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**Eradicating Poverty in South Asia by  
the Year 2002: Issues in a New  
International Dialogue with Donors**

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# Eradicating Poverty in South Asia by the Year 2002: Issues in a New International Dialogue with Donors<sup>1</sup>

Arshad Zaman<sup>2</sup>

## Abstract

*The international atmosphere is now supportive of poverty alleviation programmes, an attitude that is reflected in the concerns of "donor " (read: "lender") agencies, notably the World Bank and the IMF. However, given the institutional constraints under which lenders work, their practices often have negative fall-outs for the goal of poverty alleviation. There is thus a need to engage in dialogue with lenders, and to set up fora at the regional level at which such a discussion may take place. This paper seeks to delineate the intellectual framework for such a dialogue. It identifies four areas of discussion: (i) the peculiar perspective of lenders which obscures the linkages which exist between the entire spectrum of their activities and the condition of life of the poor in borrowing countries; (ii) the need to minimize these negative fall-outs; (iii) the need to maximise existing positive linkages; and (iv) the possibility of charting new areas of activities in collaborative ways. Finally, the paper suggests one concrete sequence of steps to design and implement a regional poverty alleviation programme.*

## Introduction

The Report of the Independent South Asian Commission on Poverty Alleviation, *Meeting the Challenge* (November 1992), has been well received. There is now a need to strengthen the intellectual framework within which the Report's recommendations have been formulated, spell out an implementation strategy, identify the issues to be raised in the international analysis and research to support this process. This paper addresses itself to the kinds of issues which are relevant to a dialogue with lenders.

## Issues for a Dialogue with Lenders

The Seventh SAARC Summit, held in Dhaka, declared, *inter alia*, that:

*12. The leaders also underscored the critical link between the success of national efforts aimed at poverty alleviation and the external factors affecting growth and development. They urged all the major actors in the world economic scene, particularly the industrialized countries and multilateral and regional financial*

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1. This paper was prepared for the United Nations University, South Asian Perspectives (UNU/SAPP) - Bangladesh Rural Advancement Committee (BRAC) Consultations, held in Dhaka, September 14-16, 1993, on the report of the Independent South Asian Commission on Poverty Alleviation and the SAARC Summit decision on Poverty Eradication in South Asia by the Year 2002.
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*institutions and Non-Governmental Organizations, to create an enabling international atmosphere that is supportive of poverty alleviation programmes in South Asia. This would require a new dialogue with donors.*

The purpose of a dialogue with donors, therefore, would be "to create an enabling atmosphere" that is "supportive of poverty alleviation programmes" in South Asia.

There are grounds to believe, however, that the international atmosphere is supportive of poverty alleviation programmes. As industrialized countries, and through them the NGOs, and other multilateral and regional financial institutions more or less follow the intellectual lead of the World Bank (and the IMF) in this matter, it is the WB/IMF's thought and practice which determines the "atmosphere" which the SAARC heads of state seek to affect.

The World Bank's concern about poverty dates to the early 1970s, when in keeping with then current paradigms, the "redistribution with growth" strategy was formulated. Since then, the World Bank has at all times attempted to keep abreast of fashions in development thought, and its latest effort in the area, the *World Development Report 1990*, proposed a three-part strategy: (i) broad-based labour-intensive growth, (ii) enhancing the poor's access to social services, and (iii) "safety nets" for the most vulnerable. This was followed up by a policy paper, *Assistance Strategies to Reduce Poverty* (1991) and a *Poverty Reduction Handbook* (1992). While these are only the most well-known reports, a great deal of additional work has been done in the World Bank and the IMF on poverty, especially as it is linked to stabilization and adjustment programmes (some of the work done in the last few years is cited in the bibliography, mostly to dispel the belief that these institutions are either indifferent to, or less than well-informed about, poverty).

The problem, therefore, is not one of an absence of a supportive atmosphere. Instead, the problem arises from inherent limitations that a foreign agency - and a financial agency at that - faces in coming up with schemes of poverty alleviation. The principal task of the Bretton Woods institutions (IMF/WB) is to ensure that the international financial system is not put at risk by the inability of any member country to pay for balance of payments deficits. Within this overall purpose, the IMF ensures that short-term credits (linked to belt-tightening measures if necessary) are available to tide member countries over temporary difficulties, while the WB is there to enhance the debt servicing capacities of member countries over the long-term. A dialogue between the recipients and donors on the need to set up a school and a clinic in the village could therefore be fruitful, but it would be unrealistic to expect that it would not be constrained by the inherent limitations of their different purposes.

Does this mean that there can be no dialogue with the lenders (let's face it, there never were any "donors")? There is obviously a large area of discourse on which dialogue is not only possible, but necessary. This is the conventional area of discussion on the volume and terms of lending, and other aspects of the relationship between a borrower and lender. In this, there is a need for discussion in four areas: (i) the peculiar perspective of these lenders which obscures the linkages which exist between the entire spectrum of their activities (and their principals, the governments; and, indeed of the parallel activities of the governments themselves), and the condition of life of the poor in borrowing countries; (ii) the need to minimise, as far as possible, the negative fall-outs of these activities; (iii) how to strengthen the positive linkages; and (iv) identification of new areas of activities in collaborative ways. There is a need, however, to disabuse ourselves of the illusion that

we are talking to the Red Cross when in fact we are talking to a banker, despite the many misleading signals which exist and which we make up due to our own needs.

## Talking about Perspectives

Although changing patterns of cherished beliefs is a task for prophets and not ordinary mortals, an attempt to make the World Bank and IMF aware of the limitations of their peculiar perspective on the way the world is must feature in any list of issues for a dialogue with these institutions. Whether this dialogue is in fact conducted or not depends on the hidden agenda of those who aspire to a dialogue: obviously, if what is wanted is World Bank endorsement and/or funds, then it may be more prudent to employ winning-friends-and-influencing-people rather than proselytising strategies.

For the record, however, the main limitations in the WB/IMF perspective with immediate operational consequences are essentially the following:

1. There is a tendency to believe that economics is separable from ideology, politics and society; or that if there are links, the Bank cannot (or should not) do anything about it. In this way, actions taken ostensibly on the basis of pure economic logic, are laden with ideological, social and political consequences, and a denial of this results in an impregnable World Bank ideology!
2. Within this separability-of-economics view, the commitment to neo-classical economics restricts the ability to discern historical (sometimes even historic, as in the OPEC crisis) and institutional processes which are often at play. The insistence to fit all member countries to a procrustean bed of "stylized" growth paths - with undeniable administrative secondary gains - does lower the quality of policy advice tendered, and hence the scope of policy action.

## Minimizing Negative Fall-out

The Bank's operations have two kinds of negative fall-out: those that can be discussed in strictly economic terms, and those that lie in the realm of the social, political and cultural (and interactions between the four). Of the first, there is a need to distinguish between three areas of potential discussion:

1. Project lending - the staple activity of the Bank - can often have negative fall-outs (in terms not only of poverty, which is relevant here, but the environment and other concerns which may be germane).
2. Programme assistance (including structural adjustment and sector loans) - which involves balance of payments support against an agreed programme of policy actions, on which a vast and warmly argued body of literature exists - can have far-reaching consequences which need to be discussed.
3. The Bank's economic and sector work, which often underpins adjustment lending, can often be far more damaging than the loans themselves, by defining the agenda of policy concerns of government in an appropriate manner (by excluding important concerns and formulating important ones in ways which delimit the scope of action to a menu of sub-optimal choices).

Of these, the link between adjustment lending and poverty has been the most warmly contested area of discussion not only in intra-agency, inter-agency and agency-government dialogue, but in academic circles as well. Anyone who seeks to enter this discourse had best be *au fait* with all the

petty and not-so-petty skirmishes and battles which have been fought over the last decade. While the discussion of the non-economic fall-outs of the Bank's operations may be premature at this stage, it may be fruitful to mention two lessons of recent history:

1. Where governments have, and manage to retain, an independent capacity for policy analysis, programmes formulation and implementation, they are able to use the Bank's analytical and project preparation and appraisal work in the most productive and efficacious manner. Unfortunately, without the Bank's realization, the process of adjustment lending has damaged the institutions of economic management in most member countries. This negative impact of adjustment lending on governance may perhaps be the most serious drawback of adjustment lending by the WB and the IMF.
2. A second lesson is that history provides stories of the success of liberalization, and of the implementation of dirigiste policies, but the one policy which has consistently failed is the blind pursuit of economic ideology without regard to the specifics of the situation. Unfortunately, there has been a tendency during the last decade for WB/IMF to resort to a naive nineteenth century (European) liberalism, as an ideological position, rather than as a well-thought-out critique (and hence remedy) of the situation on the ground.

### **Strengthening Positive Linkages**

Contrary to some extreme views, there are positive linkages between the Bank's operations and desirable outcomes in borrowing countries. The Bank's economic and sector work does raise the analytical quality of policy discussions, and has a positive catalytic effect on domestic research capability and output. Its project lending does improve the quality of project preparation and appraisal. As a by-product of its activities, the quality of the investment portfolio is often improved, and processes of monitoring and evaluation, and periodic portfolio review, are set in place. Finally, structural adjustment lending has often had a positive impact on the management skills of civil servants in finance ministries.

There is scope for strengthening these and other positive linkages which have been eroded in recent years.

### **Scope For New Initiatives**

Even though the Bank is not unduly friendly to outside advice, especially from borrowing countries, good ideas do tend to endure and eventually be claimed by the Bank as its own. The scope for new initiatives is largest in those areas which constitute the bread and butter of bank activities: making loans to governments.

In order to enhance the impact of the independent South Asian Commission's report, some thought could be given to enlisting the member government's support for a regional poverty alleviation project. (There are precedents for regional projects which benefit a number of member countries of the World Bank.) This requires, however, the support of SAARC countries, and the working out of modalities for programme implementation and assumption of the debt burden. The appropriate forum for initiating this discussion is the Committee on Economic Coordination of SAARC, which meets from time to time.

Although, there are many ways to proceed in this direction, one concrete sequence of steps to design and implement a regional poverty alleviation programme - on the pattern of the Pakistan National Rural Support Programme - could be as follows:

1. Persuade one member government to take the lead in pursuing the project. A senior civil servant, with access to the key ministries involved, should take responsibility for the project in its preparatory phase. He/she would liaise with the Secretary General SAARC (to convene a meeting of the High-level Economic Coordination Committee, in the first instance), and could be back stopped by Dr. Ponna Wignaraja in Sri Lanka.
2. Register a South Asian Poverty Alleviation Programme (SAPAP) under suitable Act (Societies Act, Trust Act, or Companies Act), either in member countries or in a third country (like Singapore, for example), with nominal capital base, subscribed either by prominent community development workers, or by SAARC governments, in the agreed ratio of SAARC subscriptions, or both.
3. Arrange a US\$ 1 million project preparation grant (UNDP could coordinate this), or get an IDA credit through the Project Preparation Facility (PPF) for SAPAP - this could be done within six months. Alternatively, member governments could put up this amount.
4. Use the PPF to finance the design of a regional project - along the lines, say of the National Rural Support Programme in Pakistan, except on a regional basis - under which an entity would be set up, from which member countries could draw upon to implement one or more of various agreed upon modules (like the Aga Khan Rural Support Programme, Grameen Bank, Janasaviya Programme, Jawahar Rozgar Yojana, etc.).
5. Once the project is designed, and a consensus reached among SAARC members, the World Bank (and/or Asian Development Bank and other lenders) could be approached to finance the project. The proceeds of the loan placed with the project entity (SAPAP) could be earmarked by country, or a more looser arrangement could be agreed upon. The disbursements would be to project entities within member countries who would assume the burden of the debt, with guarantee provided by the government concerned.

Obviously, this is merely an outline, which would have to be modified according to the evolving consensus on goals and strategies among all parties involved.

## Conclusion

Although the declaration of the SAARC heads of state did include a reference to a dialogue with donors, this was not included in the follow-up actions listed in para.13. There is therefore a need to determine objectives, set priorities, and formulate strategies of action.

The objective should be to enhance pro-poor initiatives in the SAARC region. The report of the Independent Commission can serve as an entry point in this venture, but only an entry point. If this priority is accepted, then clearly the desire to discuss economic philosophy with the World Bank should not be allowed to divert attention from these primary goals. From a strategic perspective, a decision has to be taken on the relative mix of private and government initiatives in pursuit of these aims. One possibility is for private efforts to take the initial lead (in consultation with governments, through one or more sympathetic member government, and/or the SAARC secretariat), and for governments to join in at a later phase. Another is to seek to move governments to assume the role of prime initiator, back stopped as necessary by those who have so far carried the burden. Both have

merits and limitations. What is needed is a clear appreciation of objectives, an unsentimental appraisal of the constraints, and a cogent strategy to achieve those objectives.

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