

## **The Politics of Poverty Reduction** (Yusuf Bangura)

Poverty reduction has been a central objective of the world community in the last decade. This can partly be traced to the failure of the stabilization policies of the 1980s and 1990s to generate or sustain growth in many poor countries and the worsening of poverty in some regions. The elevation of social or human development issues in international development policy is perhaps one of the major contributions of the Millennium Development Goals, in which governments commit to halve poverty and hunger by 2015. Development assistance is now strongly oriented towards poverty reduction and other MDG targets. This has led to a shift in aid allocation in favour of social services. The public expenditures of poor countries have also tended to reflect this shift, with increased spending on basic services used by the poor. There has also been a proliferation of social assistance schemes, such as free health care for children, pregnant women, lactating mothers, and the aged; pensions for the elderly; income transfers for child care; employment guarantee schemes; and school feeding programmes. In some poor countries, donors play a crucial role in funding these programmes.

Sustained progress in many of these initiatives and lifting the vision of human development to the level where it addresses broader issues of productive capacities that provide decent jobs, social protection and services to all depends substantially on politics. This refers to processes of cooperation, conflict and negotiation that influence decisions about how resources are produced, distributed and used. Outcomes in the political process further depend on the distribution of power, the types of relationships governments establish with different groups in society, and the institutions that mediate conflicts among competing interests.

Unfortunately, the politics of poverty reduction is still top-down in many countries and lessons have not been drawn from the types of politics that have made significant and sustained dents into poverty in democratic countries. This contribution draws on the UNRISD report *Combating Poverty and Inequality* to shed light on the conditions under which democracies deliver outcomes that are beneficial to the poor.

### **Shortcomings of the participatory framework of PRSPs**

Most low-income countries have relied on the participatory frameworks of PRSPs to involve citizens in designing and implementing anti-poverty strategies. However, the PRSPs have adopted a consultative process that does not give citizen groups the power to effect real change or to get policy makers to deliver on agreed-upon goals. Many groups that participate in the process typically feel that real decisions on important policies lie elsewhere. Participation is often limited to NGOs without the active involvement of associations of informal and formal workers, farmers or artisans, whose livelihoods are directly affected by development policies. Research in many countries shows that important issues are often left out of discussions. One common omission or area that is ring-fenced is the macroeconomic framework of PRSPs, which is largely based on the IMF's Poverty Reduction and Growth Facility and negotiated between governments and the IMF. The type of participation associated with the social pacts that produced rapid poverty reduction in the past differs substantially from the bargaining regime of the PRSPs.

### **When democracies deliver outcomes that benefit the poor**

The UNRISD report *Combating Poverty and Inequality* argues that poverty reduction requires effective and accountable states, the institutionalization of rights, sustained public engagement, expansion of the bargaining power of the poor and those who represent them, and pacts that are structured around issues of employment, welfare and growth. The report shows that democracies have been able to deliver outcomes that are beneficial to the poor when:

- rights are institutionalized, which allows the poor to exercise political choice, build alliances with others and hold leaders to account;
- groups with strong ties to the poor develop capacity for independent organization and mobilization
- and when groups establish structural links with actors involved in policy making.

Three examples: OECD democracies; welfare democracies in the South; unequal societies and welfare expansion

*OECD democracies*

In high-income OECD democracies, there is a large body of literature that examines how organized interest groups forced policy makers to create an institutional regime that allowed groups that represent interests that include those of the poor to bargain with state authorities and business and influence the direction of public policies. In these countries, democracy and welfare development were driven by similar processes in which trade unions, acting through social democratic and clerical parties, played a substantial role. Data on voting and welfare development suggest that socialist/labour voting in the early period of democratization correlated highly with welfare programme consolidation (meaning that countries adopted at least three of the four main social insurance programmes relating to work accidents, health, pension and unemployment). However, labour needed allies, since it was unable to effect democratic change and welfare development on its own. In the Nordic countries, workers collaborated with segments of the middle class and small farmers, who defended their interests through agrarian parties. The preferences of agrarian parties for flat-rate, universal, tax-financed benefits came to define the welfare policies of social democratic regimes.

The bargaining regime of countries with superior social outcomes took the form of social pacts. The key features of such pacts included the recognition granted to representatives of labour and employers in negotiations over wages, employment, working conditions and welfare; the ability of group representatives to ensure members' compliance when decisions were reached; and the mutual recognition of each actor's importance in achieving goals, including the relative capacity of parties to obstruct outcomes that were not based on consensus. Social pacts were not confined to the industrial sector. Agrarian pacts were also constructed in many countries. These improved farm incomes and narrowed rural-urban inequalities in many countries where farmers' votes were important.

The data suggest that although social transfers have reduced poverty in all high-income democracies, countries classified as social democratic (with high levels of unionization, centralized bargaining, strong party-union ties, and pacts) have been more effective in reducing poverty, followed by countries classified as Christian democratic. Those characterized as liberal regimes, which have weak labour movements and pluralistic institutions of interest representation in policy making, are the least effective.

*Welfare democracies in the South*

Similar processes can be found in welfare democracies in the South. In a few established democracies in developing countries, subaltern interest groups are fairly well organized and are part of broad social movements that have influenced the policies of political parties. The most well-known cases are Costa Rica, the Indian states of Kerala and West Bengal, and Mauritius. Because these were largely agrarian societies when democratic politics were introduced, peasant movements and organizations were much more active in the construction of the alliances that produced welfare-enhancing policies. In Costa Rica and Mauritius, smallholders displayed remarkable organizational abilities because of the absence of powerful land-owning elites. In Kerala and West Bengal, revolutionary parties implemented land reforms during the early stages of democratization.

In Costa Rica, farmers formed the National Association of Coffee Producers to defend smallholders' interests on prices, taxes, credit and welfare. In Mauritius, the peasantry collaborated with the growing agricultural labour force, which had formed the Mauritius Agricultural Labourers' Association, and urban trade unions, such as the Engineering and Technical Workers' Union, which waged active campaigns for labour rights, wage increases and improved working conditions. These organizations played a role in the formation of the first nationalist party, the Mauritius Labour Party, which spearheaded social reforms. Significantly, these interest-based organizations and parties bridged the Indian-Creole ethnic divide that threatened to undermine social peace. In Kerala, because of the twin problems of land alienation and social discrimination, the main social movements were the anti-caste reformist movements in the south, and the land reform movements in the more feudalistic north. All three cases involved a dense network of civil society organizations. In Kerala, unionization often extended to informal sector workers. Social pacts involving the participation of government, labour and business were institutionalized in Kerala and Mauritius. This helped to reduce strikes and improve wages and working conditions.

In all three countries, interest-group politics have tended to be inclusive, rather than sectarian, because groups forged rural-urban alliances that incorporated wide segments of the population. This has been favourable to both growth and redistribution. Although the growth rates of these welfare democracies did not reach the levels of the East Asian developmental states, they were respectable for much of the period of the 1960s–1990s (with growth in Mauritius reaching 6 per cent; in Costa Rica, it averaged 5.3 per cent in 1963–2000, and 7.6 per cent in 1963–1973). This ensured some economic transformation and funding of extensive social programmes, although Kerala relies substantially on overseas remittance income. Rural-urban alliances also facilitated extension of welfare rights to all citizens. The overall effect is that poverty rates have been drastically reduced in these cases, and literacy and life expectancy rates are comparable to those of industrialized countries.

#### *Unequal societies and welfare expansion*

In highly unequal democracies that are leaning towards welfare development, such as Brazil and South Africa, social pacts or governments that emerge from social movements have been key. Lula's government, which has been credited with the expansion of welfare rights in Brazil, represent the rise to power of the Workers' Party, with strong ties to the industrial working class and committed to the cause of redistribution and welfare policies. The previous government of Fernando Henrique Cardoso, which started some of the social programmes, mounted an effective alliance of Left-wing and social democrats (the Brazilian Social Democratic Party) and the Centre Right (represented by the Liberal Front Party and part of the Brazilian Democratic Movement Party). The Bolsa Familia, or conditional cash transfer scheme, costs about USD5b. or about 0.36% of GDP, provides monthly transfers to poor households with children up to 15 years of age or pregnant women, and a monthly transfer to extremely poor household regardless of their composition. In 2006, Bolsa Familia reached more than 11 million families, benefiting some 40 million people.

There has also been substantial civic engagement with public authorities in many municipalities over budgetary issues, the most well known and successful being that in Porto Alegre. Participatory budgeting involves the division of a municipality into regions, each of which elects voluntary delegates. Throughout the year, government-sponsored meetings are held to discuss the budget, and final projects are submitted to a vote by delegates. The plans for the municipality are then included in the budget presented to the municipal legislative chamber.

In Porto Alegre, participatory budgeting has led to considerable increases in the number of households with access to water and sewerage, children in public schools and paved roads; it has also led to the expansion of local government revenues. The main factors contributing to the success of the process include the willingness of mayors to delegate authority to citizens; the extent to which the rules of participation give genuine authority to residents to make decisions; and the ability of civil society organizations to cooperate in the programme through a politics of contestation.

In South Africa, democratic processes have also driven the expansion of social assistance, which has become the main vehicle for addressing poverty in light of a growth strategy that has failed to generate investment and employment. In part, this failure was due to the racially repressive labour regime that created extremely high income differentials during the apartheid era. The subsequent struggle for democracy produced an alliance between the main trade union organization, the Congress of South African Trade Unions (COSATU), and the African National Congress (ANC), which resulted in a joint programme for reconstruction and development. The new ANC government established a multipartite body to reach consensus on economic and social policy among organized labour, organized employers, community groups and the government. However, consensus on macroeconomic issues proved elusive as the government's policy shifted in a more liberal direction. Meanwhile, the labour movement pressed relentlessly for improved wages and often backed up its demands with strikes. Employers failed to invest profits and expand employment, preferring to transfer capital overseas.

Despite these tensions, the pact between the labour movement and the government has survived; when combined with electoral pressures, it has tended to push the government in a social democratic direction on social policy. Government spending on social assistance programmes has grown rapidly—from 2 per cent to about 3.5 per cent of GDP between 1994 and 2006. Expenditure doubled in real terms between 1994 and 2004. By mid-2006, about 11 million grants were being paid each month. One in four South Africans receives a pension or grant financed out of general taxation. However, the very high levels of inequality inherited from the apartheid era act as serious constraints on the development of social democracy.

### **Gains are possible, even if interest groups lack ties to power**

Success can be achieved without formal group ties to state actors, but this requires high levels of contestation. For example, although unions were less effective in shaping the ideologies of the main parties in the Republic of Korea and Taiwan Province of China, contestation and electoral competitiveness propelled the interests of subaltern groups onto the public agenda.

In the Republic of Korea, difficulties in consolidating the party system (party splits and mergers are common) have resulted in less effective links between parties and unions and account for the high levels of labour militancy. The relative autonomy of unions and social movements in the country encouraged formation of broad advocacy coalitions for social policy reform, which focused on unemployment insurance; public works, training and basic income schemes that did not require means testing; family policies; and a universal health service system. As social conditions deteriorated in the face of the 1997 financial crisis, welfare reform became a vote-winning issue, which the opposition party was able to exploit to win office for the first time.

Labour has some ties with political parties in Taiwan Province of China because democratization started at the local government level, where unionized workers' votes were often decisive. The two main union federations, the Chinese Federation of Labour and the Taiwan Confederation of Trade Unions, are each allied to the two main parties, the Kuomintang Party and the Democratic Progressive Party respectively. Unions have taken advantage of the single non-transferable vote system, in which voters choose candidates in multimember constituencies, to punish candidates, including those supported by their respective labour federation, if they ignore labour demands. Unions' electoral power at the central level is, however, rather weak. A national health system was established by the previously authoritarian government, anxious to shore up its legitimacy and win bitterly contested elections, even though the main advocate of reform was the opposition party.

## **Electoral competition counts**

The structure of labour markets in agrarian economies can act as a constraint on interest-group pressure for welfare development. In many low-income agrarian societies, NGOs and donors play active roles in poverty reduction. However, their capacity to effect real change has been limited because of weak links with broader groups in society. In these types of democracies, electoral competitiveness can be an important instrument for extracting accountability from leaders. One study provides evidence for the ways in which democracy has affected government priorities and shifted pro-urban biases in educational provision in Africa. Democratization made governments more responsive to the needs of the rural poor, who constitute the majority of voters. However, the electoral system in most agrarian democracies is not competitive enough. Governments enjoy huge parliamentary majorities and retain the capacity to immunize themselves from electoral defeat. The lack of electoral competitiveness and low density and strength of associations and movements often make it difficult to sustain gains outside of electoral cycles.

Organizations of subaltern groups participated in the wave of democratization that swept through countries in the 1990s, although their capacity to subsequently influence the direction of policy has been limited. The role of unions in democratization was particularly significant because of their strategic location in the modern economy, despite their dwindling membership base. In some African cases, such as Zambia and Zimbabwe, unions provided leadership for a coalition of forces, although the links with governing parties have remained tenuous since elites and external actors dominate the reform agenda. In other cases, such as Ghana, unions have avoided formal ties with parties, preferring to exert pressure as independent actors. Such autonomy does not always guarantee success, since Ghanaian unions' hold on public policy remains weak. In Senegal, trade union federations are affiliated to different parties, although their influence on party policies is limited. In many other agrarian settings, such as Uganda and the United Republic of Tanzania, where the industrial sector is small and crisis and adjustment have taken a toll on union membership, governments have ignored union pressures for redistributive policies.

Despite these constraints, there is evidence of gains at the micro and sectoral levels for groups in both urban and rural areas. The most notable has been the dramatic growth of producer organizations in rural settings. In the midst of Senegal's economic crisis in the 1970s, a number of peasant associations began to develop. Encouraged by a former extension service official who was president of a local NGO, and with support from international donors, a dozen associations formed a national federation in 1976. When SAPs ended most government interventions in the countryside, the associations provided agricultural services to their members. Membership expanded to 24 associations of 2,000 village groups representing over 400,000 members. Taking advantage of a national election in 1993, the federation organized a forum that included government officials and donors. Seven organizations that had participated in the forum later created the National Council for Rural Dialogue and Cooperation. The CNCR's decision to walk out of negotiations that had stalled over the Agricultural Structural Investment Programme in the mid-1990s forced the country's president, who was worried about the rural vote, to convene a meeting with 150 CNCR representatives. The meeting resulted in an agreement to cut agricultural credit interest rates, remove import taxes on agricultural inputs, issue a five-year moratorium on farmers' debts, and institute a series of regular meetings between CNCR and the agriculture ministry.

## **Conclusion**

Power relations lie at the core of development. They determine which actors are in a position to define policies and influence development processes and outcomes. Strategies that seek to bring about changes in poverty outcomes must therefore consider ways to shift the balance of power. Group organization, contestation and claims-making are important in generating such shifts and ensuring that governments respond to social needs.