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POVERTY ALLEVIATION AND THE THIRD WORLD

MUHAMMAD AZHAR IKRAM AHMAD*

Abstract. Poverty, a global issue, plaguing developed as well as developing nations, has become the focus of economists since early 1950s. During the last two decades, this issue has received enormous worldwide attention and various international organizations have issued their findings regarding reasons of poverty and possible remedies to its reduction and/or eradication in the world. One of the components of poverty, however, has not received due attention. This paper attempts to point out basic flaws in traditional methods used in poverty alleviation and focus on the role of the political economy and the transfers of wealth from the rich to the poor. It is imperative that the institutional framework and the policies designed by the government must be for the development of the poor and that the standard of living must be raised for the people living at the absolute poverty level in both developed and developing nations. If the issue of poverty is not checked and remedial measures are not taken the catastrophic effects would be far reaching and non-reversible.

I. INTRODUCTION

The world has shrunk into a small village in which capital, labour, knowledge and material resources are mobile and potentially available to all the people. Statistics reflect that capital moves among nations in trillions of dollars annually and millions of people turn expatriates in search of better living levels. Access to knowledge and information is becoming cheap and instantaneous every day. The trend is continuing and is strengthening. Yet all the people living in this “global village” do not enjoy a comfortable level of living. Statistics released by UNDP for 1999 indicate that most Asian countries are infested with chronic poverty. Table 1 shows estimated number of people in selected countries of the world who live on the equivalent of less than $ 1 per day per capita:

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*The author is Professor and Director, Institute of Business Administration, and Dean, Faculty of Commerce, University of the Punjab, Lahore-54590 (Pakistan).

TABLE 1

Estimated Number of People in Selected Countries

India	525 million
China	353 million
Pakistan	44 million
Bangladesh	36 million
Nigeria	32 million
Brazil	31 million
Indonesia	31 million

Computed from UNDP data in HRD 1999.

Who are these people and how poor they really are? They are the landless agricultural labourers, the peasants with small land holdings, the rural and urban artisans engaged in the manufacture of no-longer-in demand handicrafts, the rural and urban unskilled and unemployed and the disabled and chronically sick of poor-family origins. These people have a family income of less than $ 1 per capita per day, which is about enough money only for food in most of the countries and quite insufficient for other basic needs. Prior to the independence of Pakistan and India, the area that comprised the subcontinent was one of the richest in the world. It had vast arable lands, sunshine throughout the year, adequate rainfall over most of its area, a large network of rivers and sufficient mineral wealth. Today this land is home for nearly 600 million poorest people in the world.

The traditional ways of alleviating poverty have not worked in the third world. Failure of the traditional ways can be attributed to rapid population growth, land fragmentation, lack of land reforms, political instability and the list goes on. Economists dissect the causes of poverty and design incrementalist solutions that deal with one or more of the causes and mechanisms. However, it is theoretically possible to pull these people out of poverty in a short period of time if innovative and imaginative methods are used to deal with this issue. Poverty could be completely eliminated from the less developed and developing countries if the possibilities of the global village are tapped and used. “Possibility Thinking” offers an alternative approach to solving the problem. It thinks big, it looks at what is possible, even if seemingly impractical, and it bypasses the limits imposed by the current situation. It, however, is forced to recognize that poverty alleviation is constrained not so much by a lack of resources, as it is by the deliberate efforts of a small but influential section of the society who benefit from poverty. The section referred to consists of landlords and bureaucrats. Whenever an attempt is made to educate the poor and the poorest, these landlords and bureaucrats, consciously or unconsciously, secretly or openly, oppose such a move. They have a feeling, and rightly so, that if this huge difference between the haves and have nots is bridged, the standard of living of the former will be lowered. In simple terms it is known as political opposition.

The political economic of targeting has to be concerned not just with the economic problems of selection, information and incentives but also with political support for, and feasibility of, aiming public policy specifically at removing deprivation of particular groups (Sen, 1995: 21).

Poverty alleviation is the central concern of development economics. It is a phenomenon that has been present in many developing countries since World War II. Primary efforts had been focused on reducing poverty and increasing economic growth. During the 1950s and 1960s, rapid economic growth through import-substituting industrial development was the central focus of efforts aimed at improving living standards, at least in such countries as India (Srinivasan, 1996) and the Philippines (Balisacan, 1996). The 1970s and 1980s saw a shift. During these decades the focus shifted to growth with equity. Then the urgent need to address the macroeconomic difficulties arising from domestic and global shocks during the 1990s moved development priorities away from the direct meeting of basic needs. Now with these difficulties receding (at least for many developing Asian countries), attention is shifting back to growth with equity — with a new wrinkle.

Every country has two types of groups: the rich and the poor. The mediator in reducing and/or alleviating poverty should be the country’s government. Its responsibility is to design programmes that would facilitate the objective at a minimum possible cost. That is the government would seek assistance from “the rich” to transfer resources to “the poor”. The focus in this endeavour is targeting the poor with the least possible burden on the government. It also acts as a useful first step towards developing a positive theory of transfers to the poor.

II. ECONOMIC MEASURES

Economists tend to rely on the technocratic approach, which emphasizes policies that target the poor as effectively as possible. Much of the literature on targeting focuses on industrialized countries, although the theories behind targeting are essentially the same for developing countries as for industrialized countries. The practical importance of certain elements of targeting varies significantly between the two groups of countries. Developing countries, for example, have far more severe information problems because of their underdeveloped infrastructure and low levels of human capital development. At the same time the issue of targeting may be much simpler in developing countries, usually in agriculture or in resource poor regions dependent on farming. Under these circumstances indicator based targeting could significantly reduce poverty.

Conventional economic analysis of targeting often proceeds from the assumption that poverty alleviation budgets are fixed and that the objective is to design a scheme that minimizes poverty using these budgets. Besley (1996) in his article extends this approach by exploring various institutional arrangements that influence poverty alleviation budgets. The model he proposes for thinking about policy choices is conceptually elegant. Its implicit assumption is that policy choices, especially with respect to poverty alleviation budgets, are clear-cut.

In practice, however, things are not so simple. In many developing countries, for example, policy-makers view economic growth and industrialization not so much as ends in themselves as the (necessary) means to alleviate poverty. The hard policy choices involve the slicing of the budgetary pie into funds for direct poverty alleviation programmes and funds for indirect poverty alleviation programmes (such as growth and industrialization). Part of the policy debate concerns whether money spent on direct intervention is more (or less) effective at reducing poverty than money spent on indirect programmes (Balisacan, 1996).

Study of policy choices and related costs brings out two fundamental issues: government behaviour (predictive) and the implications for policy choice (normative). Most Third World countries exhibit a two-party representative democracy (Downs, 1957). It is argued that political parties trying to get the most votes would offer the policy platform preferred by the median voter, thereby influencing the outcome. Empirical evidence indicates that the prediction of such an outcome is far from robust.

The second issue questions the integrity of the predicted outcome; it spells out the possibility of the outcome being the result of the exploitation of the minorities by the mighty politicians. Work in the public choice tradition (Buchanan and Tullock, 1962) also suggested problems with the assumption that democratic policy-making is efficient and equitable. The government, for all practical purposes, becomes the institution that determines the control rights to policy choice. In countries where dictatorship exists, these rights are usually seized by force, whereas in democracies these rights are assigned through elections. In all political systems, democratic or otherwise, certain groups influence the policy choices and their outcome. The groups comprise of internal lobbies as well as external players such as IMF, WB and NGOs.

The 1990s have seen an unprecedented involvement of nongovernmental organizations (NGOs) in the poverty alleviation efforts of many developing third world countries. This aspect leads to another element that has not entirely escaped Besley’s model that NGOs respond to opportunities not only for influence peddling but for rent seeking as well. The experience with many NGOs, at least in some developing Asian countries, has been quite disappointing so far. The spectacular growth of NGOs in the Philippines from only a few hundred in the late 1980s to over 20,000 in the early 1990s has coincided with the emergence of government policies encouraging the sourcing of both government and externally generated funds through NGOs. Politicians and their spouses have established their own NGOs, projects of dubious value have come and gone, all in the name of the poor (Balisacan, 1996). This development has been influenced by NGOs’ increased access to financial support from developing country governments on the one hand and from bilateral and multilateral donors on the other, that is on account of both internal and external influence on the policy-making process of the government. NGO-government collaboration sprouted and mushroomed. It might be too early to draw conclusions on how effective this collaboration is in achieving poverty alleviation objectives. It is assumed that the policy-maker earns some kind of favour (money in this assumption) in exchange for helping the poor. If the policy-maker (and/or the lobbyist) is pro-poor, the poor are big winners.

NGOs-government collaboration in developing countries is facing another critical issue. The question relates to the funding of the poverty alleviation programmes. The government allocates funds for these projects from the pool that comprises of internal receipts (taxation) and external receipts (multinational assistance). In this collaboration, if the NGOs compete with the government in implementing the programmes, then the cost of running the programme will increase, thereby negating or reducing the optimal utility of the NGOs. In practice NGOs in developing countries get most of their resources from the public budget or from external sources (such as multilateral aid agencies) that might otherwise have been part of the government’s pool of funds for poverty alleviation. If NGOs are better at alleviating poverty than government agencies, that is, if they achieve more poverty reduction than the government does using the same amount of money then that is welfare improving.

But is that the case? Consider the Philippines help for the people (Tulong sa Tao) programme. This programme was intended to address the basic needs of poor families, particularly in the non-agricultural rural sector, by making credit available for employment and income generating activities. Technical and financial support came from a multilateral development agency, but NGOs served as intermediaries for credit and technical assistance to address directly the needs of the poor. Although the NGOs involved were among the country's most development oriented, assessment found that the average size and frequency of loans made under the programme did not/vary across income classes. In particular, the proportion that an income transfer from NGOs to the poor can crowd out what would otherwise be transferred by the government is very interesting. In a related vein, evidence of crowding out of inter-household transfers by public transfers in developing countries is beginning to emerge (Cox and Jimmenez, 1995). It would not be surprising if similar evidence of crowding out was found in NGO-government collaboration in a number of developing countries.

Moreover, only about a third of programme beneficiaries had incomes ranging from three to mere than twenty times the official poverty line. Thus, poverty reduction attribute to the programme was very limited. Of the group of programme beneficiaries, most of whom were not poor to begin with, only 7.9 percent moved out of poverty after programme implementation. It would be hard to argue that this performance was superior to what could have been achieved by sending a helicopter to drop bales of money in the villages.

III. CONCLUSION

Poverty alleviation policies and programmes are the real concern of political economy. The basic premise to poverty alleviation policies is to focus on how information and incentive feed into the programme design. Technocratic approach to poverty alleviation ignores the context in which the policy is designed. These two divergent approaches can be bridged by optimally utilizing the two inter-dependent elements.

In almost all developing countries people believe that the governments do not do enough for poverty alleviation. A government can begin with an approach that focuses on cost-minimizing programmes. This approach provides the policy-makers the government's view of optimization, rigorously specified constraints and their implications. It also provides a conceptual basis for targeting.

Policy-making is one element of the process. The second element entails the institutions that are responsible for the implementation process. The role of the NGOs and the government in determining the policy is preliminary. The crucial aspect is the implementation. The failure of the programme undertaken with the collaboration of NGOs and the Government of Philippines can be attributed to faulty implementation. The principal objective should be to initiate a wider range of investigation of policy formation. It is possible to view targeting as the solution, but the context in which poverty alleviation policy is decided is crucial. Giving better advice about incentives and information constraints is important.

Economists are accustomed to thinking about market failures and government failures in the context of policy design. Soon we may be adding a third type and a fourth type of failure to our vocabulary: NGO failures and economists failures. The third type is already here and the fourth type may not be far behind if we fail to form public policy as to what works and what does not in poverty alleviation.

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