

**2018 Durgabai Deshmukh Memorial Lecture**

**Human Insecurity in South Asia:  
Challenging Market Injustice**

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# **Human Insecurity in South Asia: Challenging Market Injustice**

## **Introduction**

### *The theme of the paper*

It is a privilege for me to be invited by the Centre for Social Development (CSD) to deliver the Durgabai Deshmukh Memorial Lecture. Durgabai Deshmukh, a freedom fighter, was one of the pioneers in post-independence India in addressing social injustice through promoting social action for the underprivileged segments of society. We need to take inspiration from her life and work.

My own presentation follows in the tradition of Durgabai in addressing the state of human insecurity, which remains the existential reality conditioning the lives of the underprivileged and resource deprived members of the societies across South Asia. It is argued that while human insecurity impacts on all classes of people in some form or another it is highly asymmetrically distributed across South Asian societies where the resource deprived, in particular, remain more vulnerable than more privileged members of society.

It is further argued that market forces remain one of the most important drivers of insecurity. Markets can provide life threatening challenges to minifundist farmers or household enterprises where adverse production trends, shifts in price for their produce and services can drive households into debt and eventually destitution. Even the wealthier sectors of society may be exposed to market induced decline in their earnings, through business losses or loss of employment. But human vulnerability is measurable by the asymmetrical capacities of different households to absorb such risks and recoup their fortunes.

For millennia ruling elites have attempted to address problems of human insecurity through various welfare palliatives ranging from feeding the vulnerable in times of crop loss to providing shelter and income support. The modern welfare state remains the most institutionalised public intervention to address the more fundamental sources of human insecurity.

In my presentation it will be argued that challenging human security remains a more relevant response to the conditions of human deprivation than the more conventional policy objective of moving households above a given poverty line. Such graduations provide little indication that households which have graduated above \$1.25 per day are more or less vulnerable to the

uncertainty of climate or the vicissitudes of the market. The resource poor live out their lives forever exposed to the tension of dependency on the bounty of employers, landowners and on occasion, the state. While a variety of factors may aggravate the vulnerability of the poor in my paper I will present some ideas on policies which can better equip the resource poor to cope with market induced risks which serve to destabilise their livelihoods and condition of life.

Our suggested policy proposals are summarised below:

- Strengthen the capacity of the underprivileged to compete in the market place through:
  - Enhancing their capacity to own productive assets
  - Broadening access to assets
  - More equitable access to quality education and health care.
  - Empowering the underprivileged through democratising democracy and providing them with greater access to the institutions of governance such as justice, public services and law enforcement.
- Democratising the market place
  - Minimising the degrees of market risk associated with the location of the excluded at the bottom of the market chain through enabling them to move upmarket through sharing in the value addition process.
- Empowerment through collective action
  - The empowerment of the excluded largely originates in their isolation which, within a highly inequitable society, enhances their vulnerability to both market forces and unjust governance. Any move to reduce the vulnerability of the excluded must, therefore, be built upon strengthening their capacity for collective action. Institutions for promoting asset ownership and realising 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 share in the benefits of governance must be built around their capacity for collective action.

## *The coverage of the paper*

The paper is structured under two heads:

- A. The first part will address the ongoing approach to addressing problems of human insecurity through social protection programmes. Our discussion covers the Asian region. This will enable us to place South Asia's approach to the problem within the broader perspective of the Asian experience.
- B. The second part of the paper will address the issue of market injustice and policy interventions to strengthen the capacity of the resource poor to challenge injustice.

### **A. Coping with insecurity: the Asian experience**

#### **(a) Universal Social Protection**

##### *Philosophical foundations of social provisioning in Europe*

The agendas for challenging market injustice demand structural change. However, such interventions take time. In the interim phase the insecurities faced by the excluded need to be immediately addressed through provisions for social protection.

One of the central features of the social revolutions which transformed much of Europe and North America was to minimise the insecurities which kept significant segments of the population vulnerable to risks. The five giants which the post-War Labour government led by Clement Attlee set out to slay were identified by Lord William Beveridge in his historic report which inspired Britain's Welfare State, as: Want, Disease, Ignorance, Squalour and Idleness. Each of these 'giants' originated in insufficiency of income and the structurally derived injustices of a society which condemned a segment of the population to live in such conditions of deprivation and insecurity.

The urge to end these insecurities of life by overturning the unjust social order which created them also informed the revolutions which established the USSR in 1917 and swept across Eastern Europe at the end of World War-2. 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 populations. The levels and quality of social protection may not have been high in these societies but no one, at least in the post-War period, was left vulnerable to destitution. Universal public education of quality transformed the scales of opportunity for 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 into the lives of the citizens of Eastern Europe which ultimately culminated in the collapse of the socialist system itself.

In contrast to the East European experience more durable social transformations, under the rubric of social democracy, were initiated across much of Western Europe. Agendas for slaying the giants of want, disease, ignorance squalour and idleness were universalised in these countries. Programmes of social protection, social insurance, universal quality education, public housing programmes and policies to ensure full employment were put in place across much of Western Europe. The social revolution transformed the opportunity structures of the poor and the working class no less substantively than in Eastern Europe 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.

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 the East Asian countries, Republic of Korea (ROK), Taiwan Province, Singapore and Sri Lanka and Kerala state of India made sizeable investments. The progressive deepening of democracy has made the East Asian regimes more sensitive to the concerns and deprivation of their voters. Significant economic development across the developing world has enhanced public revenues and expanded opportunities for reducing the vulnerabilities of those most at risk. In this section, we will focus our discussion on the expansion of social protection across the Asian region so we can place the South Asian experience within a broader perspective.

### *Social Protection in Asia*

The Asian Development Bank (ADB) has identified three components of social protection (SP): *Social Insurance*, *Social Assistance* and *Labour market programmes* (ADB 2013).

- (i) *Social insurance*, as it was originally conceived in the European model of SP, is designed to mitigate problems for particular groups vulnerable to common risks such as illness, unemployment, work place injuries, maternity care and old age. In the European model social insurance was recognised as an 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 recognised 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.
- (ii) *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 under this head included social transfer payments for child welfare, health assistance, assistance to the elderly and disabled and disaster relief.
- (iii) *Labour market* programmes were designed as workfare programmes to generate employment for those in need of work, provide them with assistance for securing employment with support for skill development through training programmes. Under this head safety nets were constructed for those in need of work through 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 SP payments per capita to per capital 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/work), the ADB had computed a *social protection index* (SPI) for the Asia/Pacific region. We have drawn on these computations to compile a table (Table-2) based on the SPI for selected Asian countries. In this table we have attempted to relate the SPI to the country's per capita income rank and to their *human development index* (HDI) as computed by

UNDP in its annual Human Development reports (HDR). The first of these relations provides us with a crude estimate of how far a country's social protection programme is determined by its income levels. The second exercise similarly enables us to relate whether 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 have been more effective in improving their HDI as well as in providing social protection to those most in need.

In practice, the UNDP's HDR's have shown that HDI ranks are not always commensurate with GDP ranking so that some countries, with lower levels of income, can record higher HDI's. Correspondingly the evidence in Table-2 indicates that social protection interventions can transcend income levels. There is also no necessary correlation between the HDI and the SPI. Countries with better HDI ranks may perform poorly in relation to SPI. 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 prioritisation of investments in social protection.

The evidence in Table 2 establishes these relationships through the relative ranking for per capita income, SPI and HDI. The only consistent evidence we have is that the three high income countries, Japan, ROK and Singapore maintain the same rank in all three categories. In contrast, we find that some countries have given considerable priority to social protection in spite of their lower income levels. The outliers in this area include a former component of the USSR, Mongolia, which improved its SP ranking over its income ranking by 9 places, Vietnam which improved its rank by 10 places, Sri Lanka (8 places), Nepal (7 places) and Philippines (5 places). For all these 4 countries, the HDI rank is also superior to their income rank. In all of these countries, except Sri Lanka, the SPI rank is also better than the HDI rank suggesting a positive contribution of social protection expenditure in enhancing the scope for human development. However, in the case of Sri Lanka the HDI rank was better than its SPI rank indicating the importance of its long standing commitment towards higher levels of public provisioning in health and education.

At the opposite end of the spectrum countries such as Bhutan, Cambodia, Lao PDR, Indonesia, Fiji and Bhutan have demonstrably weak SP interventions which have earned them lower ranks than would be indicated by their income level and indeed their HDI rank.

High SPI's do not automatically indicate that social insecurity has been significantly reduced along with the numbers vulnerable to risk. Table 3 shows that some of the higher income and also higher GDP countries such as Japan, ROK, Singapore, China and Indonesia have managed to protect quite large segments of those in need of such protection. However, relatively lower income countries such as Mongolia, Sri Lanka and Vietnam 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 under their SP programmes.

Not all countries with wider coverage ensure levels of provisioning consistent with their incomes. Thus, China's interventions reach 80% of their target group but their provisioning index is relatively low at 0.174. In contrast, some countries with greater depth of coverage such as Afghanistan, Pakistan and Philippines have rather narrow coverage which suggests some trade off between the numbers covered and the levels of provisioning made available to them. 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 demonstrate significant variations as between countries. Table 2 establishes that the richer countries such as Japan, ROK, Singapore and Malaysia 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. However, in India and Bangladesh the more favoured intervention is through employment generating programmes which have been in place for over half a century.

In recent years India has scaled up its employment generation programme through the *Mahatama Gandhi Rural Employment Guarantee Programme* (MGREGP) 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 (2018) has extended its coverage to 25 million households through providing work to 111 million people who were offered an average of 40 days of work in a year. In its coverage or breadth the MGREGP covers close to 50% of the potential target group across India who may need work. But for possibly political reasons the breadth of coverage has been prioritized over depth. The programme provides just 40 days of work thereby provisioning a household with income support of around Rs 4000 or \$800 per year per family of 5. This provides a per capita income

of US\$0.43 per day which is not only well below India's per capita income but well below the global poverty line of \$1.25.

The MGREGP, thus, 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 the exposure to extreme risk of 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. However, since the programme is rights based it cannot be exposed to cut backs originating in budgetary constraints 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 is scaled more modestly compared to India. Its breadth of coverage for its programme is as high as India's but its compensation capacity is lower than on offer in India. In contrast, countries such as Vietnam and Pakistan, with rather limited coverage ensure relatively higher payments under their labour market programmes to those who do seek work.

#### *Special features of Asia's social protection model*

Social protection interventions are specifically targeted to those households most vulnerable to risk against specific deprivations such as ill health, old age, unemployment, and malnutrition. In an ideal society responses to both the needs and demands of their citizens for protection against the insecurities of life, no citizen should be exposed to such deprivations. The primary source of protection should however originate in the capacity, through ones life cycle, to be guaranteed quality education, matched by adequate effective demand for employment to ensure that in a person's working life they are not exposed to want. Sudden shocks or risks originating in ill health, accidents or even some frictional unemployment would be covered by various social protection programmes. Once a person is too old to work or is exposed to permanent disability various insurance programmes would guarantee them a decent level of living. This model, associated with the European experience and now extended to Japan, ROK, and Singapore, is contingent on supply side interventions through adequate public provisioning which enables all citizens to have access to quality education which invests them with the capability of accessing a wide range of opportunities and ready access to health care of quality which does not leave them vulnerable to health shocks.

The original SP model was, however, contingent on the corresponding post-war commitments, at least across Europe, to ensure full employment. This not only covered the West European democracies but also the socialist states of Europe and the USSR who made guaranteed employment into a central part of their economic model. This European 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 sustainability of prevailing levels of social protection but have led to levels of unemployment across Europe which were once deemed as socially inconceivable and politically unacceptable.

The East Asian development model, which now includes, with its own variations, China and Vietnam, remains dependent on high levels of employment generating growth inspired by high levels of investment. This demanded high levels of social investment not just in education and in measures of SP but also in policy interventions by the state to promote massive structural change which diversified and greatly enhanced the global competitiveness of the Asian economies. A strong state played an instrumental role in this model. The state in Japan, ROK, Taiwan Province of China, China and Vietnam 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. Where necessary, it also invested in the productive sectors, where the state owned Pohang Steel Corporation in ROK, Singapore Airlines and Singapore Port Authority were recognized as world leaders in their respective sectors. In China and Vietnam, 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.

#### *Limitations of the Social Protection Models*

Unlike in Europe, the social protection models in Asia has, except in the case of Japan, Singapore and to a lesser extent, ROK, failed to have a transformative effect on the opportunity structures of their respective societies. In spite of progress among some of the fast growing DCs such as Brazil, India and China, with some improvements in income distribution in Brazil, all these societies remain unequal not just in terms of income but also opportunities. Insecurity and vulnerability to various risks remain facts of daily life which are uncorrected by the depth or breadth of their social protection programmes.

In Bangladesh, for example, where SP programme amount to around 2% of GDP, studies of the incidence of its safety net programmes indicates that these transfers are quite inadequate for the income poor to cope with shocks associated with ill health, climatic and economic factors. Less than 2% of those exposed to a variety of shocks could depend on safety nets provided by SP programmes whether from the government or NGOs. To cope most households had to depend on savings, loans and depletion of accumulated assets. Given the limited resources available for coping close to 60% of affected households could not cope with shocks and were further enmeshed in poverty traps.

In some of these countries in Asia and Latin America the high levels of investment related growth and structural change helped to reduce poverty and also ensure higher public revenues which could be invested in both HD and SP. In China, for example, as part of its programme for coping with the global recession China invested \$400 billion in substantially enhancing public provisioning to its hitherto neglected health sector which now provides protection to close to 98% 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 originating in unstable market forces. Market injustice, originating in the asymmetric terms on which various segments of the producers/workers participate in the market left even those countries with pockets of vulnerability. Such pockets, with greater exposure to risk, remain pervasive across the rest of Asia and particularly in South Asia.

## **B. Addressing the market driven sources of human insecurity**

What may be done to address these market driven risks which have left large numbers of households vulnerable to poverty and insecurity? A possible agenda for change which seeks to correct some of the structural injustices which originate in the market will be addressed under the following heads:

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

(i) **Addressing labour market failures**

*Full employment policies*

Where markets fail to generate a sufficiency of employment the state must assume the responsibility for providing employment to all those who need work. In the original post-World War II European model for social change, full employment policies were seen as an important weapon to slay the giant which Beveridge termed as *idleness*. However, the main instrument to ensure full employment was macro-economic policy inspired by the teachings of John Maynard Keynes. Full employment was to be realized not just through the instruments of fiscal and monetary stimuli but also through direct public investments in employment generation. Such ideas proved serviceable even in the pre-War period. It should be kept in mind that when the US was in deep recession in the 1930s, as part of President Roosevelt's New Deal, the US government invested heavily in public works programme as did Adolph Hitler 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. In spite of ILO's mission to promote *decent work*, the incorporation of full employment into the policy designs of contemporary policy reformers seems less visible. This omission which has contributed to the paradox of jobless growth, had inspired the World Bank's 2012 World Development Report titled, *Jobs* and the ILO's mission to promote *Decent Work*.

*The use of public works programmes*

What passes for employment or labour market policies are conceived as social protection interventions to provide income or food security for the most vulnerable sections of the population. 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 for such work programmes. Most such programmes have remained contingent on the availability of public resources, often underwritten by foreign aid and the priorities of national policy makers.

As far back as the beginning of the 1960s, the Pakistan government initiated one of the then world's largest rural employment works programmes, exclusively funded by US Aid under its PL-480 food aid programme to address seasonal unemployment in the then East Pakistan, now Bangladesh. My very first research publication in 1966 studied the political economy of the East Pakistan works programme. It provided evidence about the many hazards associated with such workfare programmes relating to its potential for mis-targetting, corruption, rent seeking and its use as instruments of political patronage. Post-Bangladesh variants of such food-for-work programmes have also tended to be sustained by donor funding.

India's MGREGP is a point of departure from these episodic SP-oriented workfare interventions by virtue of its universal rather than targeted coverage and the legally mandated compulsion on the government to commit revenues to meet its obligations. The architects of the MGREGP 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 for meeting the need for rural infrastructure across rural communities in such areas as irrigation, flood protection, land development or the need for 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.

### *Employment policies for structural change*

It should be kept in mind that such work programmes as MGREGP cannot solve the problem of jobless growth. In the final analysis, government's need to re-commit themselves to maintaining full employment as part of their macro-economic policy agenda. However, as we have noted, macro-economic policies nowadays are designed to stimulate growth not employment. Nor is there any macro-economic policy agenda available where employment generation is assigned the same priority as economic growth. We, therefore, need to design a growth model where the measure of macro-economic policy outcomes would need to incorporate not just estimates for economic growth and price stability but also employment growth and levels of unemployment. In such a redesign of policy the prevailing levels of unemployment would need to be assigned similar levels of policy 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 macro-economic policy will not be enough to address the varieties of constraints which inhibit not just employment creation but a level of employment which ensures an adequate livelihood. In such circumstances, employment generation must be incorporated as a stand alone policy within a wider development agenda. This would need to address both demand and supply side constraints and institutional interventions to address these constraints. 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 may mostly remain redundant but must be designed to promote 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 the 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. The MGREGA 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 up and calibrated to the need for work both at the national and local level. Public resources should be dedicated to underwrite these investments in the rural and urban sector along with skill development programmes 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.

## **(ii) Enhancing the Productive Capacities of the Poor**

### *Responding to credit needs*

Those most at risk are likely to be the asset less, dependent exclusively on the employment generating capacities of the market and on public investment. The assetless and asset poor would, thus, need to be invested with an autonomous capacity for income generation through access to both productive assets and credit to invest in such assets and/or to underwrite various micro-business initiatives.

Historically, the credit needs of the poor remained un-serviced because of market failure. The poor had a need for credit and were willing to pay for this on market competitive terms. But none of the established financial institutions were disposed to service this large, unsatisfied and potentially profitable market for credit. As a result, the credit needs of the poor were largely met through the informal market, constituted by a class of money lenders, who exploited the closed, non-competitive nature of these markets, based on the isolation and vulnerability of the poor, to extract punitive rents from their clients. Such an informally derived, non-competitive market, served to perpetuate indebtedness and aggravate poverty. Exposure to market, health and climatic risks for the most vulnerable, increased indebtedness and locked them into inter-generational poverty traps.

The pioneering contribution by Nobel Laureate Mohammed Yunus, through the Grameen Bank, was to recognise the poor as potential micro-entrepreneurs with a capacity to save and invest in self-employing small scale business activity. To respond to their unmet need Yunus was compelled to step outside both the formal and informal credit market to create a segmented market for the poor. The Grameen initiative sought to respond to the huge unsatisfied need for credit by the poor on terms which were competitive with credit offered by the formal market.

It was recognised by Yunus that if such an enterprise was to be sustained and reproduced it would need to become 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 the money-lenders. 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 constituted Grameen Bank as a corporate commercial bank, owned largely by its own client base of 8 million borrowers, but leaving a minority stake for the Government of Bangladesh (GOB).

In Bangladesh micro-credit grew rapidly since its inception. In 1996 its borrower-members stood at around 8 million. By 2017/18 this had reached over 30 million borrowers, which covers most of Bangladesh's population who were classified as living below the national poverty line. In this year around \$12.5 billion dollars were disbursed by Bangladesh's various micro-finance institutions. This rapid growth of micro-credit has served to reduce poverty but not end it. The pursuit of financial viability has enforced an element of selectivity in micro-credit programmes

which consciously excludes the extreme poor whose vulnerability makes them less credit worthy. Both Grameen and BRAC, today Bangladesh's largest micro-credit provider and the world's largest NGO, have recognised this omission and have specifically targeted programmes to reach out to the hard core poor including beggars.

In most other programmes in Bangladesh and around the world, including the now increasing number of for-profit MFI's, the extreme poor, who are most at risk and in need of such credit, remain outside the domain of MFI's. The inability of micro-credit to either end poverty or reduce risk for the more vulnerable is inherent in its one dimensional approach to poverty. Micro-credit does little to compensate for the low level of skills and the weakness of their poor clients to compete in the market which further enhances their vulnerability. In the next two sections we therefore explore critical interventions which would need to go hand in hand with the use of micro-credit in order to decrease poverty and vulnerability.

#### *Insurance for the Poor*

Another area where the financial system neglected the poor lies the area of insurance. The insurance industry was designed to mitigate the risks and insecurities of life, whether from death, old age, ill health, natural hazard, fire and civil strife. Across the world there is no group whose life is more insecure than the poor. Death or illness of a bread earner can drive 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 the poor inhabitants of these areas, many risk their lives to stay on to protect their livestock and other meager possessions from the storm. In various public projects to provide security to Bangladesh's coastal populations against cyclonic surges 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 the risks of the poor. Such interventions could extend to the introduction of a variety of insurance products covering risks such as life, health, old age, which are common to the traditional programmes incorporated in the SP programmes recognised by the ADB study. But it will need to move beyond this to cover the specific risks of the poor such as loss of crops and livestock, bad weather, market fluctuations or from civil strife. These

interventions need to be designed as part of a holistic national policy. Such policy interventions will need to take account of the social obligations of the state and to do so in ways which are affordable both to the state and the poor. The more extensive the insurance coverage the more widely diffused will be the risk which will thereby serve to reduce the cost of the insurance programmes. 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 the need to invest them with command over productive assets. Since a large segment of the poor and vulnerable live in the rural areas, the most immediate area 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 an insufficiency of land remain dependent on the patronage and whims of land owners and vulnerable to the insecurity of land markets where such exist.

In order to enhance not just the earning capacity of the poor but 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 land owners remain absent or at least non-cultivating owners who rent out or share crop their land. In the land scarce countries of South Asia land poverty has expanded the tenancy market.

In the prevailing circumstances there is a strong argument, on grounds of both justice and efficiency, to at least ensure that those who rent in land are given the right to own the land they actually cultivate or to least be assured of security of their 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 not just in South Asia but in other regions.

### *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. Minifundist agriculture, where

farmers are left to survive on unviable units of land which are 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 realise the external economies available to bigger landholders. Groups of landless households could be incorporated to own and operate tubewells or farm machinery in order to market these services to other small farmers. 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 70-80 per cent of the farmers are small and among them, an increasing number are women, it has been argued by scholars such as Bina Agarwal that a group approach would improve small farmers' access to inputs, credit, extension and marketing. 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 which normally involve more risk.

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 our ability to design collective institutions, whether as cooperatives or corporate entities, 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 which are rich in forest and mineral wealth. Juxtaposition between natural wealth and impoverished communities is to be found across the world from the Amazon forests in Brazil, to the oil rich delta's 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 inhabited by 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 project. Insufficient compensation usually leaves them vulnerable to lives of want and insecurity. In all such cases it is suggested that the rights of all such communities to the land and resources within their

ancient habitations should be recognised and treated as a form of equity which 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.

### **(iii) Challenging Market Injustice**

Minfundist farmers, artisans or street vendors who survive at the bottom of the value chain, depend for their subsistence on the long chain of intermediaries who add value to their produce. Their livelihoods thus remain permanently insecure because they can do nothing to enhance their bargaining power at the bottom of the value chain. To address these insecurities we need to connect the primary producers to the upper tiers of the value chain whether as a trader or as a partner to those engaged in adding value to their produce/services. Such interventions may originate from the corporate sector reaching down directly to the first link in their supply chain or for the primary producers to come 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 the inequities inherent in the market.

#### *Adding value through the corporate sector*

In India and many other countries corporate enterprises remain an important source 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 which constrain the marketing options of small farmers and service providers.

The ITC group, one of India's largest corporate conglomerates, launched its *e-choupal* programme initially to address problems of information asymmetry for farmers. But its more substantive agenda was to source its purchases directly from farmers. 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. In India corporate retail chains located across India, such as Reliance and Spencers, now connect agri-producers to the final consumer. 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. In Bangladesh corporate retailers, such as Nandan and Agora, serving metropolitan markets, source produce directly from producers or wholesalers operating in local markets.

ITC and other corporate chains have been able to offer a better price to soyabean, coffee, sugarcane, fruit and vegetables 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 which derive from converting sugarcane into refined sugar, soyabeans into soyabean oil or cotton into yarn. Thus the substantive rewards to be derived from value addition from 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 corporates to link its supply chain to the value addition process.

Due to their sense of vulnerability, owing to their 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 macro-economic 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 which aggregates their negotiating power. Such institutions may be fully owned by the small farmers which enable them to make large scale investments in both backward linkage, as in the farmer owned fertiliser industry cooperatives in India and forward linkage (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.

#### *Empowerment through cooperatives*

The critical issue to be explored 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 Gujrat, India, has emerged as a role model for the region which has been replicated by Milk Vita in Bangladesh and also in Nepal. In these cooperatives the 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 Gujrat by a monopsony of milk traders, through the instrument of collective action. Amul has grown into a globally recognised

institution which is India's largest agro-processing enterprise with a turnover of over \$2.5 billion in 2012-13 with 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 co-operatives with 13 million members, aggregated in 15 Federations across India, has contributed to transforming India into the world's largest milk producer.

India's sugar cooperatives, owned by sugar cane growers centred in Maharashtra state, remain even larger conglomerates than India's dairy cooperatives, though they are far less profitable and remunerative, particularly for the small sugar-cane growers due to the hazards of elite capture. In Bangladesh, Milk-Vita, a cooperative and BRAC, the world's largest NGO, with a heavy involvement in the micro-finance sector, have invested in value addition through dairy enterprises. Milk-Vita modelled 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 micro-credit borrowers who have invested in the dairy sector. However, the scale and success of the Indian experience has not been replicated in Bangladesh or South Asia. BRAC, for example, has eschewed the Amul model of integrating its milk suppliers, through a cooperative institution, to Aarong which is fully owned by BRAC.

#### *Adding value to micro-enterprise*

The unorganised sector or informal economy is the principal source of livelihood for the poor in most parts of the developing world. In the case of India, the report of the *National Commission for the Enterprises of the Unorganised Sector* (NCEUS) observed that 50.6% of the GDP in 2004-05 was contributed by the unorganised sector. The scale of operations of Non-farm unorganised enterprises (NFUE) remains microscopic. 43% of these enterprises in the rural areas had fixed assets of less than Rs. 5,000 (US\$ 120.9) while 51% of enterprises even in the urban areas had assets of less than Rs. 25,000 (US\$ 604.5). Many such micro-enterprises provide little more than perennially insecure livelihoods on the margins of subsistence.

The low earning capacity of micro-enterprises may have been partially addressed through provision of credit by MFIs. Access to micro-credit has certainly helped to reduce poverty but a large proportion of its borrowers remain trapped in low yielding micro-enterprises which keep them close to if not below the poverty line. It was estimated that 57% of these micro-enterprises in the rural areas of India generated a GVA below the annual income generated by someone receiving India's national minimum wage of Rs. 45 (US\$ 1.09). As a result, poverty levels among NFUE remain high.

In the case of micro-entrepreneurs, their low incomes owe to the low prices received for the product/services whether as producers of handicraft or artisan products, homemade food produce or provision of services as rag pickers or rickshaw drivers. Their low earnings derive from the poor quality of the produce, the exploitative nature of the marketing network and their exclusion from sharing in the further processing of their primary products.

In the case of slightly larger enterprises, employing 3-4 wage workers, which would be classified as small scale enterprises (SSE), the enterprise may be exposed to similar problems associated with their participation at the lower end of the market chain. Their access to the market is intermediated by traders who provide credit and market their product, or by those larger enterprises who 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.

Most NFUEs do not have the advantage of being linked within a supply chain to a big corporate producers or retailer. They, thus, find it difficult to compete in the market due to their individualisation, low level of skills, their asymmetric access to information and their lack of capital, which exposes them to a perennial existential struggle to subsist. In a few industries in South Asia, mostly in India small entrepreneurs and even home based enterprises have been integrated into the modern economy by corporates who have found it advantageous to use them as partners in their production process, and have accordingly invested in the technological upgradation of such enterprises. However, at the end of the day the micro-enterprise, held captive in the unorganised sector, remains excluded from a major share of the returns accruing to corporate giants or the handicraft shops and garment boutiques who procure their products from those home based enterprises. The operative issue, thus, remains how and whether these micro-entrepreneurs can be empowered to derive a greater share from the value addition which is being generated from their labours.

#### *Interventions to add value to micro-enterprises*

The problems of isolation and scale, which have limited the share of micro enterprise in value addition has not gone unnoticed by the market or the state. In recent years the non-profit or

NGO sector, as part of its agenda of alleviating poverty, has reached out to the micro enterprise sector to assist them in adding value to their labours.

Large scale retail chains such as Reliance or Spencers in India, or corporate NGOs such BRAC in Bangladesh, are attempting to bypass trading intermediaries and connect directly to micro-enterprises. The corporates 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 micro-entrepreneurs may be benefited by regular orders provided by their prime-contractors who may even provide technology transfer or credit and exercises quality control over the supply chain to ensure both quality and reliability of supply. In spite of each efforts at oversight by the parent company reliability of supply always remains a problem particularly where a large number of small suppliers are involved. Linkages with corporates may be more beneficial to the primary producers and micro-entrepreneurs, compared to their dependence on the traditional trading intermediaries. These direct linkages significantly reduce transaction costs for both buyers and sellers. It should, however, be keep in mind that the corporate entity always captures the larger share of the return from the value addition process.

The limitation of the state to reach out to the micro-entrepreneurs has, since the 1970s, attracted NGOs to come forward to fill the vacuum. In the case of South Asia NGOs have emerged as sources of credit, technical assistance (TA) and marketing outlets for the produce and services of micro-entrepreneurs. Organisations such as BRAC in Bangladesh have reached out to craftspersons across the country to provide credit, TA and infrastructure support to engage in production. BRAC has established a modern market outlet, *Aarong*, to retail the products of these craftspersons both within Bangladesh and abroad. *Aarong* has established 13 centres and 653 sub-centres across Bangladesh to produce a large variety of handcraft. In these centres, artisans, mostly women, usually work an 8 hour day, 25 days in the month, at a monthly minimum wage of around Tk. 2,000 (US\$30). Alternatively, artisans working at home or even in the *Aarong Production Centres* (APC) are paid at piece rates. In addition, the workers, both salaried and contracted, receive free medical checkups, legal advice, day care services, free schooling for their children in BRAC's non-formal schools and contribute to a worker retirement fund. Many of these women are specially trained at the APCs in particular skills. The APCs altogether provide work for around 65,000 artisans, of whom around 40,000 are full time wage earners working at the APCs, whilst around 25,000 are home based piece-rate

workers Aarong has 8 upscale retail outlets, located in the urban centres of Bangladesh as well as an outlet in London and also markets its handicrafts to *Fair Trade* outlets across the world.

#### **(iv) Empowerment through Collective Action**

##### *Collective action by Women*

Scope for adding value to micro-enterprise 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 cases of SEWA, and of *Lijjat*, which demonstrate how collective action can improve the position of disempowered women in the value addition chain.

The *Self Employed Women's Association* (SEWA) 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 brought together such disempowered groups of women as rag pickers, 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.

To enable small producers to move upmarket requires strong professional back up. This is provided by an organisation such as SEWA which is better equipped to explore what the market needs, provides technical training to upgrade the product to meet market specifications, and can exercise quality control over the final marketed produce. 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 produce. The most crucial support from SEWA came through empowering these diverse women's groups to enhance their organisational capacity to compete on more equitable terms in the market. These groups needed to be organised to come out of their dependency on middlemen and to directly connect with the upper tiers of the market.

Aggregated producer groups have the capacity to enhance their bargaining power, deal with the government at higher levels, draw on public services for their training, mobilise credit and

invest in collective assets such as transport and storage facilities which serve to promote access to wider markets. This helps SEWA and its affiliated groups in realising higher returns for the produce and the labour of the workers.

A rather different approach to the collective action promoted by SEWA is provided by *Shri Mahila Griha Udyog Lijjat Papad*, more popularly known as *Lijjat*, which produces the popular condiment, *papad*. The point of departure to the SEWA model offered by *Lijjat* lies in its conscious move to use the mechanism of collective action to add value to household labour. The *Lijjat* project is a cooperative of women which began its life in Mumbai in 1959. Today, *Lijjat* outsources its production process to its 43,000 low income women members who are both producers for and owners of the enterprise. As of 2013 *Lijjat* had captured 90% of India's papad market with a turnover of \$118 million and exports 25-30% of its produce.

What sets *Lijjat* apart from millions of home based micro-entrepreneurs in South Asia is the value addition to this production process provided by delivering external economies at the corporate and branch level, which are available to a large corporate enterprise. These economies include centralised procurement of inputs such as flour and condiments as well as their processing in order to ensure a standard quality of ingredient, which can be distributed to the women for final preparation at the household level. The central office also oversees packaging, sales, advertising, exports and financial management. A special packing division has been established to undertake the preparation of packaging material and printing, which is distributed to the branches for packaging the products delivered by the household women. *Lijjat* has further invested in adding 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 has developed a significant market share in the spices and detergent market across India. *Lijjat* serves as a success story of the economic gains from collective action by the poor. The cooperative has generated substantial profits which are used both for reinvestment as well as distributing dividends which are shared by all its members.

#### *Collective action through worker ownership*

Some of the most insecure and vulnerable among the ranks of the deprived are wage workers in the fast growing export sectors of the developing world. We have observed that in one of the most dynamics sectors, readymade garments (RMG), also known as apparels, which is dominated by exports from developing countries, their global competitiveness originates in their

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 condition and improve the collective bargaining rights of the workers. Bangladesh, after the Rana Plaza tragedy, is implementing a policy package to improve working conditions for its workers. The package was negotiated with governments and corporate buyers from the US and EU, the principal market for their RMG exports, whose interests may not exclusively be driven by humanitarian concerns.

Notwithstanding the good intentions of the international community, in an age of globalisation Wal-Mart will continue to source its suppliers from exporters who provide the best value for money. Even today global chains such as Wal-mart may procure a shirt made in Bangladesh for \$5 and retail it in New York for \$25, appropriating the lion's share of value addition in this sector.

Wages, which have declined in real terms in the RMG sector, for a number of exporting countries, including Bangladesh, may not improve significantly in the days ahead within an increasingly competitive global market which remains dominated by global corporate giants. If Bangladesh aspires to take over market space in the RMG sector now being gradually vacated by China, one of the few countries where real wage have risen, it may need to keep its wage levels repressed in order to stay competitive.

In such circumstances one of the ways in which workers in the RMG and other labour intensive export sectors of Bangladesh and even other such countries may expect to both enhance their rights and bargaining power is to provide them with opportunities to form trade unions, a right hitherto denied to them. Their weak bargaining power has greatly enhanced the vulnerability of the workers and exposed them to unjust treatment by their employers. In such circumstances workers feel compelled to resort to street actions to assert their rights so that 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. Worker's rights should, therefore, be graduated to sharing in the value addition to their labours. Opportunities may be initially provided to the workers through provisions for profit sharing in their enterprises. Eventually the workers should be empowered to become stake holders in their enterprises through provisions for sharing in the equity of the company.

The longer term struggle for workers in the export sector of developing countries remains to extract a fairer share of the value addition process from global value chains. But that remains part of another discussion about the ongoing struggle for a more just global order.

Investing workers with ownership rights in their place of work has been a time honoured agenda in countries seeking to promote a more inclusive society. Making worker's stakeholders in the viability of their enterprise has been promoted in both socialist societies (former Yugoslavia) as well as many capitalist states. The idea can, therefore, invoke its ideological inspiration from both progressive as well as market oriented schools of thought.

The *Mondragon Corporation Cooperative* (MCC) is the global leader and role model of worker ownership. The significant feature of Mondragon, founded in 1956 in the Basque region of Spain is that it is a cooperative which is owned by its workers. Whilst the organisation 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 organisation, 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 (US\$ 45.23 billion) which generated revenues of €16.4 billion (US\$ 22.5 billion) and provided employment to 103,731 workers. Of these worker owners of Mondragon, 42% were women. This makes Mondragon the largest single business conglomerate in the Basque region and the 7<sup>th</sup> largest in Spain.

#### *Workers ownership in South Asia*

South Asia can cite one notable example of successful worker ownership, the case of Tata Tea Ltd (TTL). TTL is one of the largest integrated tea companies in the world. In recent years, TTL, decided to withdraw from the growing and production of tea in order to concentrate on marketing the product. Initially, TTL decided to sell off its plantations in Kerala. In this process, TTL 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, TTL sold its 17 tea gardens covering 24,000 ha, in the Munnar mountain region in Kerala, to its workers, who were organised as a cooperative which was registered as the *Kannan Devan Hills Plantation Limited* (KDHPL). Through this transaction, 13,500 workers became owners of a 70% equity stake in the KDHPL, while TTL retained a 19% 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 of KDHPL.

KDHPL continues to market its tea through TTL which thereby appropriates most of the value addition from its global value chain. For this project to more fully serve the plantation worker/owners, KDHPL needs to be provided with an equity stake in TTL.

Investing workers with ownership rights should not be pursued for exclusively instrumental reasons. If we aspire to the goal of reducing insecurity then we need to place owners and workers in a more equitable and just relationship where workers become stakeholders in their place of work rather than be locked into an adversarial relationship with their employers. Transforming the worker from a subordinate to a partner may, thus, be seen as integral to the process of building a more democratic as well as 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 need to have sustainable financial foundations to underwrite the workers' stake. One option may be to persuade employers to offer their workers an equity stake in their companies through employee stock option plans (ESOP), as in the US and EU, and to devise various measures to underwrite this buy-in. Governments may encourage such divestiture through provision of tax incentives to enterprises willing to offer shares to the workers. Such companies may, either on their own initiative or incentivised 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% of its profits to its workers. But this provision is rarely observed by corporates or enforced by the government.

#### *Financing the broadening of ownership stakes*

To underwrite buy-ins for workers, whether under ESOPs, or through a more comprehensive acquisition of an equity stake in a company, it is proposed that a dedicated *Equity Fund* be established by the government to financially empower workers to buy shares in the companies where they work. The loan could then be repaid, on easy terms, from the dividends realised from the worker's investment. This *Equity Fund* may 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.

Other financial instruments can be devised to underwrite worker ownership such as through dedicated Mutual Funds owned by the workers which are permitted to invest in their places of work. The instrument of the Mutual Fund or the *Equity Fund* could also be extended to farmers who may be offered opportunities to draw on these instruments to secure an equity stake in the agro-processing enterprises adding value to their product or to artisans whose produce is marketed by NGOs or various fair trade initiatives. Mutual Funds can also be devised to direct part of the large volume of savings being remitted by millions of migrants to their homelands, for investment in high quality corporate assets. Large public infrastructure projects such as toll highways, bridges and ports which 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 the need to devise institutional mechanisms built upon collective ownership by workers/farmers/migrants/local communities so that their share holdings cannot be individually appropriated by larger players, as happened in the Russian privatisation fiasco initiated by Yeltsin which 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 of such an enterprises, to insulate workers and small savers from risk. At the same time workers and other small scale investors may be entitled to individually exit from the project by selling off their share within the collective or Mutual Fund. Finally much effort will need to be invested in devising both instruments and training programmes in the oversight of such investments so that principal-agent problems which 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 South Asia, 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. However, as we have argued, if our 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 realises qualitative change in the lives of the vulnerable. In spite of noticeable advances in provisioning of SP nowhere across the developing world, can it be claimed that the lives of its

beneficiaries have been qualitatively improved, whether under the MGREGP in India or even the *Bolsa Familia* programme in Brazil. A measure of such qualitative change would be to 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.

We have argued that social protection programmes need to move beyond the protection of individual risks to address the more substantive market driven risks which originate from the structural injustices of society. We have put forward a body of ideas designed to reduce such vulnerabilities which can provide the basis for further debate and elaboration. Individual countries in South Asia may draw on these ideas 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 which will underwrite such a process of change. We will need to identify agents of change across South Asia, whether among political parties, NGOs, the corporate sector or among the poor themselves. We will also need to assess the willingness of governments to commit and engage themselves in realising change, their capacity to mobilise 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 mobilised in support of change.

Our agendas for change have acquired a new urgency in the wake of the ongoing crisis which is consuming the global economy. A world order which has elevated the values of the casino into the central dynamic of the capital market is threatening the livelihood of millions of vulnerable people around the world. We do not presume to challenge this order. However, we do seek to build a development process in South Asia which is less dysfunctional, less unfair and more serviceable to the needs of millions of ordinary people. We believe that providing assets and enhancing the scope for income gain for millions of people, located at the bottom of the pyramid, will strengthen the resilience of our economies to cope with such global downturns. Liberating the productive potential of these millions, by investing them with resources and skills, will stimulate, internalise and sustain the growth process across our region. Transforming these millions into owners of wealth, equipped with the capacity to access the

upper tiers of the market, will invest them with a sense of empowerment they have rarely known.

A social order, 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, where an episode of ill health could drive their entire family into destitution, is not sustainable. An economic order where millions of young women are condemned to earn fifty dollars a month, whilst 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 which can destabilise the social order. Within our globalised world such risk-prone societies can, in turn, become threats to regional stability and even global security. In such circumstances let us not ask 'for whom the bell tolls, it tolls for thee' (John Donne).

**Table 1: Poverty Situation in Selected Regions and Countries**

Country	Reference Year	% of Population below \$1.25-a-day	% of Population between Poverty Line \$1.25 and \$2.00-a-day
<b><i>East/Southeast Asia</i></b>			
Cambodia	2007	28.3	28.2
China	2005 <sup>a</sup>	15.9	20.4
Indonesia	2009 <sup>a</sup>	18.7	32.0
Lao PDR	2008	33.9	32.1
Philippines	2006	22.6	22.4
Thailand	2009	12.8	13.7
Vietnam	2008	13.1	25.3
<b><i>South Asia</i></b>			
Bangladesh	2005 <sup>b</sup>	49.6	31.7
India	2005 <sup>a</sup>	41.6	34.0
Nepal	2004	55.1	22.5
Pakistan	2006	22.6	38.4
Sri Lanka	2007	7.0	22.1
<b><i>Sub-Saharan Africa</i></b>			
Angola	2000 <sup>c</sup>	54.3	15.9
Congo, Dem. Rep.	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		-	-
<b><i>Latin America</i></b>			
Bolivia	2007 <sup>d</sup>	14.0	10.7
Brazil	2009 <sup>d</sup>	3.8	6.1
Colombia	2006 <sup>d</sup>	16.0	11.9
Nicaragua	2005 <sup>d</sup>	15.8	16.1

Source: World Development Report 2012.

Note: a. Population weighted average of urban and rural estimates. b. Adjusted by spatial Consumer Price Index (CPI) data. c. Covers urban areas only. d. Based on per capita income averages and distribution data estimated from household survey data.

**Table-2: Social Protection Index and HDI**

1	2	3	4	5	6	7	8	9	10	11
					Unweighted Social Protection Index 2009					
	<b>Country</b>	SPI rank	Overall Social Protection Index	Social Insurance	Social Assistance	Labour Market Programs	HDI rank	HDI Index 2012	SPI related to Income rank (1-3)	HDI related to SPI rank (3-8)
	<b>High-income countries</b>									
1	Japan	1	0.416	0.523	0.213	0.067	1	0.912	0	0
2	Korea, Rep. of	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
	<b>Average</b>		<b>0.262</b>	<b>0.341</b>	<b>0.140</b>	<b>0.052</b>				
	<b>Upper-Middle-Income Countries</b>									
4	Malaysia	5	0.155	0.281	0.026	0.004	4	0.769	-1	+1
5	China, People's Rep. of	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
	<b>Average</b>		<b>0.122</b>	<b>0.168</b>	<b>0.083</b>	<b>0.013</b>				
	<b>Lower-Middle-Income Countries</b>									
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	0.629	-6	+5
12	Lao People's Democratic Republic	20	0.026	0.043	0.018	0.001	15	0.543	-8	+5
13	Mongolia	4	0.206	0.239	0.166	0.141	10	0.675	+9	-6
14	Pakistan	15	0.047	0.104	0.017	0.012	17	0.515	-1	-2
15	Philippines	10	0.085	0.182	0.022	0.055	11	0.654	+5	-1
16	Sri Lanka	8	0.121	0.227	0.036	0.037	5	0.715	+8	+3
17	Vietnam	7	0.137	0.231	0.044	0.043	13	0.622	+10	-6
	<b>Average</b>		<b>0.096</b>	<b>0.135</b>	<b>0.070</b>	<b>0.046</b>				
	<b>Low-Income-Countries</b>									
18	Afghanistan	16	0.046	0.003	0.050	0.096	19	0.374	+2	-3
19	Bangladesh	18	0.043	0.020	0.038	0.164	17	0.515	+1	+1
20	Cambodia	21	0.020	0.013	0.024	0.035	14	0.543	-1	+7
21	Nepal	12	0.068	0.098	0.055	0.014	18	0.463	+7	-6
	<b>average</b>		<b>0.061</b>	<b>0.055</b>	<b>0.071</b>	<b>0.054</b>				

Source: Social Protection Index, Asian Development Bank (ADB), 2013  
Human Development Report, UNDP, 2013

**Table-3: Social Protection Index by Depth and Breadth, 2009**

<b>Country</b>	<b>Social Protection Index</b>	<b>Overall Depth</b>	<b>Overall Breadth</b>
<b>East Asia</b>			
China, People's Rep. of	0.139	0.174	0.798
Japan	0.416	0.460	0.905
Korea, Rep. of	0.200	0.225	0.886
Mongolia	0.206	0.274	0.752
<b>South Asia</b>			
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
<b>Southeast Asia</b>			
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: The Social Protection Index, ADB  
Table A3.7 & A3.8

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