Maldives 7 percent). India, at 37 percent is lower than the average for South Asia, but is still higher than the average for all developing countries. (See Table 2).

3. The percentage of population deprived of basic services such as access over safe drinking water, health and sanitation in some of the South Asian countries is also quite high. For example, the percentage of population without access to safe drinking water is 37 percent in India, 40 percent in Pakistan, 52 percent in Nepal and 43 percent in Sri Lanka. In the case of access over health services, Pakistan, Bangladesh and Bhutan have 35 to 55 percent of their populations deprived of this service, while India and Sri Lanka

appear to be doing much better with figures of 15 percent and 7 percent respectively. (See Table 2). The percentage of population deprived of sanitation facilities is also high, even by developing country standards in the case of Pakistan, Bangladesh, Sri Lanka, Bhutan and the Maldives where the figure ranges from 47 percent to 76 percent. India is slightly below the South Asian average at 29 percent, while Sri Lanka appears to be doing well at 18 percent.

The fact that even after 50 years of independence such a large proportion of the population is deprived of basic necessities while military and bureaucratic apparatuses have grown, shows that states in South Asia have failed to focus on a fundamental feature of nation building: Enabling the citizens to be well-fed, healthy and educated.

Governments in South Asia have neglected so far their primary obligation to allocate the required resources, help build the necessary grass roots institutions, and restructure the growth process for overcoming absolute poverty and deprivation of the people.

I.2. The Structure of Economic Growth and Poverty

In spite of higher GDP growth rates, the pace of poverty reduction has been low. For example, in India over two decades (1970 to 1993), poverty declined from 53 percent to 35 percent (18 percentage points). By contrast, in Indonesia¹⁴ over one decade (1972 to 1984), poverty declined from 58 percent to 17 percent (41 percentage points).

The fact that this difference is not simply due to India's relatively lower GDP growth is indicated by a comparison between Pakistan and Indonesia, which have GDP growth rates close to each other: Pakistan in three decades (1962-92) could reduce the percentage of its population from 40 percent in 1962 to 22 percent in 1992, while Indonesia reduced it from 58 percent to 17 percent in just one decade (1972-84). These examples suggest that the structure of the economic growth process in South Asia may constrain its capacity to reduce poverty over time.

In spite of considerable variations across South Asian countries, and between regions within these countries, it can be argued that, the major structural factors in South Asian

¹⁴ World Bank Report No. 3902-Pak.

economies which may constrain the ability of GDP growth to reduce poverty, particularly that of poor women,¹⁵ are:

- i) The unequal distribution of assets in both agriculture and industry both with respect to income groups as well as gender.
- ii) The structure of output is concentrated towards low value added products, particularly in the export sector, thereby resulting in low labour productivity and labour income per unit of labour time.
- iii) The sectoral distribution of the labour force is concentrated in low productivity sectors with relatively low skill levels of the labour force in given occupations.

II. MACROECONOMIC POLICY, GOVERNANCE AND POVERTY

II.1 IMF Structural Adjustment Programs and Poverty

Regardless of the economic and political imperatives of adopting IMF structural Adjustment Programs, the macroeconomic policies associated with such Programs adopted in varying forms by South Asian countries have, by and large, had an adverse impact on poverty and income distribution. In the pursuit of these programs South Asian countries have undertaken three sets of policy measures each of which as the ensuing analysis shows, have served to accentuate poverty:

1. Liberalization of imports and withdrawal of subsidies from domestically produced goods and services. This has lowered the prices of imported consumer goods relative to the prices of domestically produced goods. This tendency has been accentuated by distortions in the tariff structure under which, in many cases, the import duties on finished consumer goods have fallen more sharply than on imported industrial raw

¹⁵ For a pioneering study on how lack of access over land rights constrains overall agricultural growth and perpetuates poverty amongst women, see Bina Agarwal: *A Field of One's Own*, Oxford University Press, New Delhi, 1997.

For a more detailed discussion on these issues, in the context of Pakistan, see R. Amjad and A.R. Kemal: *Macroeconomic Policies and their Impact on Poverty Alleviation in Pakistan*, Mimeo 1997, ILO/ARTEP.

For South Asia as a whole, see Report of the South Asian Commission on Poverty Alleviation, November 1992.

materials and intermediate goods. Consequently, imported consumer goods have become relatively cheaper, thereby, crowding out domestically produced goods. This has been a significant factor in slowing down growth of the domestic manufacturing sector, and in increasing unemployment.

Subsidy withdrawal under IMF conditionality in South Asia has occurred in the case of food, fertilizer, irrigation water and utilities such as gas and electricity. Since these goods and services constitute a relatively larger proportion of expenditure by the lower income groups, there has been a greater impact on the real incomes of the poor relative to the rich. Moreover, small and subsistence farmers who have no marketable surplus find that their production costs increase (following subsidy withdrawal on fertilizers, irrigation water and pesticides), while they enjoy no compensatory gain from increased prices of food grain (following subsidy withdrawal on wheat).

Interestingly, while prices of goods and services, which have a greater weight in the poor man's basket have increased, the prices of imported goods consumed by the rich have fallen. This is another factor in accentuating the inequality in income distribution.

2. The second policy conditionality of the IMF structural adjustment programs pursued in South Asia, is exchange rate devaluation. This has accelerated inflation to the extent that domestically manufactured goods depend on imported inputs and hence suffer increasing cost per unit, following devaluation. Higher inflation rates have relatively greater impact on the poor and marginalized who have fewer resources to fall back on compared to the rich. Another factor in accentuating inequality in income distribution following inflation is that with monopolistic market structures, manufacturers can pass on the increased cost of living through increasing the prices of goods they manufacture. By contrast, poorly organized workers are unable to negotiate wage increases at the same pace as inflation.

3. The third element in the IMF policy program is a constriction of the money supply. This is inherently recessionary: Interest rates rise and credit availability for private sector investment declines. At the same time, reduction in public sector expenditure associated with reducing the fiscal deficit dampens aggregate demand.

In Pakistan the growth of money supply fell from 46.5 percent during the period 1984-87 (the pre-structural adjustment period) to 40.6 percent during 1988-91 (the post-adjustment period). The *raison d'être* of the reduction in money supply was to reduce inflation. Yet the inflation rate far from falling, actually increased from 4.7 percent in the pre-adjustment period to 9.5 percent in the post-adjustment period.¹⁶ This is because of the persistence of structural imbalances that underlie Pakistan's inflation rate (such as slow growth of food output, deteriorating infrastructure, and slow growth in domestically produced industrial inputs and machinery).

The Indian experience also shows that attempts at reducing inflation through a tight money policy and reduction in the fiscal deficit under the IMF economic stabilization program have not succeeded. Professor Deepak Nayyar in a brilliant analysis of the economic liberalization experience in India shows that in spite of initiating a macroeconomic stabilization program in mid-1991, the inflation rate actually increased during 1991-95.¹⁷ He argues that during this period, despite the fact that there were good harvests and no exogenous shocks, the economic stabilization policies failed to bring down the inflation rate, the highest in the history of independent India. Professor Nayyar proposes that the positive impact of the policy of money supply contraction on inflation, may have been dampened by the "real dis-proportionalities underlying the inflationary pressures..."¹⁸ Similarly, in Pakistan's case there is evidence to suggest that the institutional constraints to output growth of essential commodities has resulted in accelerated inflation, and reduced real incomes of wage workers and self-employed in both rural and urban areas.¹⁹

In the case of India, Professor Nayyar has shown that the prices of the basket of essential commodities during the period 1991-95 (when the Structural Adjustment Program was being implemented) rose at a rate unprecedented since independence: Prices of food

¹⁶ Overcoming Poverty: Report of the Task Force on Poverty Eradication, May 1997.

¹⁷ Deepak Nayyar: Economic Liberalization in India: Analytics, Experience and Lessons, Centre for Studies in Social Sciences, Calcutta, 1996.

¹⁸ Deepak Nayyar, *op cit.* Page 23.

¹⁹ R. Amjad and A.R. Kemal: Macroeconomic Policies and their Impact on Poverty. *Op. Cit.*

grains rose by 90 percent during the period, the prices of primary food articles by 77 percent, and the prices of manufactured food products by 62 percent. He argues that in a period where real per capita income remained stagnant, such high inflation rates in basic necessities may have been a significant factor in increasing poverty.²⁰

While the policy of contraction of the money supply under the IMF program failed to reduce inflation, it slowed down GDP growth.²¹ In Pakistan's case high interest rates combined with a dampening of aggregate demand induced by a sharp reduction in development expenditure, served to slow down GDP growth, particularly the large scale manufacturing sector. Thus for example, GDP growth fell from 6.2 percent during 1985-88 to less than 3 percent in 1996-97. Growth of the large-scale manufacturing sector declined from 8.3 percent in the mid-1980's to negative growth in 1996-97. This sharp slow down in growth of the large-scale manufacturing sector would be expected to increase unemployment. The tendency towards increasing unemployment is accentuated by the fact that in Pakistan, the elasticity of employment with respect to output has been declining during the 1990's.²²

This means that for given growth rates of output, employment generation in the manufacturing sector is declining. As output growth in this sector has declined, clearly the downward pressure on employment has been intensified. It is not surprising therefore that the growth rate of employment in this sector has declined from 12.7 percent in 1986/87 to minus 4.2 percent in 1993/94.

It appears that the macroeconomic stabilization programs adopted in both India and Pakistan under IMF auspices have served to slow down GDP growth, accelerate inflation and accentuate poverty and unemployment.

II.2. Governance and Poverty

²⁰ Deepak Nayyar, *op. cit.*

²¹ Development expenditure as a percentage of GNP, fell from over 6 percent in the 1980's to 3.2 percent in 1997-98.

²² ILO, SAAT, Mimeo, December 1997.

It can be argued that the adverse impact of the Structural Adjustment Program on the poor was exacerbated by the institutional context within which the Program was applied. The fact that inspite of a sharp reduction in development expenditure and in the growth of the money supply, the fiscal deficit and inflation rate could not be reduced, was rooted in four failures of governance: (a) Failure to recover bank dues from loan defaulters by public sector banks. (b) Failure to stem the fiscal hemorrhage resulting from continuing large losses of public sector corporations. (c) Failure to drastically reduce non-development expenditure of the government. (d) Failure to broaden the tax base to bring a much larger number of income earners into the net.

Such failures have occurred in varying degrees in South Asian countries, and are rooted in the peculiar nature of governance in these countries. In the prevalent political culture political support of socially influential individuals and groups is to some extent acquired and maintained through patronage in which resources and employment decisions under the direct or indirect command of the state are siphoned off to such individuals and groups. Market criteria and merit in the operations of public sector corporations and banks are often ignored when governance is practiced in a context where traditional patron client relations, biraderis and sifaarish continue to be important factors in mobilizing political support.

II.3. Governance, Military Spending and Poverty

South Asia is the poorest and yet the most militarized region in the world.²³ The arms race between India and Pakistan (with these two countries accounting for 93 percent of total military expenditure in South Asia) is primarily responsible for this cruel irony. India ranked by the World Bank at 142 in terms of per capita income, ranks first in the world in terms of arms imports. Pakistan is not far behind, being ranked 119 in terms of per capita income, and tenth in the world in terms of arms imports. What is even more

²³ South Asia contains 40 percent of the world's poor and yet has an annual military expenditure of US dollars 14 billion. See Mahbubul Haq: Human Development in South Asia, 1997, op. cit.

significant is that while global military spending declined by 37 percent during the period 1987-94, military spending in South Asia increased by 12 percent.²⁴

These military expenditures whose scale is unprecedented in the developing world, are being done in the name of achieving “National Security”. In a situation where 53 percent of the children in South Asia are malnourished and 36 percent of the population deprived of safe drinking water, the logic of such large and growing military expenditures needs to be questioned. The trade-offs between military expenditures and the provision of basic services are worth considering. For example, a modern submarine with associated support systems costs US\$ 300 million, which would be enough to provide safe drinking water to 60 million people. The issue that arises is whether national security can be sustainable when achieved at such heavy cost to citizens’ security?

A deadly dimension has been added to the India Pakistan arms race, by the nuclear tests conducted first by India and then by Pakistan in May 1998. There are three features of the India-Pakistan strategic nuclear environment which imply a high probability of an accidental nuclear war and as a consequence make nuclear deterrence unstable: (a) The flying time of nuclear missiles between India and Pakistan is less than five minutes. (b) Press reports suggest that neither country may have adequate surveillance and failsafe mechanisms. (c) The unresolved Kashmir dispute which fuels tensions between the two countries, and makes them susceptible to disinformation about each other’s intentions. The India-Pakistan military engagement in the Kargil area of Kashmir during June-July 1999 is a case in point. It demonstrated the invalidity of the conventional wisdom that in the presence of a nuclear deterrent both countries would have enhanced security. The Kargil conflict quickly escalated to a point when according to a number of politicians, India and Pakistan came to the brink of a nuclear war.

The presence of these factors makes the probability of an accidental nuclear war higher than in any other region on earth. To the extent that this is so, the concepts of deterrence and national security through nuclear weapons in South Asia become questionable.

²⁴ Ibid.

Recent estimates suggest that even in a limited nuclear exchange between India and Pakistan, with their existing nuclear capabilities, over 100 million people would die and many hundreds of millions more would subsequently suffer from radiation related illnesses.²⁵ Under these circumstances the threat to citizens' security in South Asia as a result of pursuing the arms race, has become incalculably greater than before. Moreover, given the high rate of obsolescence of nuclear weapons, the resource cost of a nuclear arms race will accelerate the diversion of resources from development to weapons of mass destruction. Consequently, while it is certain that poverty would be accentuated, and human security undermined, the achievement of 'national security' in India and Pakistan through such means would remain questionable.

If poverty is to be overcome, and indeed, if life itself is to survive in South Asia, then a new mindset in the conduct of governance may be necessary. There is a need to get out of the strait jacket of what may be called a nuclearized imagination: Notions of power based on the capacity for mass destruction, and a sense of insecurity fuelled by demonized perceptions of each other's identities. The new mindset of governance would be drawn from the wellsprings of love, universal humanism, and the desire for a creative interplay amongst culturally diverse people. These wellsprings irrigate the respective civilizations in South Asia. Only within this radically different psychic perspective of governance would it be possible to resolve outstanding territorial disputes, achieve nuclear disarmament and reap the peace dividend for the peoples of South Asian countries.

III. OVERCOMING POVERTY THROUGH PARTICIPATORY DEVELOPMENT AND PRO-POOR ECONOMIC GROWTH

Overcoming poverty in South Asia would require a two pronged approach:

- (1) Building a network of institutions at the village and mohallah level to actualize the potential of the poor through Participatory Development.²⁶

²⁵ NEWSWEEK, June 8, 1998, Page 17.

²⁶ For a discussion of the Methodology of Participatory Development, See Akmal Hussain: Poverty Alleviation in Pakistan, op. cit.

Also see, P. Wignaraja, A. Hussain, H. Sethi and G. Wignaraja: Participatory Development: The Lessons from South Asian Experience, Oxford University Press, Karachi, 1991.

- (2) Restructure the economic growth process through a set of macroeconomic policies designed to provide employment to the poor, and to direct credit, technical training and infrastructure to poor communities so as to achieve a sustainable increase in their income and savings. Restructuring the growth process is necessary to enhance its capacity to alleviate poverty. At the same time as village/mohallah level organizations of the poor are created, together with skill training, credit and technical support, a localized capital accumulation process begins. This would contribute to accelerating the growth and making it more equitable.

During the last decade a number of successful initiatives in Participatory Development have been undertaken in South Asian countries. These include the Agha Khan Rural Support Program (AKRSP), National Rural Support Program, PIEDAR and the recently established Punjab Rural Support Program, in Pakistan, BRAC and Grameen Bank in Bangladesh; the UNDP Poverty Alleviation Program in India, Sri Lanka and Nepal. These success stories suggest that it may be possible to achieve scale and have a significant direct impact on poverty through social mobilization at the village level, and provision of training, technical support and credit through carefully structured support organizations, using the methodology of Participatory Development.

III.1 The Concept of Participatory Development.²⁷

Participatory Development in its broadest sense is a process which involves the participation of the poor, at the village/mohallah level, to build their human, natural and economic resource base for breaking out of the poverty nexus. It specifically aims at achieving a localized capital accumulation process based on the progressive development of group identity, skill development, and local resource generation.

At this level of generalization the concept has three key elements:

- (a) Process: It is a process whose moving forces are the growth of consciousness and group identity, and the realization, in practice, of the creative potential of the poor.

²⁷ See: Akmal Hussain, Poverty Alleviation in Pakistan, op. cit.

- (b) Empowerment: The process of reconstructing a group identity, of raising consciousness, of acquiring new skills and of upgrading their knowledge base, progressively imparts to the poor a new power over the economic and social forces that fashion their daily lives.

It is through this power that the poor shift out of the perception of being passive victims of the process that perpetuates their poverty. They become the active forces in initiating interventions that progressively improve their economic and social condition, and help overcome poverty.

- (c) Participation: The acquisition of the power to break the vicious circle of poverty is based on participation within an organization, in a series of projects. This participation is not through ‘representatives’ who act on their behalf but rather, the actual involvement of each member of the organization in project identification, formulation, implementation and evaluation. It is in the open meetings of ordinary members at the village/mohallah level organization that decisions are collectively taken, and work responsibilities assigned on issues such as income generation projects, savings funds, conservation practices in land use, infrastructure construction and asset creation.

III.2 The Dynamics of Participatory Development

The process of participatory development proceeds through a dynamic interaction between the achievement of specific objectives for improving the resource position of the local community and the sense of community identity. Collective actions for specific objectives such as a small irrigation project, fertilizer manufacture through organic waste, clean drinking water provision, or production activities such as fruit processing, can be an entry point for a localized capital accumulation process, leading to group savings schemes, reinvestment and asset creation. The dynamics of participatory development are based on the possibility that with the achievement of such specific objectives for an improved resource position, the community would acquire greater self-confidence and strengthen its group identity.

III.3 Restructuring Economic Growth for Poverty Alleviation

At the macroeconomic level three initiatives involving government, the private sector and foreign investors would be required to restructure economic growth in South Asia, so as to enhance its capacity to reduce poverty:

1. Accelerate GDP growth rate from the current 3 percent to 5 percent range to the 7 percent to 10 percent range in South Asian countries. This implies a sequenced set of policy measures designed to achieve the following intermediate objectives:

- (a) Reduce the fiscal deficit by a sharp reduction in non-productive government expenditure, privatizing those public sector corporations which are a drain on the public exchequer, recovering bad loans and broadening the base of direct taxation.
- (b) Tariff rationalization so as to remove the implicit disincentives to the private sector to invest in manufacturing, particularly exports.
- (c) Once the fiscal and balance of payments deficits have been brought to safe levels, a major drive to build infrastructure should be undertaken by developing a partnership between government, private sector and foreign capital. Development of improved infrastructure would not only stimulate GDP growth through an injection of aggregate demand in the economy, but since it involves labour intensive technologies, would accelerate employment generation and improve income distribution in favour of the workers.

2. Enable the work force to shift from low value added sub-sectors to high value added sub-sectors in both industry and agriculture. This requires improving the skill level of the work force through trade specific training of technicians and if this can be achieved, it would increase the share of labour in national income, thereby, enhancing the poverty reduction capability of economic growth.

3. Through institutional support, training and credit accelerate the growth of small-scale industries, which have a higher employment generation and output growth

capability per unit of investment than the large-scale manufacturing sector. As the composition of total investment shifts in favour of small-scale industries, not only would GDP growth be accelerated for given levels of investment, but it would also enhance its capacity to reduce poverty.

CONCLUSION

In this chapter we have examined the profile of poverty in South Asia, to indicate that not only is the incidence of absolute poverty higher than in any other region of the world but that the number of people deprived of basic services such as safe drinking water, health and sanitation is even greater than those in poverty. This has significant implications for economic policy with respect to improving the quality of human capital for economic growth.

We have argued that the structures of the South Asian economy and of governance may be perpetuating poverty. The analysis in this context shows how the structure of the South Asian economy constrains the poverty reduction capability of economic growth. At the same time, the analysis proposes that the nature of governance currently being practiced in South Asia precludes certain resource allocation and economic policy initiatives, (such as a drastic reduction in non-productive government expenditure, recovery of bad loans, and broadening of the tax base), that are necessary for economic stability, growth and poverty alleviation.

The IMF's structural adjustment program was examined to show how it has not only tended to worsen income distribution, and add to the burden of the poor, but may have served to slow down GDP growth itself, given the peculiar institutional and governance framework in which the program was adopted.

The chapter proposes a two pronged initiative for poverty alleviation: Institution building for Participatory Development at the grass roots level, and policies for restructuring economic growth at the macroeconomic level so as to both accelerate economic growth and make it a more potent instrument of poverty reduction.

Finally, the issue of poverty and citizens' security is counterposed to the prevailing concepts of national security. South Asia while being the poorest, is also the most militarized region in the world. Massive resources are being taken away from the enterprise of overcoming poverty, towards building military apparatuses with a view to achieving greater national security. Two questions were explored in this context:

1. In a situation where increasing numbers of people are being impoverished with associated intensification of internal social conflict, can the attempt at achieving "national security" be sustained at the expense of citizens' security?
2. The pursuit of "deterrence" through nuclear arms becomes particularly problematic in a situation where neither India nor Pakistan may have adequate failsafe systems and where the short flying time of nuclear missiles and the tensions of the outstanding Kashmir dispute make an accidental nuclear war in South Asia more probable than in any other region of the world.

The chapter argues that if the people of South Asia are to survive, let alone overcome poverty, the governments of the region would have to move out of the narrow mindset of power drawn from the capacity for mass annihilation. The nuclearized imagination would have to be replaced by a humane imagination. The sensibility of love and the creative interplay of diverse cultures that lies deep within the well-springs of the respective civilizations of South Asia would have to be brought to bear in the practice of governance, if poverty is to be overcome and life is to survive in South Asia.

TABLE 1
 PERCENTAGE OF POPULATION IN ABSOLUTE POVERTY
 SOUTH ASIA COMPARED TO OTHER REGIONS

Region	Percent Population in Poverty
South Asia	43
East Asia (excluding China)	14
Latin America and Caribbean	24
Sub-Saharan Africa	39

Source: Human Development in South Asia, 1998.

Note: Poverty is defined as less than US\$1/day per person based on 1985 PPS.

TABLE 2
SOUTH ASIAN COUNTRIES: COMPARATIVE POVERTY AND DEPRIVATION PROFILE

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia Weighted Average	Developing Countries
1. Percentage of Population in Poverty (1995)	35	29	46	45	22	n/a	n/a	35	n/a
2. Malnourished Children under 5 as percentage of total population (1995)	53	38	67	49	38	38	39	53	31
3. Percentage of population without access to safe water (1995)	37	40	17	52	43	42	49	36	29
4. Percentage of Population without Access to Health Services (1995)	15	45	55	n/a	7	35	25	22	20
5. Gross Enrolment Ratio, age 6-23, Percent, (1994)	56	38	39	55	66	31	71	52	56
6. Percentage of Children dropping out before grade 5 (1991)	(Year 1993) 37	52	55	48	8	27	7	41	31
7. Percentage of Population without Sanitation	29	47	48	18	63	70	76	33	42
8. HDI (1994)	0.446	0.445	0.368	0.347	0.711	0.338	0.611	0.440	0.576

Source: Human Development in South Asia, 1998, Human Development Centre, OUP, Karachi 1998 (Various Tables).

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