<u>Vision 2020: A Sustainable Livelihoods Perspective</u>

Tariq Banuri, Tellus Institute and Stockholm Environment Institute

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Every point of view must be a point of view. Anthony Giddens

The point of this essay is that of the rural communities of the so-called developing world, communities that have been excluded from the development process, and indeed affected adversely by many of the entailments of this process. This is not necessarily the ideal vantage point to talk about creating, modifying or sustaining the edifice of global finance, but it is nevertheless a perspective that cannot be accommodated directly into the discussions that start with the global concerns. However, the problematique, so to speak, is not necessarily different from mainstream expositions, namely that the existing structure does not serve societal goals: it is unstable, expensive, environmentally and socially irresponsible, and unable to channel resources or spread risk in an acceptable manner.

More specifically, the approach used here is that of sustainable livelihoods, namely the goal of ensuring economic and social autonomy to disadvantaged populations without endangering their resources or other bases of livelihoods. The focus of this approach is on the assets rather than the deprivations of the poor and the goal to ensure that policy and institutions strengthen the coping and adaptive strategies of the poor. More importantly, this approach places much greater emphasis on practice that on structure.

As a background, the sustainable livelihoods approach distances itself from the current perception of development, in which economic and technological change is supposed to start from the economically and technologically advanced areas and spread gradually to other areas. In practice, this has meant the steady outflow of resources—natural, human, financial, technological, and entrepreneurial—from the rural and disadvantaged areas to urban areas and metropolises. In contrast to this approach, the innovative programs of poverty eradication (micro-credit, appropriate technology, community development, digital empowerment, collaborative management of natural resources) seek to reverse or at least block this outflow of resources. However, these efforts are, in a manner of speaking, the pushing of water uphill using the energy of social reformers and charismatic leaders, and like the analogous physical processes, these too are subject to entropy and decay. The goal must therefore include the conversion of these innovative programs into market-led processes akin to water flowing downhill under its own energy, albeit with none of the destructive consequences of the latter phenomenon.

A second point in this connection is the fact that the sustainable livelihoods approach has hitherto concerned itself almost exclusively with micro-level issues and programs. To view this process at a macro-level, namely as a global or national process, it may be useful to place it in a context. We do se below by invoking two themes: global governance (of which the global financial architecture is a component), which leads us to argue that the financial structure has to play a technocratic as well as a social role; and the metaphor of the world as a third world country, which enables us to conceptualize global governance in terms of practice rather than structure.

Global Governance

The word governance has a long and interesting pedigree. Although it has come into fashionable use only since the late 1980s, the present meaning of the term is almost identical to the traditional meaning of the word "government", namely the form and manner of governing. In this century, as government has come to be used more and more as a concrete noun, there is a search for a new word to capture the abstract notion of governance.

Plato offers an interesting classification of approaches to governance. In The Statesman, a stranger asks Socrates about the ideal quality of the statesman or ruler. Socrates replies that the ruler should be like a shepherd, tending to every sheep in the flock, but he soon backs off from this definition, since no man could have the reach and power to act thus. In The Republic, Plato offers another metaphor for the ruler, he should be like the helmsman, steering the boat safely and protecting it from reef and storm. (Interestingly, the old Greek word for helmsman, kybernän, is the root for all the terms that pertain to governance—govern, governor, government). Over the centuries, these two metaphors, the helmsman and the shepherd—concerned respectively with order and fairness—provided the basis for competing visions of governance. The neoclassical vision of limited government is rooted in the helmsman tradition, which interprets governance as a technocratic responsibility to be exercised by professionals. On the other hand, the ascription of social responsibilities to the state—to tend to the poor, the environment, the children, and others that require detailed targeting—can be argued to be derived from the pastoral tradition of governance. In the 20th century, the northern countries claim to be based on the tradition of limited government, but have far-reaching technologies of surveillance that create both the capacity and the will to undertake historically unprecedented levels of pastoralism; on the other hand, the self-perception of most if not all southern governments appears to have evolved out a pastoral orientation, they lack the institutional and technological capacity to exercise this function effectively. In other words, northern governments are far more pastoral than they claim, and southern governments far less pastoral than they wish.

Be that as it may, in the neoclassical vision, the realm of finance is located firmly in the technocratic tradition of helmsmanship. It is argued to be above politics, concerned only about order and not about fairness. As George Bernard Shaw once said, "You can be as romantic as you want about love, but when it comes to money, you better not be romantic". Indeed, governments have acted foolishly far more often than wisely when they sought to control finance. Yet, the political economy of finance does not begin and end in fiscal imprudence or populist spending policies. It is precisely the goal of financial architecture to ensure that fiscal prudence does not conflict with the larger equity and social goals of the country—notwithstanding the tendency of governments to act foolishly or even criminally.

The world as a third world country

The second point we wish to make here is that in envisioning the global financial system, we should look not only at the structure but also the practice. Indeed, as Michel Foucault has argued, governance the pattern of reveals itself not through the structure, often idealized and divorced from reality, but in the practices of the state. In this regard, it may be useful to remember that the world is a third world country, messy, unpredictable, and with considerable dissonance between theory and practice. One should therefore avoid the danger of designing a system as if it were it were ISO 9000 certified.

Imagine the world as a single country. It is immediately notable that it is not one of the well-ordered countries of the first or even the third world, such as Sweden or Singapore. It resemble most what would be referred to derisively as a basket case: unequal, unjust, conflict prone, corrupt, badly governed, and characterized by resource degradation as well as social exclusion.

It has become commonplace to refer to the world as if it were a single country unified by the multifaceted processes of globalization—economic, financial, cultural, and communicative (Micklethwait and Thorpe 1999; Held et al 2000; Friedman 2000). What has been less remarked upon is that this country carries all the mythical characteristics ascribed to developing countries in academic as well as popular literature. Not surprisingly, therefore, there is a strong overlap between the themes evoked in the literatures on globalization and development (Banuri 2001). Both literatures are partial to what Bahabha calls performative concerns, to the almost complete neglect of normative concerns. They invoke the promise of sustained economic growth and structural change to legitimize envisaged futures and systems of governance. Both hint at the inevitability of the process as well as the need for creating an enabling environment to sustain and expand its reach. Both have their share of critics who point to the normative concerns, as reflected in the associated social and ecological disruption, and the need at least to de-couple the adverse entailments from the change agenda.

Like many developing country, the world is also a multi-national country in which different nationalities and grouping co-exist uneasily, vying for power and hegemony and lacking an overarching political structure that orders and guides the exercise of political power. More significantly, it houses widely divergent economic, cultural, and political systems within itself. The system of governance is perhaps closer to the current model in Afghanistan, in which while there is a semblance of central authority, its writ and legitimacy derive mainly from the agreements it can forge with independent warlords.

It is the most unequal country in the world and the only one that is becoming more and more unequal over time. The UN Secretary General's Millennium Report shows that in 2000, the richest global quintile received over 80 times the income received by the poorest quintile—far in excess of the corresponding ratio in any country of the world—a massive increase over the 30-fold level in 1950, and even the 60-fold level in 1989. In the average country, in contrast, the level of inequality has remained more or less constant over decades of economic growth and structural transformation. In other words, the world lacks the shared sense of a political or moral community that has historically placed restraints upon the process of economic concentration.

It is an apartheid country. As in apartheid-era South Africa, the "natives" are confined to reservations, and allowed into elite areas for special tasks and with special permits that they are enjoined to carry at all times—although these do not protect them from arbitrary harassment by an arrogant and insular bureaucracy. The philosopher Zygmunt Baumann describes this trend in terms of the emergence of two social groups at the global level, the tourists and the vagabonds, the former being culturally heterogeneous, geographically mobile, and economically prosperous, and the latter culturally threatened, economically deprived, and involuntarily mobile. The same trends that have made it easier for the first group to acquire a global identity and treat the entire world as their home have made it difficult for the second group to protect their identity and to exercise an choice at all regarding geographical mobility. Even when they stay put, they can have the earth pulled out literally from beneath their feet—because of dams, roads, deforestation, civil war, and myriad other sources of human-made insecurity.

It manifests what Robert Kaplan has termed the coming anarchy. Like Kenya or Cote d'Ivoire or many others, the writ of the government extends only to well-lit metropolitan areas (mainly but not exclusively in the North), while governance over large tracts of the hinterlands is relegated to marauding warlords, often protected by the combined coercive power of metropolitan governments and protecting in return the access of metropolitan business interests to natural resources in the hinterland. This pattern of governance is redolent of the corruption and degradation illustrated for example in the literary tracts of the Gilded Age in the United States (c. 1875-1914). Participation in governance is viewed by local elites simply as a license to siphon public resources for private ends.

It is a country in which the common natural resources are being depleted and degraded rapidly, while policy makers seek to escape responsibility by making empty announcements. At the level of the global elite, there is little commitment to the broader issues of public interest: resource conservation, equity and justice, civic

Finally, analogous to the phenomenon described in the development literature as economic and social dualism, the world economy and society is also characterized by dualism. Conventional treatment of development has tended to focus on the distinction between the North and the South. However, a more significant difference separates the metropolitan components of the economic and social structure in the South from the vast rural and sub-metropolitan hinterland in Asia, Africa, Latin America, and East Europe.

For ease of exposition, instead of the South, we refer to this region as Rural–although we recognize that this is a somewhat idiosyncratic use of the term, given that it covers many areas that would be considered as towns or cities.

The problematique of globalization—i.e. global development—is therefore analogous to the problematique of national development programs in the previous half-century. It is on to structure the institutional environment in such a way that on the one hand economic prosperity is sustained and protected and on the other hand it is ensured that the benefits of prosperity are shared equitably and do not endanger the basis of life and livelihoods.

The Livelihoods question

This background is used to make the point simply that I wish to concern myself with the question of global finance only to the extent that it affects the prospects of (sustainable) development; within development, with the conditions in sub-metropolitan areas; and within these areas with practices rather than structures.

With this background, we can turn to the question of the nature of financial arrangements that can service poor communities and regions. Rural sustainable development requires “public” investment (i.e., the building of capacity, social capital, and human resources) as well as commercially viable “private” investment. By public investment, we mean here the creation of local and global public goods that are necessary for supporting the process of economic growth; while private investment refers to that which is sustainable financially (even if it is undertaken by the state). However, except where there are natural resources to be extracted, the attraction of these areas for either type of investment is very limited. Even in natural resource-rich areas, the conditions for “public” investment are not favorable.

This is in part a dynamic problem—given that the income levels are low, there is little demand, and therefore little investment. In part, it is a problem of the practice of investment. Prahalad and Stuart have argued recently (2000) that the large scale production and investment activity caters mainly to the top 5 per cent of the income pyramid; yet, there are significant counter-examples to suggest that it is within the reach of the corporate structure to provide for the bottom of the pyramid. After a century of unprecedented technological growth, the vast majority of the communities living in rural areas have only a bicycle, a transistor radio, and in some areas the green revolution technology to show for this effort.

Second, it is a public goods problem: the investment in institutions and regimes that support investment and growth is distributed unequally across the “rural”-“urban” divide. These institutions and regimes are being created not only by governments and inter-governmental bodies but also and increasingly so by independent groups (especially NGOs). They include norms of standards of conduct, development of collective action, formalization of social practice, and others.

Finally, it is also a problem inherent in the financial structure, which inevitably discriminates between the two regions because of differences in assets prices. The cost structure of credit is such that it is almost impossible for it to reach rural communities. The classic counter-example, Grameen Bank, has to its credit mainly the lowering of costs to such an extent that a bank can offer loans of Tk 1,000 (about $1) and still remain profitable—albeit with the occasional subsidy to overcome force majeur. Similarly, given this cost structure, rural savings will necessarily gravitate towards metropolitan areas. More importantly, while rural communities do not benefit greatly from the financial structure that is in place today, they are affected adversely by the instability of global finance.

In other words, we can parse the problem into the four components. Those deriving from the behavior of business enterprises; those pertaining to the behavior of "public" institutions (including governments as well as NGOs and even business agencies); those pertaining to the behavior of assets markets institutions, including banks and financial institutions; and those pertaining to the behavior of policy makers (i.e. regarding the operation of fiscal and monetary policies).

At the level of the large corporation, which undertakes the bulk of the global investment, the rural areas are by and large invisible—except as the supplier of natural resources, a role that is increasingly being viewed as secondary to the development process. However, as mentioned a number of enterprises have introduced what Prahalad and Stuart call operational innovation (as opposed to process innovation) in order to produce for this market. The expansion of such practices requires training, technological development, and creation of local demand. A good example in this regard, and one that may hold the key to the future is the potential of information technology. To date, its reach has remained confined to the "urban" sector, and the vast rural hinterland has remained beyond its reach. However, the main reason is that it is viewed as an area for public investment rather than commercially viable private investment.

At the level of public institutions, one needs to ask how finance can be channeled to the goal of capacity building in "rural" areas. While there are myriad institutions of disclosure, rating, training, social learning and others that support the needs of the private sector for entrepreneurship and finance, there are hardly any for the public sector. In this regard, thinkers and advocates have placed their trust solely in the respective governments. However, governance is distributed very unevenly across the global and in particular across the rural-urban divide that is our central concern. The result is that the capacity (and therefore the "demand") for financing public investment is low. This is not a traditional public finance issue. We need to examine it in the light of recent experience in which the leadership in the creation of public goods has come to rest increasingly in the independent sector. Unfortunately, the leadership of this sector has focused its attention largely to the substantive goals of poverty eradication and community development, and has acquired neither the expertise nor the interest in creating a favorable investment climate for its own work. The present exercise can be helpful in opening this area for discussion and creative solutions. We may think of analogies to the process of financial disclosure for public agencies, the creation of an analog of the stock market for such investment, and training programs for philanthropic institutions, financial institutions, government personnel, and social entrepreneurs.

Finally, the existing financial arrangements are linked to the development agenda primarily through international financial institutions, structured on the pattern of transnational corporations, with the cost structure and salary levels consistent with the assets prices in urban areas. An average officer of the World Bank costs say $1,000 per day, which in the rural area is a fortune. Transnational banks have a similar cost structure. Even national banks in many countries have cost and salary structures that are far above the assets prices in rural areas. The result is that investment activities in the rural areas have generally not benefited from formal financial institutions. This phenomenon is well known. Notwithstanding myriad government- or NGO-led programs of microcredit, very few have actually been able to reach the poor. As mentioned, Grameen Bank has been successful mainly by developing a social and management system that keep low service costs. This is analogous to Prahalad and Stuart's observation on operational innovation in the corporate sector; indeed, they cite Grameen as one of their successful examples.

Low service costs have two mechanisms: low salaries (without low motivation), or more efficient service delivery. The livelihoods programs have considerable examples of both mechanisms at work.

Another well-known consequence is that the introduction of development in rural areas (mainly dams and highways) skews the assets prices structures completely and often introduces real estate speculation as a way of life. Much of the opposition to such projects stems from an awareness of the impact of this type.

The rural region is also affected adversely by the unpredictability create by economic policies and the resources that these policies and the attendant institutions drain away. First, the impact of inflation on rural areas has been considerably underestimated. The absence of effective financial institutions means that much of the liquid assets are in the form of cash balances, which depreciate rapidly in most developing countries. Second, the extent to which financial institutions do operate in this area, they transfer the savings to more remunerative uses in the urban region.

What is to be done?

The problems mentioned are fairly straightforward and quite well known and well understood. They derive from the practices of the institutions and agencies mentioned rather than the structure per se. However, a number of possibilities do suggest themselves in terms of institutional structuring that could affect institutional practice.

First, we need again to conceive of a decentralized financial structure, both internationally and intra-nationally. The United States has had a highly successful experience with a decentralized structure in which inter-state banking was disallowed, and as a result local savings and loan associations (and consequently house building) flourished. Developing countries generally have a highly integrated financial structure, which is becoming even more centralized with the recent technological and commercial innovations. This would retain savings in the rural area, and make targeting of credit more effective. It would also enable the lowering of service costs by creating a barrier against high-cost institutions.

Second, we need to think creatively about investment in public resources. Both the supply and demand for the resources for such investment has moved out of the treasury, but the institutional basis needed to streamline and expand it are missing. Information technology provides a new opportunity to develop the requisite social capital.

Third, the issue of inflation requires a concerted response from academics and policy makers. The Keynesian response to aggregate demand was equivocal on the matter of inflation, in part because of Keynes's focus on the industrial society (remember his admonition that we should not ask labor to play the role of the central bank). However, the primary division today is not between labor and capital but between the two regions. Here, inflation has the capacity to drain resources from the hinterland.

Fourth, there is a need for a training program to build social and economic capacity to respond to the economic and social needs of the rural region.

However, it would be a mistake to assume that existing multilateral financial institutions can champion such an agenda. It is, by and large, inconsistent with their institutional imperatives, ways of thinking, and cost structures. An alternative is to pull together a group of sustainable livelihoods practitioners to constitute a consultative group–on the model of the Consultative Group on Integrated Agricultural Research—and lead the process of development of the institutional basis as well as economic structure that can sustain it.