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What Ever Happened to Poverty Alleviation?

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WHAT EVER HAPPENED TO POVERTY ALLEVIATION?

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A Report Prepared for the Mid-decade Review
of the Ford Foundation's Programs on
Livelihood, Employment, and Income Generation

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Executive summary

Of the Foundation's programs in Livelihood, Employment, and Income Generation (LEIG), six stand out: their beneficiaries number in the thousands, they have grown into competent organizations, and they have had an influence on policies that affect large numbers of poor people. Though five of the six programs are carried out by nongovernment organizations (NGOs), one is part of a public-sector enterprise. The NGOs, moreover, are quite different from the typical NGO in this field: three are trade unions, one is registered as a bank, and the other is a private consulting firm. Despite the difference between these programs and their environments, they share a surprisingly consistent set of traits--traits that are absent from a large number of the LEIG programs funded by the Foundation and other donors. While the six programs do not represent the full breadth of the Foundation's grantees, the findings about the traits they share help us to gain a better understanding of programming in the LEIG field.

The common traits are: (1) a narrow focus on a particular trade or sector, at least at the beginning, (2) or a narrow focus on one activity, particularly credit, in an unusually "minimalist" form, (3) organizational leadership well linked to powerful institutions, and (4) an urban setting, or at least an urban beginning with its economies of agglomeration and the closeness it allows to important centers of power.

The economic activities of the clients supported by the better-performing organizations also shared common traits which, in turn, were different from the activities often promoted under LEIG programs: (1) clients were already producing what they were receiving assistance for or, if new activities were introduced, these new activities were well known in the region and easily mastered; (2) the grouping of clients for purposes of assistance did not require collective production or, if it did, managerial and work requirements of the ongoing collective operation were minimal; (3) assisted activities did not face competition from large-scale capital-intensive industries; (4) the assisting organizations did not need to support marketing activities because sales markets were securely in place; (5) supplies of basic inputs were assured; (6) many of the supported products or services had high social value in economic and distributional terms, such as garbage-collection services and the provision of irrigation water; and (7) powerful consumers often played an important role in bringing about support for the assisted producers.

These findings should be of use to the Foundation in designing future LEIG programs and advising grantee organizations. At the same time, however, the fact that so few of the LEIG grantees reached a significant number of the poor, and that the better-performing NGOs were so different from most, suggests that the search for effective LEIG programs must be more selective, on the one hand, and broadened beyond the NGO sector, on the other.

The nongovernment sector, where much of the Foundation's LEIG program is concentrated, has a certain structural inability to expand or to have its experiments replicated. This is why the impact of NGO projects is usually quite limited, a disturbing finding for donors interested in having an impact on poverty. The constraints on NGO expansion and replication by others have to do with the fact that: (1) NGO strength and effectiveness often derive from smallness and social homogeneity, which get lost when NGOs try to expand; (2) NGOs see each other and the public sector as competitors for scarce donor funding, rather than as cooperators in a quest to alleviate poverty, which makes it inherently difficult for them to cooperate with each other or imitate each other's successes; (3) foreign funding accounts for a large share of NGO funding in some countries, which places the NGO sector somewhat at odds with the state, thereby blocking the path to replication of NGO experiments by the public sector; (4) though NGO projects may have small budgets in comparison to the public sector, their costs per beneficiary are often high, which means that even their successful projects are not necessarily feasible as models for serving larger populations; and (5) NGOs themselves often do not strive to serve large numbers of clients, nor are they under pressure to do so, which means they are often content to accomplish programs that work well in a handful of communities.

For various reasons, our better-performing NGOs were free of the above-listed constraints, or they operated in an environment that forced them to be different from the pattern traced above. Part of the task of choosing effective LEIG programs, then, involves watching for NGOs that have the traits that facilitated expansion, one of which is the ability and willingness to link up to the public sector. The Foundation's efforts to improve its LEIG programming might therefore focus on those NGOs with links to the public sector, or with the capacity and the will to develop them.

Though narrowing the Foundation's requirements for supporting NGOs might increase the probability of greater impacts, it would also make the Foundation's task more difficult by limiting the already scarce supply of NGO programs from which to choose. A complementary strategy is to broaden the supply of opportunities by opening up the search to include the public sector, whose policies and programs have major impacts on employment and poverty. The Foundation itself is accustomed to working more with the public sector in its programs in agriculture, water, and forestry; the Delhi office has in particular tried to broaden its LEIG programming to the public sector. If experiments carried out in the public sector work well, then the institutional infrastructure to expand them is already in place, as well as the political pressure to do so.

Opportunities for experimentation with LEIG programs in the public sector are greater today than one might think, and are in some ways greater than they were in the 1970s when, ironically, poverty alleviation was in style. This is because (1) the harsh austerity programs of the 1980s have made third-world leaders more politically vulnerable than usual, creating a more receptive political environment for targetted programs, or at least for political gestures toward the poor; (2) the current economic conservatism of economists and policy advisors, with its emphasis on "getting the prices right," is sympathetic to policy reforms favoring informal-sector producers; (3) the current balance-of-payments and debt problems of third-world countries, leading to restraints on imports, have made it possible for some informal-sector producers to flourish; (4) the current sympathy for decentralization has created a more enabling environment for local-level experimentation in the public sector; and (5) public-sector actors, humbled by the disappointing experience with state-sponsored poverty-alleviating initiatives of the 1970s, have become more receptive to modest approaches, and to learning from the NGO experience.

Finally, government policy and programs have had major impacts on employment over the last forty years of development assistance--not only through policies on exchange rates, credit subsidies, and agricultural development, but through the ways that powerful ministries spend funds and set standards for the construction of buildings, roads, and waterworks. We know a lot about the adverse effects of government action on the poor, which means that we also have learned a lot about what it takes to turn some of these programs to their advantage. But the rush of academic and policy interest to issues of debt and macroeconomic policy has left a vacuum in this area, and a dearth of support for public-sector actors who want to do something, have an idea of how to do it, and can mobilize considerable resources. This kind of experimentation is difficult for governments to undertake, even when funding is not a problem, because of the political problems involved in favoring certain geographic areas over others.

LEIG programs have difficulty achieving impact partly because they are plagued, more than others, with the syndrome of "reinventing the wheel." NGOs claim they are pioneering with a new approach when, indeed, they are not; project proposers allege that past efforts have not worked when, indeed, there is not enough of a record to know whether or not this is true; NGOs claim they "do better than the public sector" at poverty alleviation when, indeed, there is little evidence to support this claim. The LEIG sector, in other words, suffers from a lack of comparative knowledge about what has worked and what has not, in the public as well as the nongovernment domain.

The reasons for the lack of a comparative record on LEIG initiatives have to do with: (1) the "premature" abandonment by the development field of the state-sponsored poverty alleviation programs of the 1970s--much like what occurred in this country with respect to the 1960s War on Poverty--and hence of the efforts to evaluate these programs and modify them accordingly; (2) the change in focus of the field of development economics from institutions to prices and markets, resulting in a decline of interest in, and funding for, comparative evaluation studies of poverty-alleviating initiatives in both the government and nongovernment spheres; (3) the increased macroeconomic problems of third-world countries, starting in the mid-1970s, which replaced the research interest in poverty alleviation with issues of debt, austerity, and macroeconomic policy; (4) a mood of disappointment and disparagement about poverty alleviation among the researchers who did carry out evaluation studies, which resulted in an abundant chronicling of failures and what caused them, but very little understanding of the more successful efforts and their ingredients. If the Foundation's programs are to strive toward impact, then they will also have to create a record of what has worked and what has not. To do this involves not only the funding of comparative evaluation studies, but also restoring academic prestige, and therefore power, to this particular subject matter.

If the Foundation were to broaden its LEIG initiatives to include the public sector, it could distinguish its programming from that of other donors and move closer to its comparative advantage: (1) though the need for experimentation with programs capable of reaching large numbers of the poor is recognized by large donors, they cannot support it themselves because of the pressure on them to transfer large amounts of resources in relatively short periods of time; (2) most small donors in the LEIG area, unlike the Foundation, work only in the nongovernment sector and do not have the public-sector contacts that the Foundation has; (3) few donors who work in the public sector are as well connected as the Foundation to the nongovernment sector as well, which puts the Foundation in the unique position of linking the NGO experience to the public sector; (4) among donors, the Foundation is unusual in spanning the research sector as well as that of government and nongovernment, which means that it can play an important role in funding the badly needed comparative studies on LEIG initiatives and, just as important, in making sure the results of these studies are used to guide programming by governments and NGOs.

I - The Good Performers

Out of the various organizations I reviewed, six stand out: the Grameen Bank of Bangladesh, the Self-Employed Women's Association (SEWA) of Ahmedabad, the Working Women's Forum (WWF) of Madras, the Annapurna Caterers of Bombay, the women's dairying project of the Dairy Development Federation of the Indian state of Andhra Pradesh (APDDCFL), and Environmental Quality International (EQI) working in conjunction with the association of Zabaleen garbage collectors in Cairo.[1] In addition, I was impressed with three of the economic activities assisted by two other organizations--the landless pump groups of Proshika in Bangladesh, and the collectively-owned rental houses and standpipes of the Undugu Society's women's groups in Nairobi. When I refer to "programs," I am including these last three activities; "organizations" refer to the six I name above.

Four of the organizations I discuss are in India, one in Bangladesh, and one in Egypt. They stand out because they are reaching an unusually large number of poor people,[2] or are indirectly affecting large numbers through their impacts on policy and institutions. Or they stand out as "successful" organizations in that the Foundation and other donors have found them to be honest, strong, self-criticizing, and highly capable.

The six organizations differ markedly from each other, as well as being different in form and origin from most nongovernmental organizations working in the LEIG area. One is in the public sector (APDDCFL), while the rest are in the nongovernmental sector. Two arose out of the women's wings of Indian trade union organizations (SEWA, Annapurna), and another out of

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1 Descriptions of each organization and its program can be found in Annex I.

2 Grameen Bank 160,000 borrowers, WWF 38,000 members, SEWA 15,000 members, Annapurna 8,000 members, APDDCFL women dairying project 5,000 women members.

political-party organizing in India (WWF). These latter three are organized as trade unions, while Grameen Bank is registered as a financial institution and EQI is a private consulting firm. Four of the six programs work only with women (SEWA, APDDCFL, WWF, Annapurna).[1] Four work mainly in cities or started out there, while only two work predominantly in rural areas (Grameen Bank, APDDCFL). Though all of these programs provide credit, each has a quite different mix of credit, business and technical assistance, organizing for group production or marketing or input-supply, social services like death-benefit and pension funds, or strong advocacy for clients vis-a-vis public institutions, political authorities, and monopolistic buyers and sellers.

What is remarkable about this set of cases is that, despite their diversity and their location in very different countries, they share a common set of characteristics or traits. To many readers, this list of traits and their association with good performance may seem obvious. But many LEIG programs and organizations, including those supported by the Foundation, have exactly the opposite traits. In addition, we tend not to notice these traits when looking at any of these organizations in particular, because their rhetoric obscures the traits, because some of the traits go back to times when these organizations were quite different than they are today, and because we usually do case studies of individual organizations rather than comparative studies across them.

For reasons akin to Hirschman's statement that there are no successful projects, only those that have less problems than others (1967), I purposely do not refer to this set of better-performing programs as

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1 The majority of APDDCFL members are men, but the Foundation-funded program works only with women.

"successes." They are also riddled with problems, mistakes, and false starts. Some of them are having a difficult time expanding beyond their first victories (Annapurna, in moving from individual credit to collective food catering). Some of them seem to be diversifying too fast and into more difficult activities (Grameen Bank into duck-raising and venture capital, EQI and the Zabaleen into collectively-owned garbage-collection services, Proshika into fish ponds). Only time will tell whether they will do well or poorly at these more difficult tasks. Some of these organizations, finally, seem to be expanding into new activities before they have exhausted the potential for reaching larger numbers of people by continuing to do what they are good at. This premature diversification is a common pattern, caused by the greater lure to expanding organizations of complex programs over simpler ones and by the very success of the initial program, which attracts swarms of donors, each with its own project agenda.

At least one of our organizations seems stuck at the level of serving a limited number of beneficiaries with an increasing array of services, some of which it will do better at than others--the EQI in Cairo, and its work with the Zabaleen Association in a garbage-collecting settlement of 1,000 households.[4] Because of its single-community focus, EQI may end up standing out more as an impressive organization than as an instrument for alleviating poverty in Cairo. In fact, the significance of the Zabaleen program as a model of LEIG activity may have been somewhat exaggerated because of the fascinating quality of the Zabaleen microeconomy, and because of the winning nature of the EQI staff--urban, Western-educated, English-speaking, skilled, and committed. I nevertheless included the Zabaleen project, albeit with some

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4 There are actually six garbage-collecting Zabaleen communities in Cairo. EQI says it plans to move into these other communities, but its hands already seem quite full with the array of services it has been setting up for the one community.

ambivalence, because EQI possessed many of the same traits as the other better-performing organizations.

The organizations or programs left out of this list should not be considered failures. They were just reaching far fewer persons and having much less of an impact on thinking in professional circles and the public sector (Tototo, Partnership for Productivity, Undugu, Manipal Industrial Trust). In other cases, the programs were too new to allow definitive comment (KWFT, ISSC, PRADAN, Euro Action Acord, MYRADA, the Indian sericulture projects, the new Foundation-funded womens' programs of PfP and Undugu). I nevertheless had misgivings about these latter programs; they seemed to be doing too much too soon, taking on too difficult tasks, spreading themselves too thinly, or expending large amounts per beneficiary.

Bound by the trade

All the better-performing organizations started out with a narrow focus, and some continue that way to this day. They concentrated on a particular task (credit), to be discussed in the next section, or on a particular trade, sector, or income-earning activity (e.g., garbage collectors, food preparers, dairy producers, vegetable vendors, landless groups owning tubewells). An evaluation of the Foundation's minority business programs in the U.S. found that one of the most successful programs was sector-specific, focused on cable radio and television (Rial & Howell 1986).

The narrow sectoral focus of these organizations forced them to tailor their interventions to the needs of that particular sector or trade. This meant that they proceeded by doing careful studies of a sector, after which they would identify possible points of intervention. In this process, they gained a highly grounded understanding of one sector--production processes, sources of supply, product markets, industry structure. The meticulous sectoral studies of these organizations, which informed so much of their thinking, were carried out by bright young generalist staffs. Though they were usually untrained in social science research, their previous work experience in the field combined with strong intelligence, passionate dedication, and street "smarts," helped them to produce remarkably complete pictures of the trades they were studying. Because of the high "labor-intensity" of the work required to map the structure of these trades, a more sophisticated research effort would probably have been much more costly.

The trade-by-trade way of proceeding contrasts sharply with the many LEIG programs that work across various trades and even try to introduce new ones. These "generalist" organizations get less involved in the details of a particular trade, trying as they do to provide nonspecific income-earning assistance. The trade-specific programs were no less concerned about the broader issues of poverty than were the generalist ones--namely, denial of access to public services, lack of information, discrimination, exploitation, and poor health. Indeed, many of the trade organizations were passionately driven by these larger social issues, and added programs that dealt with them later on. But they anchored their work around the economics of a trade, or a succession of trades.

In contrast to our set of better-performing organizations, many LEIG programs take a multi-task approach to their work. This broader approach is based on widely held notions of what is "needed" for development to take place, or of how services are "supposed" to be supplied. Though the broader vision has substantial truth--communities <u>do</u> lack various services--it often does not work well in practice, because it is too demanding on the organization. The importance ascribed here to learning about a trade, then, does not reflect a judgment that economics is more important than social, political, and service issues, but rather that many LEIG interventions fail because they are too ambitious. They represent unrealistic assessments of what organizations can do and of how people can improve their incomes. Out of a deep concern about poverty, they cast their nets too widely. Organizations and leaders with social welfare and service backgrounds, in particular, need a way of proceeding that teaches them about economic reality, and forces them to be guided by it.

Learning about a trade is a process that leads organizations to propose small changes in the way existing things work--institutions, market structures, production processes. One tries to identify bottlenecks, and then work on them one at a time. With women vegetable vendors, for example, SEWA learned that police harassment was a major problem, leading to frequent losses in income. It therefore negotiated for the vendors with municipal authorities, and only after some results were achieved, did it move on to the next problem. Similar processes of inquiry led to EQI's decision to provide credit to garbage collectors for simple re-cycling equipment, to Annapurna's decision to provide working-capital credit to women providers of meals to textile workers, and to the Delhi office's decision to support the organization of women-only dairy coops within an already functioning system of federated dairy coops. All these actions were carried out by organizations in a continual process of study, identification, and intervention. Their way of thinking was iterative and incremental.

Many LEIG organizations do not see their actions as so constrained by existing economic systems. Indeed, they see existing ways of doing things as keeping their clients down, and they want to help liberate them from these structures--introducing new economic activities into communities, having people produce goods collectively who previously worked individually, providing new sources of credit independently of existing financial institutions. Though these attempts are admirable, they usually do not produce the same quality of results as the less ambitious way of proceeding.

This emphasis on the "marginal" qualities of the interventions carried out by the trade-bound organizations is consistent with the findings of two other comparative studies of projects--one of a set of technical assistance projects in sub-Saharan Africa (Kilby 1979), and another of a set of community-development projects in East Africa (DAI 1979). The most successful projects, according to these studies, were those that supplied a "missing component" to a set of activities that was already in place. Though the projects studied were not all trade-specific, what they shared with our set of programs was the incremental nature of their interventions. The trade orientation, then, is not the only way to come up with powerful incremental interventions. The narrow focus on credit, in the "minimalist" form discussed below, also represents an incremental approach: credit without any complementary services was the missing ingredient provided in support of a system of economic activities and financial institutions that was already in place.

The trade-bound organizations bargain with authorities for their clients as a class, whereas the generalist organizations negotiate on behalf of individual clients or small groups of them (e.g., SEWA vs. Kenya Women's Finance Trust). These struggles for trade-wide concessions, and the victories they sometimes lead to, constitute one of the important potential impacts of such programs, particularly when they are carried out by small organizations that may not be able to directly serve a large number of clients. Just as important, trade-wide bargaining raises these matters to powerful authorities in the form of social _issues_, whereas individual cases brought by NGOs to the authorities are seen by the latter as the granting of favors in particular cases. Given the strength of the trade orientation, it is not surprising that three out of our five better-performing NGOs were trade unions (SEWA, WWF, Annapurna), almost the only trade-union grantees in the Foundation's entire

LEIG program. Trade unions actually define their principal task in terms of the struggle to obtain concessions from powerful institutions, whereas most other NGOs define their task as providing a service, in the course of which they may or may not need to take on the authorities for the cause of their clients.

Trade-based struggle, of course, is not limited to trade unions. EQI of Cairo, a private consulting firm, engaged in an ongoing struggle with the governorate of Cairo for concessions to garbage collectors. The Foundation's Delhi office struggled with the Indian dairy parastatal for a long period of time to gain recognition for women producers. The Delhi office, in fact, proceeded in a manner quite similar to SEWA: it identified eight production systems in which women were important, commissioned studies on how these systems worked, and then struggled with the authorities who held power over each of these systems for concessions and action programs.

The trade-bound approach defines LEIG problems in a way that attracts powerful technocrats and government agencies. That the Zabaleen micro-economy was built on garbage collection and disposal made its problems interesting to a small engineering elite in a prestigious consulting firm, specialized in solid-waste and other urban infrastructure projects. The Delhi office defined its LEIG women's program in terms of eight production systems all of which were located in "ministries of importance" and had "significant Seventh Plan outlays." And that the Grameen Bank defined its task in terms similar to commercial banking practice, as explained below, attracted professionals from the country's Central Bank, who took leaves from their jobs to work with Grameen.

Getting prestigious professionals to see LEIG programs as professionally challenging is one way to get around the much-bemoaned problem of technocrats and their institutions showing little professional interest in the poor. Attracting skilled persons by defining a project in trade-bound terms also bears on a staffing problem discussed perennially in the LEIG sector--that of insufficient salaries to attract skilled professionals, coupled with the problem of training committed generalists in "hard" skills, a problem to which the Foundation and other LEIG donors have devoted considerable attention. Attracting technocrats with trade-based tasks, in other words, is a way of getting around the "skills-vs.-commitment" formulation of the LEIG staffing problem: the technocrats in our cases turned out to have more commitment than anyone thought, when presented with the problem in professionally interesting terms and, of course, they already had the right skills.

The trade-bound view of LEIG problems has its limitations. An organization may end up serving virtually the whole trade and still be working with only a small number of people--the case of the EQI and the Zabaleen garbage collectors being the most obvious one. EQI's work with the Zabaleen Association involves only 1,000 garbage-collecting households in one settlement, which does not even represent all the Zabaleen garbage collectors, who live in six different settlements of Cairo. The trade orientation may also leave an organization "stuck," once it reaches every member of the trade. The Annapurna caterers is a case in point: after providing credit to 8,000 members of this trade in Bombay, Annapurna had a difficult time figuring out what to do next that would be as easy and as effective. SEWA, in contrast, escaped the limiting problem of the trade approach by taking on one trade after another--from vegetable vendors to foodhawkers to quilt makers to fish marketwomen. It could therefore benefit from the discipline and power of the trade orientation, while at the same time not being confined by the number of persons in any particular trade.

Minimalism in credit

Credit turned out to be another way by which the better-performing organizations were able to approach their task narrowly. Four of our programs started out by providing only credit. Even though they later moved into other activities, credit continues to be a central part of their program. (Two of these credit organizations, SEWA and Annapurna, also followed the trade approach.) Though other LEIG programs customarily provide credit--in Kenya, for example, Tototc Industries, Kenya Women's Finance Trust, and Partnership for Productivity--the approach of our four organizations to credit was quite different.

First, all four organizations started out only as credit brokers, providing their clients with access to existing financial institutions, rather than lending from their own funds. Second, they all required savings as a prerequisite to borrowing. Third, these organizations financed activities mainly in the trade and commerce sector, as opposed to manufacturing and services, sectors in which economic and employment payoffs may promise to be higher but where risks to lenders are also higher.

Fourth, these organizations all provided a kind of stripped-down or "minimalist" credit, which entailed little or no evaluation of the merits of investments for which applicants wished to borrow and no technical or business extension. The burden of the selection process was shifted from the credit entity to peer groups of borrowers themselves. Though groups might give opinions on a member's purpose for borrowing, their ultimate acceptance of the member was based on an assessment of that person's likelihood of repaying, regardless of the viability of the proposed project. Though group members were not necessarily jointly liable for each other's loans, the group could not receive subsequent loans until all were paid up. This process of decisionmaking about credit, though decentralized, was not "participatory":

borrowers were not included in decisionmaking councils of the credit-providing organizations, they had no say in setting credit policy or in declaring and prosecuting delinquency, and the credit agency itself made the ultimate decision as to who could borrow.

Fifth, though our four credit organizations now provide some social and other services in addition to plain credit, they started first with credit. This is in distinct contrast to many LEIG grantees, who are trying with difficulty to make the opposite transition--from social and welfare services to the income-generating ones. Although our four organizations shared this common set of credit characteristics, they were quite different in other ways--one a bank (Grameen), the second a women's trade union working with various trades (SEWA), the third a women's trade union working with only one trade (Annapurna), and the fourth a trade union working on a neighborhood rather than a trade basis (WWF).

Many LEIG credit programs, unlike our four, do not start out by trying to link their clients up with existing banks. Typically, they get funding from donors to start their own credit operation (e.g., Tototo, Undugu, Partnership for Productivity). This gives them little chance to learn the business through a division of labor between themselves and the established banks--the banks taking care of the money, and the NGOs the processing of applications. Though three of our four organizations ultimately did create their own banks (SEWA, WWF, and Grameen), this occurred only after a long tutelage of doing no more than working as brokers between their clients and an established bank.

Many credit-providing NGOs would view the minimalist credit provided by our four organizations as "insufficient." Businesses, they say, need to learn how to keep books, improve their production techniques, learn about inventory, and find better markets. Credit, according to this assessment of need, must therefore be accompanied by assistance with these other matters, and credit applicants should be helped to evaluate the financial viability of their proposed use of loan funds. Though this view seems perfectly reasonable, it also leads to higher unit costs of lending and greater demands for organizational sophistication. Evaluation studies, moreover, have cast doubt on how much this assistance actually leads to increased incomes (Farbman 1981, Ashe 1985, Kilby 1985, Tendler 1982). Because of the higher costs and greater encumbrances, "complete" credit is almost never found in programs that have succeeded in reaching large numbers of small borrowers. Thus it is no surprise to learn that the Grameen Bank, with many more clients than any of the Foundation's LEIG grantees, insisted most on the minimalist form of credit, and diversified least into noncredit activities.

The link to performance. Why was this particular approach to credit, and the way in which it evolved, so central to the better performance of these four organizations? That these organizations spent a long apprenticeship providing access to existing credit, rather than lending their own funds, made the task easier. It divided credit into loan processing and banking, allowing the new organizations to take on and master the task of processing first, before having to go into the more difficult task of banking. That a banking infrastructure already existed was crucial to this sequence, an advantage of credit that we tend to forget because of our ire at banks for the way they exclude the poor. Other LEIG activities, like business and technical extension or the formation of group production or marketing ventures, do not have such well established institutions to which they can turn for structure, advice, and sharing of the task.

Minimalist credit was also easy because clients borrowed more for trade than manufacturing. As indicated by bank practice all over the world, lending to trade and retail establishments is less risky than to manufacturers, partly because repayments can be made with greater frequency and within a shorter time period. Though some researchers believe that lending to manufacturers will have greater employment and income impacts than to traders, trade credit may nevertheless be easier on fledgling banking operations.

Minimalist credit was also easy because the repayment rate constitutes a clear and concise measure of good performance. With such an indicator, performance can be ascertained by any good evaluator who spends a few hours at a bank office, and the credit agencies themselves can keep close tabs on how they are doing. Performance in other LEIG activities, including credit with business and technical extension, is more difficult to measure and can be verified only over a longer term. That minimalist credit provides such a conspicuous performance measure means that organizations working this way are quite exposed to outside scrutiny; in this sense, credit is a hard taskmaster, as well as being "easy." Given that other LEIG activities lack this clear and accessible indicator of performance, mediocre performance will elicit less censure from the outside, as well as less concern within the organization itself. In lieu of clear performance indicators, organizations tend to look at commitment, honesty, and hard work as proxies for performance. Mediocrity gets tolerated more, simply because the results of what these organizations do are more difficult to see.

Small-loan programs usually run high costs per dollar spent because of the time and skills required to evaluate numerous small applications. Banks resist small loans because of these high unit costs, and because of the impossibility of making character judgments about applicants with whom they are not familiar. Minimalist credit reduces these problems by shifting much of the cost of processing loan applications from the bank to borrower groups, an important advantage of the group mechanism used by all four organizations. Groups base their decisions as to who gets loans on character judgments about the borrowers, rather than on an evaluation of their finances and business proposals. Surprisingly enough, this system of judging credit applications seems to work well, as attested to not only by repayment rates in these four cases but by studies of other programs of this nature (Ashe 1985, Kilby 1985). By reducing markedly the credit agency's need for staff trained in financial analysis, the group selection mechanism also reduces the problem of finding skilled professionals to do such work and of paying them adequately.

Credit institutions that require savings prior to borrowing, like our four, usually point to the wholesome impact on the borrower who, it is said, needs to learn the discipline of giving in order to receive, and of repaying regularly. More generally, LEIG donors have been increasingly asking their grantees to require some payment from clients in exchange for the services they receive--credit, technical assistance, or other services meant to increase income. Requiring savings or charges for services, the argument goes, not only helps the client to learn the behavior required in a modern economy, but also helps to set the service-providing organization on the path toward financial self sufficiency.

Less commented on is the fact that when clients have to save in order to borrow, the credit organization will have to first prove that it is a trustworthy place to put one's savings. And if the organization performs poorly once it possesses the savings, clients can withdraw their deposits overnight and bring the organization to ruin. Even if depositors are not allowed to withdraw savings, as is often the case with savings required for borrowing, their financial stake in the organization gives them the right to make trouble if they are concerned; and organizing them into groups gives them a social form in which to make more effective trouble. Charges for services make an organization even more vulnerable to outside pressure to perform: if clients are dissatisfied, they need not even protest and can simply refrain from buying the service.

Though LEIG organizations often argue against charging for services on the grounds that the poor cannot afford to pay, they also fear that they will lose their clientele if they start charging. The organization that agrees to charge for services or require prior savings, then, has considerable confidence in the quality and worth of what it provides. Put in another way, charges and savings requirements can force an organization to be more responsive to the poor and their definition of their needs, than a situation of no charges, justified out of sympathy for the plight of the poor. Again, this is a somewhat different approach to the issue of finding committed staffs: in this case, the structure of the situation helps make the organization responsive, rather than just the hiring of committed staff.

Required saving, in sum, introduces external pressures to perform into the worlds of fledgling credit organizations. Donors usually deal with the matter of organizational performance by a combination of helping (funds for training, budgets for hiring capable staff) and monitoring (by donors themselves, by requiring and funding audits, by funding monitoring and evaluation operations) All of these approaches, though standard good practice, are costly and timeconsuming, and often do not yield the desired results. Some of this concern might be invested, instead, in finding tasks and structures that produce these pressures themselves, without the expenditure of time and funds. Forced savings and charges are one way of providing that external pressure. The easily measurable repayment rate of minimalist credit is another.

Leaders, links, and upscaling

All the leaders of our five nongovernmental organizations were strong and driven individuals who, through class or previous work experience, had links to important political figures and powerful institutions in the public and private sector. All five, moreover, had founded their organizations. Though donors look up to these strong and charismatic leaders, they perpetually worry about whether the organization could survive their loss. Will the leaders learn to delegate? Can they build strength in their managerial staff?

In a study of successful development programs in the public sector, Paul (1982) also found the same dynamic person who had led the program from the organization's founding to the present moment. Paul's reason for emphasizing this continuity was to say that the person who initiated the project as an experiment was the same one who carried out the transition to a nation-wide program. It was the energy of the single founding leader that drove the successful expansion of the program, in other words, and not just the force of a particular organizational model.

A common argument for funding small NGO projects is that they are experiments which, once the bugs are worked out, will be replicated. But Paul's findings, along with mine, suggest that unless the experiment is replicated by the original experimentor, it may not grow beyond its original size, no matter how well it works. And if replication actually takes place, the leader of the pilot project is likely to have had large ambitions, along with the status and connections to carry them out.

These are the kinds of visions, status, and connections that our set of NGO leaders had. Two of the leaders were technocrats with Ph.D. degrees from the United States--a sanitary engineer (EQI) and an economist (Grameen Bank). By virtue of their class, foreign educations, and professional specializations, they were members of a small elite class. Two more of our leaders came out of a long-established trade-union movement (SEWA, Annapurna). Another, also well-connected, came from a long experience with political organizing in the neighborhoods of Madras for India's dominant Congress (I) party (WWF). The trade-union and party-organizing backgrounds accustomed these leaders to thinking in terms of reaching large numbers of persons, and familiarized them with powerful institutions--big management, and state government officials who mediated labor-management disputes.

That our leaders had these particular backgrounds should come as no surprise, given the success of their ventures. But many NGO leaders do not fit this image, and we ourselves usually do not think of LEIG leadership as coming from the ranks of technocrats or social elites. Many NGO leaders shy away from people in power. They may prefer to work in remote areas, where their programs can operate undisturbed by powerful institutions. And they often wear their distance from the holders of power with pride, as a kind of badge of commitment to their clients. They tend to describe themselves as "against" the system, not part of it. This kind of remoteness is not necessarily bad. Indeed a few studies have pointed to geographical remoteness from powerful institutions as an element of success (Kilby 1979, Paul 1982). But our leaders were anything but distant from power, even though they may have liked to portray themselves that way.

<u>The urban edge</u>

Closeness to power among our set of organizations was spatial as well as social. Four of our nongovernmental organizations got their start in cities, and most continue to have their greatest number of clients there. (I explain the exception, Grameen Bank, below.) This is a somewhat surprising finding, given that the Foundation emphasizes rural rather than urban poverty in its LEIG programming. The Foundation's rural emphasis is consistent with that of many researchers and donors, who believe that rural poverty is a more serious and widespread problem than urban poverty and that the agricultural economies of rural areas provide more possibilities for off-farm employment than do urban economies. Nevertheless, there is something about the dynamics of LEIG organizations in the urban setting that sets them apart from the rural programs. I suggest four explanations for this difference.

First, the four cities where these organizations work are large and important. Bombay, Ahmedabad, and Madras are capitals of their respective states, as well as thriving economic centers; Cairo, aside from being the national capital, is a city of thirteen million people. Powerful elites live and work in these cities, and powerful institutions are seated there--bank headquarters, municipal authorities, politicians, and government parastatals, ministries, and departments. The impact achieved by our organizations resulted, in part, from the influence they had with these holders of power and the concessions won from them. Rural-based programs provide much less of a chance to have an influence on power.

Second, and related, programs for the poor usually have to win over local elites in each community where they work--or, at least, gain their acquiescence. Since elite opposition often undermines LEIG projects at the community level, the investment in gaining elite tolerance or support is crucial to the success of these programs. Having influence with elites arises, in part, from a lifetime of living with them. This kind of familiarity is difficult for the leaders of organizations operating in rural areas, because there is no one geographically concentrated set of elites or powerful institutions that controls decisions affecting thousands of people. As one of our leaders said, in commenting on the difficulty of expanding her urban program into rural areas, "I couldn't just call up somebody powerful and say he should help out. There were so many of them! I didn't know them and they didn't know me."

<u>Third</u>, the trade- or sector-bound approach discussed above works better in urban areas. Because the rural poor live more dispersed and change from one income-earning activity to another with changes in the agricultural cycle, it is more difficult to find large numbers in one place who work at a single trade, let alone at the same trade throughout the year.[5] LEIG organizations in rural areas, then, find fewer opportunities to work with only one trade or sector.

<u>Fourth</u>, and implicit in these last three points, there are agglomeration economies in serving dense populations. In cities, one can see more clients per staff trip away from the office, one can use public transport instead of having to invest in vehicles, one can spend less on the operation of one's own vehicle, and one's service is less vulnerable to problems of vehicle breakdown, shortage of spare parts, and lack of budget monies for fuel and maintenance. All of the latter are central problems in rural service programs.

The lesson of our finding that urban programs have a certain edge over rural programs is not that we should fund more urban projects, though that might be a perfectly logical conclusion. Rather, the urban stories help us to see that the path to impact in the LEIG area often lies in the influence wielded over powerful persons and institutions. The experience should encourage us to search for rural program strategies that imitate these urban configurations, or compensate for the lack of them. Though the suggestion may seem fanciful, the Grameen Bank provides us with a quite realistic illustration. Grameen Bank was the only rural exception to the urban siting

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[5] This point has also been made by Chen (1984, 1986).

of our better-performing programs. And Grameen had by far the largest number of beneficiaries of them all, so its status as an exception requires explanation.

The Grameen exception. Grameen Bank operates in a country with one of the highest rural population densities in the world, thus making it possible to reach a larger number of clients per unit space than is typical for a rural program. The minimalist credit practiced by Grameen, moreover, requires less understanding of the economy and social structure of each particular locality where the bank has a branch, and less adaptation to local forms of production--in contrast to more complete credit services and other LEIG activities. Grameen's leader felt strongly about providing a "franchisable" service that, once perfected, could be applied anywhere throughout the nation, regardless of local conditions. Minimalist credit can accommodate this kind of vision. Just as important, it took a leader who wanted to make his mark in large numbers to be attracted to this particular form of the credit task, and to resist the blandishments to embellish it. This vision contrasts sharply with that of many other NGO leaders, who see their task as doing a good job at providing various services to ten, twenty, or thirty communities.

Grameen Bank provided a service to landless laborers that, in contrast to our experience with many other such programs, pleased local elites. Local landowners did not mind that Grameen organized their labor force into credit groups, thereby freeing the laborers from dependence on landowners for credit. Indeed, some landowners even said they preferred being relieved of these credit obligations to their laborers, and that this new and independent source of credit made for a more "stable" work force in the region. This reaction, by the way, is just the opposite of that predicted by the economic literature on interlinked contracts for labor, land, and credit.

We tend to notice the importance of elites only when they oppose projects, because so many LEIG projects have been undone by such opposition. But we can see from the Grameen case that it is also important to understand the circumstances under which elites are not opposed. One of the lessons of the Grameen exception to our urban cases, then, is that the rural handicap can be reduced if activities are supported that are to the liking of elites. We may not know in advance, of course, how elites will react--as illustrated by the Grameen Bank and the elite reactions to it, different from what one would expect from experience and the literature. This is why experimentation is so important: it can show us, as well as the elites, that things may not be as bad in reality as we think they will be.

As distinct from many rural projects, finally, the Grameen Bank was linked from the start to a major urban center of national power--the Bangladesh Central Bank. Though Grameen is now an independent financial institution, it found its first institutional home in the Central Bank, as an experimental project. When Grameen became its own bank, the link to the Central Bank continued informally, partly through the three Central Bank professionals who went on extended leave to take managerial positions with Grameen. As in the case of many organizations with links to power, one tends not to notice them, because they are often buried in the early history of the organization, and because leaders of these organizations like to stress their independence from the establishment, and not their connections to it.

Traits of the trade

The traits shared in common by our set of organizations suggests that their performance was influenced by the kinds of economic activities their clients engaged in. Something outside the control of these organizations, in other words, helped them perform well. This "something" falls into seven categories.

First, the clients of these organizations were already producing what they were receiving assistance for (dairying, garbage-collecting, food hawking, food preparation, cigarette rolling). Or, in the case of activities newly undertaken with the organization's assistance, these were well known in the area and easily mastered (installation and operation of shallow tubewells, water standpipes, and rental houses).

Second, though clients always belonged to groups, some formed by the assisting organization (credit groups, dairy coops, garbage collectors' association), the group did not necessarily engage in collective ownership or work. In the cases where the assisting organization did introduce collective ownership (landless pumps, group standpipes, rental housing), ongoing work requirements after the initial installation period were minimal.

Third, the assisted activities did not show economies of scale, so that they did not face competition from large-scale capital-intensive industries (dairying, garbage-collecting, shallow tubewell irrigation vs. handloom silk production, cigarette-making, garment manufacture).

Fourth, supplies of basic inputs were assured (garbage for garbage collecting, water for shallow tubewells, produce for vending, fodder for cattle, though fodder supply was sometimes a significant problem for the poor).

Fifth, sales markets were already securely in place, though they were not necessarily free markets (dairy products, garbage collection services, water for irrigation).

Sixth, many of the products or services supported were in scarce supply and had high social value in economic and distributional terms (irrigation water, garbage collection services, pork and milk supply, standpipe water and rental housing in squatter settlements). This meant that consumers also benefitted from the expansion in supply of these activities, in addition to the providers assisted by the project. The high social value or "externalities" of assisting these providers is reflected in the fact that some of these services are traditionally provided or subsidized by the public sector (garbage collection, irrigation water, potable water, low-cost housing). Indeed, for most of these services, there had been a history in all four countries of public sector activity that was inadequate. The activity under our programs, then, represented a kind of ad hoc "privatization" or decentralization of these services, though nobody portrayed things in these terms.

Seventh, powerful consumers of these services themselves often played a role in bringing about support for the project (e.g., the Indian dairy parastatal as the purchaser of milk supplied by women producers). Or, these consumers had enough self-interest in seeing supplies increase that they did not stand in the way of organizing for that purpose among the poor (e.g., the land-owning employers as purchasers of irrigation water from groups formed by their landless employees).

Though the last two findings of these seven came as a surprise to me, the rest seem to reflect good common sense. Yet many LEIG programs choose economic activities and ways to support them that do not reflect this sense. Many programs, for example, are more ambitious with respect to their clients' income-earning activities. They may try to introduce activities that are new (Tototo and crafts production) or that generate opposition from elites (Proshika and fish ponds). In choosing certain sectors, moreover, LEIG programs often take on a difficult battle against scale economies in the sector which, though perhaps created by past government subsidization of large producers, have already led to large-scale, capital-intensive, and competitive production (handloomed textiles, leather footwear, garments, cigarettes). In our set of activities, there were no scale economies constantly threatening to overwhelm the assisted activities, and against which a constant and often losing battle had to be fought.

Many LEIG programs promote collective enterprises (e.g., Grameen Bank's mustard oil mills, EQI's composting plant and garbage-collectors' firm, PRADAN's community-enterprise program) because they believe that the poor are locked into low-income occupations and that collective production, often of something new, is the only way to get them out. The designers of these programs often look for their inspiration to community traditions of cooperation around certain tasks--the building of a school, a road, a church, or a soccer field. In contrast to these latter endeavors, a large number of the collective production ventures promoted by assisting organizations do not succeed, or do so only at a high cost and with benefits to only a small number of participants. One reason for these disappointing outcomes is that the traditional collective tasks named above have a beginning and an end, in contrast to the work requirements of LEIG-promoted collective production, which is usually of an <u>ongoing</u> nature.

Collective work obligations often lead to disputes among cooperators about their relative work loads, and about who is working hard and who is slacking off. Also, collective work requirements fall hardest on the poor, since they are least able to take time away from their current employment; and most collective ventures do not begin to pay a return for a long period of time, let alone enough of a return to live on exclusively. The work requirements of our collectively-owned activities, in contrast, were more like those of traditional collective patterns. They involved a discrete task at the start, with a minimal amount of sustained work afterwords--the installation of a tubewell and the digging of canals, the installation of a standpipe, and the construction of rental housing.

LEIG organizations usually recognize the importance of markets, but they often approach the matter by trying to set up their <u>own</u> marketing outlets (Tototo, Mahila Vikas Sangh). Since nonprofit organizations have no particular comparative advantage in marketing, which itself often involves economies of scale, these attempts at creating marketing outlets frequently fail; or, at best, they benefit a limited number of producers. In our cases, in contrast, the market was already in place, even when clients were producing the service for the first time (irrigation water in rainfed rice-growing areas, potable water and rental housing in squatter settlements).

Problems of input supply also tend to be overlooked in LEIG programs, attention usually being riveted on production processes and sales markets. In our set of activities, the supply of the major input was unusually secure (water for standpipes, housing stock for rental, garbage for garbage collection), or variations in supply were predictable (irrigation water for tubewells, fodder for dairy cattle).

We tend to think of consumers as atomistic and faceless and, therefore, of little relevance to our attempts to increase production, just so long as their presence is attested to by a given volume of sales. When we do think of consumers as powerful, we view them as persons or institutions from whose clutches we want to help our clients get away, a classic example being the apparel manufacturer who subcontracts out to women working at home at piecework rates (SEWA). In our cases, however, powerful consumers played an important role in <u>supporting</u> improved producer conditions, out of their interest in seeing supplies increase (the dairy parastatal's support for women dairy coops and for a training institute in rural management, the Cairo governorate's holding back from banishing the Zabaleen donkey carts, the Bangladesh rice farmer's donation of a small plot of land for installation of the tubewell owned by a group of his landless employees).

When powerful consumers did not play an active role in supporting increased supply, they at least did not oppose program activities. As noted above, Grameen Bank did not get much trouble from local landowners for organizing landless laborers, partly because these elites felt that there was something in it for them. Powerful consumers or parties interested in seeing increased supply of an input, then, can be forces of support, just as much as they can oppose or exploit.

What kind of lesson?

What is the lesson to be learned from the traits shared by these better-performing programs? I should say, first, what the lesson is not. Most importantly, I do not see these traits as a checklist of prerequisites or proscriptions. Credit worked well in its minimalist form, for example, because it had certain attributes that made it both "easy" and demanding of good performance. The lesson of the story is not that LEIG programs should do credit rather than other things, but that some tasks and their environments are easier than others and, at the same time, more demanding of good performance. Programs should be designed with this in mind, with tasks being chosen or avoided for reasons of this nature.

Though this statement about lessons seems obvious, we tend to design programs in terms of what we think is needed for the clients (increased skills, access to capital, reduced dependence), rather than in terms of what is needed for the organization to be able to function passably well. We often act, in other words, as if the problem is only to figure out how to increase people's incomes, but that is only the half of it. Organizations are often just as handicapped as the poor in trying to do what they want.

Rather than being prescriptive, this list of traits is both cautionary and constructive. It is cautionary in that it shows that some of our standard approaches to program strategy and organizational design do not work well, and explains why. Providing business assistance to poor borrowers, for example, has become an unquestioned part of the way many planners think about microenterprise credit. But our study shows the better-performing credit programs as consistently not providing business assistance. The lesson is not that we should never provide business assistance, which is to exchange one set of rules for another, but that we should pay attention to what works well and what doesn't, that we should be constantly questioning our accustomed ways of doing things, and that doing less often works better than doing more. Similarly, for organizations that want to promote collective enterprises, or take on marketing, or promote new production processes, this list should be interpreted as cautionary, not proscriptive. Some of our better-performing organizations did just these things, after all, though only after travelling along the narrow path described. Finally, I consider this list as constructive because it points to opportunities where LEIG planners often do not expect to find them--monopsonistic buyers, old-fashioned products and markets, well-connected technocrats (including an economist!), acquiescent elites, poor people collectively providing public-sector-like services, support from powerful public-sector actors, tedious surveys of narrow sectors, non-specialist staffs succeeding at providing a specialized service like credit.

The question arises as to whether this small set of cases represents a good "return" on the Foundation's investment of $21 million in the LEIG area over the last five years. Part of the answer should involve a judgment on the economic return to the investments in credit, requiring some comparative benefit-cost analysis across activities, projects, and countries. Though benefit-cost ratios will not illuminate impacts in important areas like policy and professional thinking, they would help us to understand the actual impact of such programs on poor people's incomes and the sectors in which results are more robust. A recent AID-funded comparative benefit-cost analysis of five microenterprise credit programs showed high rates of return for some programs--at least as high as those obtained on large World Bank infrastructure and rural development projects (Kilby 1985). That represents a clear standard by which to compare projects in an area where comparison is quite difficult, though I would not want to approve or disapprove of an LEIG program solely on benefit-cost grounds.

At present, the Foundation has only bits and pieces of impressions about credit impacts, and they are conflicting: some evaluations say that credit has no impact, leaving people in their poverty traps with insignificant incomes, and some report just the opposite. The question is not merely academic because donors, NGOs, and governments are constantly making decisions on program design based on unverified assertions about credit. Credit organizations, for example, often justify their expansion into non-credit activities on the grounds that credit is "not enough" to increase people's incomes significantly--the rationale behind Annapurna's move into collective food catering and Grameen Bank's move to collective enterprises and venture capital. If credit <u>does</u> have more potential for impact than these other activities, or vice-versa, then funders need to know this, and comparative economic analysis is one way to find out.

The AID study of comparative benefit-cost findings showed that high rates of return had just as much to do with the characteristics of the lending program as they did with the type of economic activity assisted. The high-return programs provided only credit (no business or technical assistance), lent through the group mechanism, and operated in low-inflation countries--that is, where real interest rates were positive. Benefit-cost analysis, in other words, can also help us make judgments about program strategies and organizational design. Since this kind of analysis represents one of the few clear quantitative indicators we can rely on in the LEIG field, and since the methodological path has already been paved by others (also unusual), it would take little additional effort by funders to avail themselves of this opportunity to understand their programs better.

It is difficult to make a judgment about the return to the Foundation's investment in the LEIG sector without specifying what the "returns" have been in other sectors where the Foundation works and has a longer history. The Foundation's programs in agriculture, forestry, and water management are most akin to LEIG because they all carry a poverty focus, at least now, and involve activities that generate income. The Foundation's reviews and discussions of these program areas seem to exhibit no more of a sense of "hard" data or comparative economic returns than the LEIG materials. The reviews describe changes in policies, new approaches being tried, small groups being benefitted--evidence that is just as qualitative and case-oriented as that coming from the LEIG program. Reviews of these three areas may <u>seem</u> "harder" and more impressive, because each one corresponds to an identifiable set of professionals (agronomists, agricultural economists, irrigation engineers, botanists, etc.), research institutes, and government departments and ministries. And discussion in each of these areas focuses on the way one manages something physical: land, water, trees. There is no such concreteness or professional homogeneity in the LEIG field, a matter taken up further below.

What kinds of results in the older areas of agriculture, forestry, and water have led the Foundation to feel confident about its continued programming there? The answer to this question would point to institution-building at universities and research institutes and to an impact on policies and institutions in the public sector. And it is <u>this</u> standard that goes to the heart of the comparison between LEIG and the other areas, rather than the analytical or systematic quality of the results. It is according to this standard, in my view, that the Foundation's approach to LEIG programming might be improved. This takes us into the subject of the following section.

II - Between the Government and the Nongovernment Sectors

Why does LEIG programming need improving, and how might the Foundation go about doing so? The answer to these questions has to do with (1) the Foundation's comparative advantage as a donor, (2) the inherent features of income-generating projects in the NGO sector, (3) the path by which the Foundation came upon the NGO sector as an approach to employment problems, and (4) the opportunities emerging from the present historical moment for a different style of Foundation involvement.

Among donors, the Foundation is somewhat unusual in that it has worked simultaneously in the public sector, the nongovernmental sector, and with research institutions. Whereas the Foundation's programs in agriculture, water, and forestry reflect this history of working across three sectors, its LEIG program has focused primarily on the NGO sector, with the exception of the recent initiatives of the India program. In this section, I suggest why the Foundation might want to reduce its emphasis on the NGO sector and take more initiatives in the public sector and research.

Constraints

The Foundation has had good reason for concentrating so much of its LEIG attention on the nongovernment sector. First, LEIG has no professional home. It does not correspond to a field of study nor does it deal with one particular economic sector. Unlike agriculture, water, and forestry, LEIG expertise or commitments cannot be found in a particular government ministry or academic discipline. For the Foundation, the NGO sector has come to represent an analog to that missing professional home--a place where everyone is committed to the alleviation of poverty and where substantial program experience in the subject has been accumulated.

Second, the Foundation's recent shift toward the nongovernment sector in the LEIG area arises out of a deep disappointment, shared by many other observers of development in the third world, about the persistence of massive poverty despite impressive growth records in many countries and several decades of state-promoted development. This disappointment has also extended to the poverty-oriented government programs of the 1970s, which were meant to alleviate the inequities of growth by redirecting public-sector services and subsidies to the poor.

Third, the Foundation was drawn to the NGO sector out of its belief that empowerment of the poor is central to their ability to increase their incomes. Because governments have often repressed the poor when they organize, or simply neglected them, the Foundation has viewed independent assistance in organizing the poor as crucial to their gaining of rights to government protections, services, and subsidies. In Foundation eyes, improving the incomes of the poor is therefore inextricably linked to empowerment, and it is difficult to empower people through government, particularly military ones.

Though the Foundation's affinity for the NGO sector in the LEIG area is understandable, major emphasis on this sector is difficult to justify. First, various donors have funded LEIG-type projects among NGOs since at least the early 1980s. The Foundation is not alone in this area and not "on the cutting edge." Nor is it bringing to bear on this problem its unique ability to act simultaneously in the government, nongovernment, and research sectors.

Second, NGO programs in the LEIG area typically do not make significant inroads on poverty in a particular country--either directly in terms of beneficiary numbers, or indirectly in terms of affecting policy or programs carried out by larger institutions. The low impact and lack of replication of NGO programs has to do with certain "diseconomies of scale" affecting their expansion. The diseconomies take the following form:

(a) the strength of many successful NGO efforts arises out of a certain ethnic, religious, or other social homogeneity, which is irretrievably lost when these organizations expand and become less parochial;

(b) NGOs compete against each other and the public sector for funding from foreign donors, which means that they are driven to "differentiate their product" from these "competitors," rather than cooperating with them or exchanging ideas about service-delivery models in the cause of getting good program ideas replicated;

(c) because a large share of NGO funding comes from foreign donors, and because NGOs usually prefer foreign funding to local support, distance and mistrust prevails between the government and nongovernment sectors, thereby reducing the possibility that government will replicate successful NGO "experiments";

(d) NGO programs do not grow partly because NGOs are under no external pressure to reach large numbers of persons, in contrast to the public sector, where political pressure to reach large numbers is high.

As a result of these diseconomies, the path to replication of successful NGO experiments in the LEIG area is somewhat blocked, meaning that the relevance of their experiments to nationwide problems of poverty and unemployment can be quite limited.

Third, history has shown us that in third-world countries with good performance on income distribution, government policies and programs have played a key role. Conversely, certain government policies regarding credit subsidization, tariff protection, and agricultural development have had major adverse impacts on employment. Though the behavior of government may leave much to be desired in the poverty-alleviation area, in other words, what government does exerts a powerful impact on poverty. If the Foundation wants to have a significant impact in this sector, it cannot afford to stay away from such a powerful actor.

Fourth, our understanding of what works in the public sector with respect to poverty alleviation is woefully inadequate, partly because recent events have cut short the process of learning from this experience. The economic crises of many third-world countries have brought about a reinterpretation of much past government policy as "bad"--as having laid the groundwork for the crises--even those policies previously considered to have been good. This current disappointment about the performance of third-world public sectors can be seen, in part, as an almost predictable over-reaction to the excessive optimism of an earlier period, when everyone had great faith in the ability of third-world governments and first-world donors to eradicate poverty and bring about sustained growth.

The economic and debt crises of the 1980s have turned a generation of economists away from the study of poverty and poverty-alleviating initiatives to issues of debt, trade, and macroeconomic management. As a result, our ability to make informed judgments about the potential of policy and programs to alleviate poverty is constrained by the lack of comparative research on what has worked well. We have turned our backs on the public sector without informed enough reason and have put excessive faith in a "new" sector, the NGOs, which is impeded by its very structure from bringing about the kinds of impacts we hope to achieve.

Opportunities in the Public Sector

At first glance, the opportunities for significant LEIG programs in today's world of economic crisis, fiscal austerity, and "unfashionability" of poverty concerns, would seem quite limited. Upon closer examination, however, the current moment also turns out to provide some new opportunities for LEIG initiatives:

First, the political unpopularity of today's austerity programs, with their removal of long-standing public sector subsidies on basic goods, their reductions in public-sector jobs, and their general reductions in employment, constitute a serious political concern to today's third-world leaders. This has made them more sympathetic to certain LEIG-type initiatives than they would have been in the 1970s. Though resources were more abundant and poverty alleviation was more in fashion at that time, the informal sector was held in scorn by political leaders and development planners alike, because of their visions of "modernization" through large-scale industrialization.

Examples of current public-sector gestures in the LEIG area are India's Integrated Rural Development Program, Kenya's emphasis on the informal sector in its national plan and recent tariff-rebate measure for small manufacturers, and Egypt's programs to fund the acquisition of equipment for artisanal activities and to allow pensioners to take their retirement benefits in one lump sum for the start-up of small businesses. Though all these programs have major flaws, they are nevertheless reaching thousands of poor persons.

Second, the economic conservatism of the times, with its emphasis on "getting the prices right" as the answer to most economic and social ills, turns out to harbor a distinct sympathy for the small-firm sector in third-world countries. Firms outside the regulatory power and the privileges of the state, in this view, use capital and labor in the "right" proportions because they face prices for capital and labor that have not been tampered with by the state. That is, they use capital more parsimoniously and labor more extravagantly than large modern firms, with their access to state-subsidized credit and their labor costs "encumbered" by government-mandated fringe benefits. With respect to small firms producing in the informal sector, then, the interests of the "right-price sympathizers" overlap somewhat with those of the "poverty sympathizers." This convergence, linking the currently unpopular poverty concerns to the powerful conservative economics of today, provides a distinct opening for LEIG initiatives in the public sector.

Third, and related, the current debt crises have forced many third-world countries to reduce imports drastically through devaluation and import controls. Though lower-income groups have no doubt suffered disproportionately from these crises and the related policy measures, some small producers have flourished as a result of the disappearance of cheap competing imports and of local goods produced by large firms dependent on imported inputs. The current situation, in other words, has made it more difficult for third-world countries to pursue growth strategies biased toward large, capital-intensive firms. And from some of the countries experiencing reduced imports, some surprising and useful evidence has emerged on how robustly the small-firm sector can respond when policy changes in its favor.

Fourth, the current popularity of "decentralization" among development planners translates into more autonomy to local government and to local offices of central-government ministries and parastatals. This opens up the field for LEIG experimentation by allowing a donor like the Foundation to pick and choose from among the most capable and interested local offices of government. This is exactly what the Foundation has done with the women's dairying project in Andhra Pradesh (working through the state office of the national dairy parastatal), the sericulture projects in Bihar and Karnataka (working through the state offices of the national sericulture board), and the initiative with the Principal Bank of Egypt (working through the regional branch in Dumiat).

III - Recommendations

In searching for and evaluating grant proposals in the NGO sector, the Foundation should place priority on the potential for impact, rather than on institution-building for its own sake in the NGO sector. Impacts can take the form of large beneficiary numbers, influence on policy, or likely replicability by other institutions. In advance, of course, any project proposer can predict these kinds of impacts. From this assessment and others, however, we have learned that certain kinds of project designs and environments are more likely to lead to impact than others. Organizations can reach a much larger number of people if tasks are carried out in certain ways--the minimalist form of credit being a striking example. Organizational leaders with visions of reaching masses of people are more likely to have impact than those who aim to do an excellent job in a few communities.

"Experiments" in the NGO sector should be viewed with particular caution. Experiments that work well on the small scale characteristic of many NGO programs usually do not lend themselves to large-scale operation because of diseconomies of scale--in the organizational and political sense, as well as economic. In order for an experiment to be replicated, it is not sufficient that it only be "successful." The experiment must also be conducted in an environment where the institutional capacity for replication is already in place; or the links of project leaders to centers of power must be strong enough so that the experiment has a path along which it can later spread to broader institutional networks. The Grameen Bank is an example: leadership was closely tied to important elites, including the country's Central Bank, in addition to the fact that the organization's founder was determined to follow a "franchisable" model of service delivery that could be repeated throughout the country.

One of the obvious ways of choosing a setting with the potential for replication is to fund NGO projects that have some relationship to government programs. This can take various forms: programs can help a certain class of clients to gain access to government-subsidized goods and services (Working Women's Forum and credit), they can effectively pressure government for changes in policy that will result in increased incomes to large numbers of persons (SEWA achieving reduced police harassment of vendors), they can be given the responsibility for implementing certain parts of large government programs (MYRADA and India's Integrated Rural Development program), or they can help provide a missing ingredient to government programs that are not working well (Proshika's rehabilitation of defunct government-owned tubewells in Bangladesh and sale of them at subsidized prices to landless pump groups).

To suggest a link to government as a criterion for funding NGOs may seem a constraint on the Foundation, and inconsistent with the very character of the nongovernment sector. But comparative research on NGOs shows that in many countries they have been most important in sectors where a substantial share of their funding comes from government, and where government has been interested in allowing them to play a complementary role in providing services (James & Rose-Ackerman 1986). Even in the United States, where private philanthropy is high, government funding still accounts for roughly one quarter of NGO budgets--the share being even higher for social services, community development, and health care in third-world countries. The health sector is a good example of public-private complementarity, because NGOs have made important contributions to health there. In most such programs, NGOs and government actually "jointly produce" the service, though neither side might describe it that way: governments supply vaccines and medicines, and official certifications to service providers, while NGOs supply the outreach. Neither could operate without the other.

In that NGOs receive public-sector support in countries where they have been important, the largely foreign-funded NGO sectors of many third-world countries can be seen as somewhat of an aberration. The Foundation could help them develop the public-sector connections they need to grow, and to have a greater impact, by requiring of the NGOs it supports some kind of matching commitment from government. The commitment need not be financial--it can take the form of office space, vehicles, seconded staff--as long as it creates the link and hence the potential for replication.

The Foundation could make a unique contribution in the LEIG area if it broadened its program to include the public sector. As a small donor, of course, the Foundation is not in a position to make a significant contribution to large public-sector programs. But it does have a unique role to play in supporting experimentation in the public sector, as it has with its women's dairying project in India and its initiative with the regional branch of a government bank in Egypt. Governments find it politically difficult to initiate and fund these experiments themselves, because they can be accused of favoring certain geographic areas.

Though government bureaucracies often act insensitively to the poor, and may seem incapable of carrying out poverty-alleviating programs, an LEIG program that seeks to have impact should address the challenge of discovering program designs and methods of service delivery that <u>can</u> work in these organizational environments, or that attract skilled and committed people to them. The Foundation should draw on its skills in "networking" to find the committed, competent, and powerful professionals in the public sector and to locate experiments in their departments or branches. This kind of search should not be limited to the "social ministries," since they usually are weak, have low budgets, and follow a welfare approach to their task. Construction ministries are an opposite example: they are powerful, run by skilled technocrats, and their spending and contracting have significant impacts on employment. Powerful parastatals are another example, like India's federated system of cooperatives, where the Foundation's women's dairying project was located.

The Foundation's long history of relating to professionals in third-world governments, along with its more recent experience with the NGO sector during the last six years of LEIG programming, have placed it in a unique position to bring together NGOs and government for exchanges about some of the more successful NGO experiences. Through this kind of interchange around concrete experience, it may be possible to reduce some of the mistrust between government and NGOs--a mistrust that prevents a complementary relationship between NGOs and governments from evolving. In supporting such interaction, of course, the Foundation will be limited by the fact that there are strong and rational reasons for the distrust, and that cooperation for cooperation's sake will often not be in the interest of either party. The Foundation can identify situations, however, in which cooperation might be of mutual interest.

The Foundation should take advantage of some of the new opportunities for LEIG initiatives created by the environment of austerity. Though some of the "new" policy wisdom has favorable implications for the informal sector, as noted above, the prevailing economic conservatism and the related decline of interest in issues of equity have led to the disappearance of employment and equity as prime objectives of policy. The Foundation might want to provide support to policy-making units on these issues, so that thinking about them becomes less of a "luxury."

Research

In the 1970s, poverty alleviation was of much greater concern to economists and project designers than it was beforehand, or today. This was partly because the subject became prestigious in the field of development economics. One of the reasons that poverty issues gained such prestige is that the leader of a powerful institution, the World Bank, decided to invest large amounts in research on the relationship between growth, policy, and income distribution. Giving prestige to research, of course, is not all that it takes to turn the attention of politically powerful decisionmakers to a subject. But it helps.

One result of the fall from prestige of equity-oriented research and policy is that development scholars and professionals with such interests today have no institutional home--research funds, graduate students, colleagues working on the same subject. They do not have the kind of professional support that the field of economics today provides, for example, to economists doing research on issues of debt, trade, and macroeconomic policy. Partly as a result, students and scholars still interested in LEIG issues tend to be found mainly in the non-economist social sciences. And economics has come to be thought of as a discipline that is inhospitable to poverty concerns, even though it was in the forefront of research on the subject in the 1970s.

The field of economics is becoming more and more powerful in determining how policy is made. It also provides some of the important analytic tools necessary to understand the impacts of policy and programs on poverty. If LEIG concerns continue to remain as intellectually peripheral in economics as they are today, it will be difficult to command the kind of attention that is necessary to attract powerful persons and institutions to the task of changing policies and adopting effective programs. For all these reasons, the field of economics cannot be avoided by those with LEIG concerns--just as the public sector cannot be avoided if one wants to carry out a program that has significant impacts on poverty.

LEIG needs research attention because relatively little comparative analysis has been carried out on the 1970s experience with public-sector poverty-alleviating programs in the third world. Though there is a rich literature on the failures of that period, there is very little to help us understand the successes, and the common traits they share. The record is not only incomplete but, because of prevailing intellectual fashions, it is often wrong--good illustrations being the until-recent misinterpretation of the East Asian growth experience as resulting from a "non-intervening" state, and the mistaken judgment that government parastatals, particularly in Africa, are always a failure.

There is still much comparative research to be done on what has worked and what has not in the public sector. If the Foundation wants LEIG concerns to be taken seriously, and if it wants to help policymakers and program designers to make informed decisions in this area, it should be funding more research. The research should have a somewhat narrower and different focus than that of the past. Past research on third-world poverty falls into two categories: (1) cross-country and longitudinal studies of the relationship between economic growth and income distribution (including policy effects); and (2) studies of the "anatomy" of poverty, including analyses of the adverse effects of growth and many government programs on the poor. One of the results of our learning so much about the adverse effects of change on the poor is that, in a certain sense, we have become incapable of acting--pessimistic about things working out, and worried that we will harm the very subjects of our concern. This is why we now need to add to our understanding of poverty a better sense of what works institutionally in terms of service delivery and what kinds of interventions bring about significant changes in people's lives.

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