THE MISSING LINK:
CREATING MUTUAL DEPENDENCIES
BETWEEN THE POOR AND THE STATE

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ABSTRACT: The absolute number of people living in poverty has increased since Robert McNamara established assistance to the poorest of the poor as the central development objective of the World Bank in 1973. If that trend is to be reversed, a new demand-driven/supply-responsive approach to poverty reduction is required. That new approach must include: (i) an expanded view of poverty that includes both objective and subjective elements, (ii) recognition that the poor have diverse interests among themselves, (iii) governments that are responsive to poor consumers’ demand, (iv) effective intermediation between formal and nonformal governance systems, and (v) restructuring of formal-sector government incentives to support the other required elements of the new approach. Implications for governments and donors are specified.

The year 2003 marked the thirtieth anniversary of Robert McNamara’s establishment of assistance to the poorest of the poor as the central development objective of the World Bank. Since then, the absolute reduction of poverty has been at (or near) the top of the global development agenda. Despite that commitment, the absolute number of people in the Middle East, North Africa, Latin America, the Caribbean, Eastern Europe, Russia, Central Asia, South Asia, and Sub-Saharan Africa living on $2 per day or less (i.e., poverty) and $1 per day or less (i.e., extreme poverty) has increased substantially (World Bank 2001b).

If that trend is to be reversed, a new approach to thinking about both poverty and governance is required. That new approach must include:

i. an expanded view of poverty that includes both objective and subjective elements,
ii. recognition that the poor have diverse interests among themselves,
iii. governments that are responsive to poor consumers’ demand,
iv. effective intermediation between formal and nonformal governance systems, and
v. restructuring of formal-sector government incentives to support the other required elements of the new approach.

This article is limited to summary discussions of those common elements and, within that context, outlines the role of public-sector management within countries receiving official development assistance (RODAs) in achieving effective poverty reduction. A fuller presentation requires substantially more space than is available here.

The primary focus is on changes required within states. The important role of formal governments and the private commercial sector as intermediaries between domestic and broader international economic and political systems is not discussed. Within those domestic boundaries, the emphasis throughout is on public policies required to facilitate effective demand articulation and influence by the poor, as well as the role of public-sector managers in designing and implementing responsive poverty alleviation programs in the context of such policies. Following a clarification of terminology, including an expanded view of poverty, the article introduces a demand-driven/supply-responsive approach to poverty reduction, explores how incentives inform and operationalize this approach, and briefly considers how the World Bank’s Poverty Reduction Strategy Papers (PRSPs) compare to the proposed approach. Implications for governments and donors are specified.

ARE GOVERNMENTS ENOUGH? INSTITUTIONAL LANDSCAPE OF POVERTY AND POVERTY REDUCTION

More than 2,000 years ago, Confucius pointed out the importance of precisely defining terms when formulating public policy:

If the names are not correct, if they do not match realities, language has no object. If language is without an object, action becomes impossible—and therefore, all human affairs disintegrate and their management becomes pointless and impossible. Hence, the very first task of a true statesman is to rectify the names (Confucius, The Analects).

In that spirit, this section clarifies differences among key terms too often used synonymously, and presents an expanded view of poverty.

Rectifying Names

Differences among three word pairs require clarification to facilitate a full understanding of the argument presented here:

i. states and nations,
ii. informal and nonformal, and
iii. government and governance.
States/Nations

States are characterized by their legal, externally defined, organizational status while nations are defined primarily in terms of internally shared and institutionalized norms and values. Simply stated, states are defined by geographical boundaries within which a government is understood to exercise ultimate legal authority. Nations are defined sociologically. There is a deep sense of primary identity and loyalty attached to the idea of nation—a shared sense of historical identity based on common myths which express shared norms and values. Many of today’s sovereign-states do not correspond to nation-states. Rather, they were arbitrary creations of colonial powers that grouped several, often hostile, nations within the same country and/or established boundaries that split such nations (Silverman 1974; Dia 1993; Huntington 1997). The boundaries of many RODAs do not encompass people with common political identities and, hence, their citizens do not, in aggregate, constitute a nation.

The fact that countries are not sufficiently homogenous with regard to norms and values complicates the ability to make decisions that a critical mass of the population consider legitimate. That has motivated modernizing elites to try and forge new secular national identities that correspond to the populations living within their sovereign-state borders. Such efforts have not avoided civil wars and ethnic conflicts in many RODAs. With respect to poverty reduction, there are at least three further reasons that the current structure of the international political system is important: (i) official development assistance is almost always channeled through sovereign-state governments, (ii) sovereign-state government programs directed toward the reduction of global poverty have not effectively reached the poor, and (iii) the poor too often have a negative view of interactions with the formal governments of the states within which they find themselves (Narayan 2000). Those findings strongly suggest that alternatives to almost exclusive reliance on formal sovereign-state governments as intermediaries must be identified and employed as an element in poverty reduction efforts.

Informal/Nonformal Systems

The failure of many RODA governments to achieve economic growth with equity has not gone unnoticed by multilateral and bilateral development assistance agencies. The understanding of the causes of poor performance—and, therefore, the most effective means to improve it—has evolved over time. Responses have been largely limited to improving performance within the formal public and quasi-public sectors (including nongovernmental and civil society organizations [NGOs/CSOs]).

Attention to understanding the relationships between formal, informal (Hart 1973; Stren 1992), and nonformal sectors (Silverman 1997) has been slowly increasing. The formal sector includes all activities officially recognized by legally sovereign governments. Put another way, the formal sector is that part of society that is counted, measured, and regulated by governments (de Soto 1989; Scott 1998). The informal sector includes all those activities that do not conform to legally required registration and/or regulatory requirements, whether economic or otherwise. This definition implies the existence of a nonformal sector consisting of activities that are not subject to registration, regulation, or payment of fees and
taxes. Distinguishing between nonformal and informal is important because the former encompasses those enterprises that are unregulated in the first place, while the latter is limited to those enterprises that are not registered when they are required to be and/or, if registered, do not adhere to formal-sector legal requirements. The fact that many poor people live, work, and are governed largely—if not exclusively—within informal and nonformal systems requires a broader view of the governance function.

**Government/Governance**

Government is usefully understood as a formal legal organization; i.e., government denotes an organizational structure. Governance is the processes by which authority, whether codified in law or simply recognized de facto in society, is exercised in the management of a country's resources. In other words, governance is a social function. The performance of the governance function is clearly necessary in any ordered society. The idea that the purpose of government is to efficiently and effectively perform the governance function on behalf of a country's citizens is no longer controversial. Nevertheless, the assumption that formal governments are the exclusive instruments for the performance of the governance function is mistaken.

Before the later phases of European colonialism introduced Western notions of codified legal systems, people within most territories currently divided among sovereign-states lived and worked in a legally unregulated fashion. That does not mean that they were not governed; rather, the legal authority of the state and its attempt to make society legible through the uniform application of codified written and recorded regulations had not yet been introduced. Scott (1998) argues that modern states are inherently driven to make a society legible in order to effectively collect taxes, mobilize citizens for collective defense, and prevent rebellion—all legitimate functions of sovereign nation-states.

However, legibility pursued by public-sector experts who ignore deep-rooted values embedded within informal and nonformal political and economic systems account for much of the failure to achieve economic growth with equity within many RODAs. Informal and nonformal systems are characterized not only by economic functions; they have political and other social dimensions as well. Thus, in much the same way that nonformal economic systems often operate in parallel with formal economic systems, there is a parallel governance operating alongside formal government. Indeed, the World Bank's recent *Voices of the Poor* study identified several informal and nonformal institutional arrangements for the provision of credit, voluntary security teams in large housing areas, and financing of flood relief, orphanages, medical services, secondary schools, water and power grids, and so forth (Narayan 2000). Clearly, if that were not the case, poor people would not have been able to sustain themselves at all within countries characterized by repressive and dysfunctional formal governments (Ostrom, Schroeder, and Wynne 1993). Effectively recasting poverty alleviation programs will require reaching out to a wider range of institutions than those with which formal sovereign-state governments and international development assistance agencies normally interact.
A Multidimensional View of Poverty

The degree of cultural homogeneity is not the only—and in many cases even the primary—factor determining political cohesion within states. The transformation of norms and values into actual behaviors is affected by other parochial interests and must be understood in both relative and dynamic terms. For operational purposes, notions of broad national culture must be disaggregated by issue, interest group, and perception of circumstance. Such diversity within states requires a closer look at how poverty is defined and recognition that the poor do not constitute a homogeneous group.

Even after thirty years, criteria for defining the poor have not been internationally agreed upon, nor does agreement exist about causes, instruments for comparing data, or how to reduce poverty across countries. An explanation of the substantial complexities and subtle nuances of the debate about the appropriate definition of poverty is addressed elsewhere (Boltvinik 1999; World Bank 2001a, 2001b). Suffice it to say that the opposite ends of that debate are marked by objective versus subjective views of poverty. The objective school posits an irreducible core of deprivations that provide a universal definition of poverty applicable to all societies (Sen 1984). The United Nations’ basic needs approach is objective, focusing on income, health, and education indicators, as are its current Millennium Development Goals (MDGs), endorsed by all multilateral and bilateral development assistance agencies. The subjective view argues that any definition of poverty must be inductively related to the cultural and moral values of specific societies at specific points in time (Scott 1976; Townsend 1985; World Bank 1996, 2001b). From this alternative perspective, the poor are essentially those persons and groups of people who think they are poor or are classified as poor by the society within which they live.

Even a partial acceptance of the subjective view leads logically to the recognition that the poor are not a single homogeneous group. Variations among the poor are as infinite as the psychological and sociological circumstances among poor individuals. The fact that perceived interests vary among the poor who live in urban and rural areas and according to gender and age cohorts is well known (Brock 1999; Narayan et al. 2000). However, conflicts among perceived interests also exist among each and every one of these categories. As only one example, Fleming (2003) demonstrates that women in locations as disparate as Brazil and Tonga are divided by socioeconomic status, interests, and, in Brazil, race. Nevertheless, it is useful—even if only for strictly analytical purposes—to distinguish among the entrepreneurial, permanently destitute, and unmotivated poor for the following discussion of a demand-driven/supply-responsive approach.

MORE EFFECTIVE POVERTY REDUCTION: A DEMAND-DRIVEN/ SUPPLY-RESPONSIVE APPROACH

During the 1960s/70s, the cause of many formal sovereign-state governments’ failure to achieve economic growth with equity was attributed to the absence of required skills among government personnel and, therefore, the response was to provide skills training. By the 1980s, the problem had been redefined as the inappropriate scope of public-sector responsibilities in the economy and, therefore, the response was to reduce the economic role
of governments in favor of private-sector initiatives. Since the mid-1990s, the problem is increasingly attributed to poor governance and the response has been to support civil service reform, anti-corruption efforts, participatory governance programs, and attempts to enhance a country’s social capital. All of these efforts have been paralleled by project implementation arrangements that often bypassed established government agencies through discrete project entities (Honadle, Gow, and Silverman 1983). None of these responses focused on the importance of consumer demand as the engine for poverty reduction.

Demand

Why should demand be viewed as the driver for public policy and investment decisions directed at reducing poverty? In addition to the subjective elements of poverty discussed above, there are at least two practical reasons. First, the poor are not powerless. The true test of effectiveness is the actual outcome of policy and investment decisions on the ground. By their ability to exit from participation in behaviors required by such decisions (Hirschman 1970), the poor can—and often do—defeat the achievement of outcomes specified by the non-poor. Second, the continued survival of large segments of the poor is evidence that they are not completely without resources, even though such resources are not often legible to “experts” in the formal sector. The mobilization of resources is important because neither formal-sector RODA governments nor their international development assistance agency supporters have sufficient resources alone to achieve economic growth with equity within the foreseeable future.

With that rationale in mind, a comprehensive understanding of demand requires consideration of:

i. appropriate sources of demand,
ii. the need for effective negotiation among end-users and between them and suppliers that takes into account contributions by the poor,
iii. participation by end-users, and
iv. legitimate governance.

The first of those elements is discussed here; discussion of the other aspects is deferred to the third section.

One current view posits that the only appropriate sources of demand are individual persons or households identified as potential consumers of specific goods and services (Garn 1997). In the context of poverty reduction programs, that means that only poor households or individuals can express relevant demand. All other segments of society, whether ostensibly representing the interests of the poor or not, are on the supply side of the demand/supply equation because they provide some form of either goods or services. For example, NGOs that effectively perform legitimate intermediation functions on behalf of the poor are providing a supply-side service (World Bank 1996). Such representation of the interests of the poor is not itself an expression of demand.
Although the argument presented here adheres to that approach in most respects, the impact of substantial poverty on economic conditions and civic life within RODAs requires a broader view. Primary education and preventive health services, as well as environment and intercommunal communications, transport, and energy infrastructure are public goods in most RODAs. As only one example, microeconomists in the water and sanitation sector distinguish between the public character of main, secondary, and tertiary channels and the private infrastructure that connects those channels directly to specific households. Governments, formal-sector NGOs/CSOs, and nonformal governance mechanisms at the most appropriate decentralized level of society are legitimate sources of demand for the public elements of such systems, while individuals and households are the only appropriate source of demand for the private elements of those same systems.

An important complication, however, is that investment in the main public infrastructure components of large systems makes no sense if individuals and households are not committed to availing themselves of the private component. Given the power of the poor to affect outcomes, decisions about the design of specific programs to achieve those objectives and the allocation of resources should remain largely with those whose behaviors most directly affect those outcomes. That, in turn, requires reversal of the current sequence of decision making; i.e., demand at the individual and household level must precede decisions to invest in the larger collective system rather than vice versa. The practical application of these principles to the provision of most public goods and services is that households, and sometimes groups at rural community and urban neighborhood levels, should be the primary source of demand.

Supply

A fundamental corollary of demand as the primary determinant of poverty reduction strategies is the transformation of supply-driven to supply-responsive behaviors, especially by public-sector managers and technicians. One way to look at this is that all development policy or investment decisions represent a form of rationing. The question then is: who makes those rationing decisions? The supply-driven approach answers that question by assigning responsibility for rationing to formal-sector political leaders and/or public-sector professionals. Poor consumers of goods and services are viewed as passive beneficiaries who need only be informed—often without notice—that some government agency has decided they need to install, upgrade, or rehabilitate some facility or receive some service to ensure their well being. Little, if any, information is provided about the operation or maintenance of newly installed facilities or use of services provided. Although perhaps somewhat overdrawn, something very much like that often happens in the design and implementation of many supply-side, needs-based, development projects.

By contrast, the fundamental characteristic of a supply-responsive approach is the provision of specialist support and co-financing for the achievement of priority objectives of the poor as identified through effective demand assessments. Supply-side entities can perform a valuable role in identifying or assessing the technical feasibility and economic viability of options, as well as supporting the design and management of complex systems that might be required to achieve outcomes desired by the poor.
Cross-sectoral Demand/Sector-specific Response

The oscillation by decision makers and planners within international development assistance agencies between support for sector-specific and multisectoral approaches well illustrates the widespread confusion about demand and supply-side functions. Until the early 1970s, the emphasis was on project investments in specific sectors. However, from the early 1970s through the mid-1980s, integrated multisectoral projects moved to center stage. The virtues of a multisectoral approach included the fact that people actually live, and economies actually function, multisectorally. However, the mid-1980s through early 1990s marked a split between the cross-sectoral perspective of policy reform through structural adjustment mechanisms on the one hand, and a return to the sector-specific approach at the program and project investment level on the other. With respect to investment in public goods and services, the multisectoral approach was largely abandoned because it was organizationally complex, did not conform with the actual way RODA governments were organized, resulted in temporary bypass planning and management systems, and tended toward the lowest common technical, financial, and organizational project design requirements.

By the late 1990s, continuing dissatisfaction with the performance of RODA governments by international development assistance agencies and increasing reliance on a cross-sectoral approach to policy reform (e.g., public and private corporate governance, financial-sector reform, improved revenue collection, and budgetary discipline) led back to a multisectoral approach to investment financing as well (e.g., urban and rural development projects and social funds). The current confusion about the appropriate relationship between the need for both demand-driven priority setting across sectors at the strategic level combined with sector-specific responses to investment at the local level is well illustrated by social funds established as primary instruments for poverty reduction. Such funds combine demand articulation and supply responses in unified project structures while often bypassing the best technically qualified supply-side capacities. Further, the primary objective of many social funds is the completion of works and related temporary employment generation rather than sustainability of the infrastructure services provided. Finally, the employment of NGOs by social funds to assist in both demand articulation and supply of specialized technical assistance for implementation has led to conflicts of interests between those two functions.

An effective approach to poverty reduction requires melding cross-sectoral prioritization of demand by the poor at the strategic level with supply-side entities’ specialized knowledge and technical capacity to respond. Such an approach would:

i. be responsive to the multisectoral nature of people’s actual lives, while taking into account different technical requirements among different sectors;

ii. be responsive to variations among the poor themselves with respect to prioritized demands; and

iii. assure feasibility, viability, and the legitimacy of decisions made by supply-side organizations.
An effective demand-driven/supply-responsive approach would provide mechanisms for the poor and marginalized to directly influence rationing decisions across sectors while also ensuring appropriate input by supply-side professionals.

Differences in scope between assessing demand and formulating appropriate supply responses require that both governments and NGOs are held accountable to demand-side clients for their decisions and the effective implementation of those decisions. The poor cannot eat plans; they need effective actions that implement those plans. This, in turn, requires institutionalized mechanisms for monitoring the effective implementation of responses by supply-side entities. The World Bank’s global *Voices of the Poor* study found that nonformal institutions created and managed by the poor themselves scored high on participation and trust while formal-sector government institutions and, perhaps surprisingly, NGOs scored substantially lower (Narayan 2000).

**INCENTIVES:**
**MUTUAL DEPENDENCIES AND LEVERAGING**

Any hope for effective poverty reduction requires realistic answers to the following three questions:

i. What incentives do public-sector managers in RODAs have to actually desire substantial poverty reduction within their countries?

ii. Why would public-sector managers want to pursue an approach that requires them to facilitate enhanced articulation of demands and an expansion of political influence by the poor? and

iii. why should poor people want to collaborate with what many of them view as largely irrelevant, dysfunctional and/or repressive governments?

The answer to all three of those questions is that, under current circumstances, there are precious few incentives—other than those rooted in personal idealism—to support effective action to reduce poverty.

Changing this situation requires realistic consideration of the conditions currently present within most RODAs, including political instability, nonsustainable levels of violence, and increasingly scarce financial resources (including nonsustainable levels of debt and donor fatigue). To some degree, all three of those conditions are rooted in the disconnect between formal and nonformal governance systems. No claim is made here that poverty causes political instability, violence, or resource scarcity. Rather, these three factors are important because they provide common ground among formal-sector political elites and the poor; i.e., they hinder achievement of both the pursuit of elite interests by the former and the reduction of poverty for the latter. Building on that common interest is fundamental to establishing an incentive framework based on mutual dependency.

Mutual dependency means that no single party can achieve what it most wants without collaboration with other parties who are also pursuing their own interests. Mutual dependencies based on scarce resources require:
i. mutual leveraging of limited, but different, resources available in the formal, informal, and nonformal sectors;
ii. legitimate governance; and
iii. intermediation that effectively links those sectors.

**Mutual Leveraging**

In environments characterized by severely limited resources, prioritization of poverty reduction activities is a fundamental requirement. Effective prioritization requires:

i. negotiation among key actors,
ii. mutually contingent resource contributions, and
iii. participatory processes that include the poor.

**Negotiation**

A demand-driven approach is not synonymous with a demand-determining approach. Mutually dependent incentive frameworks require negotiated agreements that resolve disagreements among those with competing viewpoints and interests. Negotiations should not be limited to disagreements between the poor and non-poor; they must include disagreements among the poor themselves. The idea that conflict is not only unavoidable, but can actually be a good thing, is anathema to many international development professionals. Although there are clearly many instances of not only bad, but also intolerable, conflict, disagreements can be productive, rather than counterproductive, to efficiency and effectiveness. Saul Alinsky (1971), a leading American labor organizer during the 1950s/60s, correctly pointed out that “change means movement. Movement means friction. Only in the frictionless vacuum of a nonexistent abstract world can . . . change occur without that abrasive friction of conflict” (21). If conflict is an inherent aspect of any social process, it is useless to assign negative attributes to it. So it is important to address conflict in terms of how to manage it, not in terms of avoiding it (see table 1).

**TABLE 1**

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<tr>
<th>Avoiding</th>
<th>Managing</th>
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<tr>
<td>Assumes broad agreement among the poor</td>
<td>Assumes conflict/disagreements inherent among all societal groups</td>
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<tr>
<td>Assumes problems due to opposition of “bad guys”</td>
<td>Assumes problems due to lack of effective management of conflict resolution process</td>
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<td>Solutions found in objective scientific and technical knowledge</td>
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<tr>
<td>• crafting alternative poverty programs for different clients</td>
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<td>• adapting programs to subjective interests of the poor</td>
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<td>• reliance on preexisting decision processes which legitimately mediate different interests</td>
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Effective conflict management in situations of mutual leveraging must allow for the possibility that agreements will sometimes not be reached because the compromises required by one party or another are unacceptable to one or more of the other parties. Effectively defeating a proposal because negotiated agreements cannot be reached is more acceptable than the commitment of significant resources to policies that will be ignored or investments that will not be used because either the poor or governments choose not to participate. Governments can legitimately choose to exit by withdrawing their support for demands made by the poor, if they do not actually prohibit the poor from attempting to achieve desired demands themselves or through partnerships with other stakeholders. A participatory process based on mutual leveraging allows those options.

Unfortunately, the field for negotiations is seldom level. The poor are almost always disadvantaged by the structure of authority in both formal and nonformal systems. This should not be surprising. Systems of governance, whether formal or nonformal, reflect actual distributions of power. Successful achievement of mutual dependencies contributes to enhancing the power of the poor by transforming them from beneficiaries to co-financiers. Decision makers invariably treat active co-financiers differently than passive beneficiaries.

**Contributions**

Real demand is not the same as the mere expression of nonprioritized preferences by passive beneficiaries for services to be provided by others. Rather, effective expression of prioritized demand requires some commitment of resources by the poor themselves. Determining the willingness to pay for specific services is what moves demand beyond mere preferences. However, it is important to define resources very broadly; they are not limited to financing alone. Rather, relevant resources include the economic value of skilled and unskilled management and labor, materials, and the opportunity cost of alternative activities foregone.

The principle that the poor should contribute resources is difficult to accept by many analysts and decision makers with a sincere commitment to helping them. They argue that the reliance of governments on recovery of costs through user fees is inequitable because the poor cannot afford to pay for important services. Some also argue that recovering costs through user fees often results in passing the costs of government inefficiencies—including the costs of corruption—to the poor (Silverman 1992). Resolving the apparent contradiction between these positions requires further differentiation between poverty alleviation and actual reduction on the one hand and welfare and development on the other—distinctions seldom made among development professionals on the ground.

Although a detailed discussion of these issues is beyond the scope of this article, it is important to note here that welfare is a recurring cost to society in its effort to alleviate the suffering of those unable to help themselves (e.g., the permanently destitute) by meeting their basic needs. Welfare programs cannot realistically be based on cost recovery of services provided. On the other hand, development efforts should be understood as an investment in society’s attempt to achieve economic growth, distributional equity, and the absolute reduction of poverty. As argued earlier, most of the poor are not completely
without resources or the capacity to take advantage of desired opportunities for growth (e.g., the entrepreneurial poor).

These analytical distinctions are important even when the real, more complex world presents situations with both welfare and development characteristics because both the entrepreneurial poor and the permanently destitute alike will have access to the services demanded by a rural community or urban neighborhood, e.g., improved water, sanitation, or primary education. In such cases, the willingness of a critical mass of the entrepreneurial poor and non-poor to subsidize the service to the permanently destitute is required. The provision of such community-level subsidies can be understood as a welfare benefit provided through parallel nonformal governance institutions.

Ensuring that the entrepreneurial poor will contribute their limited discretionary resources to poverty reduction efforts requires that they have choices not only with respect to alternatives across sectors, but also the technologies, organizational arrangements, and pricing of services selected. Technologies considered the best choice by non-poor technical specialists are too often priced beyond the carrying capacity of the poor. Therefore, an alternative, less satisfactory option is often the optimal choice. Nevertheless, there is increasing evidence that the poor often choose higher-cost options requiring higher contributions than other feasible options offered (see, for example, Lahiri and Chanthaphone 2002). But offering choices about the technical, organizational, and financial requirements of alternative systems is not enough. Choice must be informed, and informed choice requires accurate information about trade-offs. Thus, valid assessments of consumer demand require provision of technically valid information about feasible technologies.

Restructuring incentives so that they support the effective performance of appropriate supply-side roles requires that the budgets of government agencies responsible for poverty reduction efforts be largely dependent on the provision of investment-specific resources by the poor consumers who are intended to benefit from them (Silverman 1992). Budgetary shortfalls resulting from the failure to generate resources from the poor should place the future employment and promotion of responsible managers and staff of government entities at risk. Central governments should not bail out local governments that fail to meet that test; nor should international development assistance agencies bail out central governments that also fail that test.

Participation

Negotiations that result in acceptable compromises among those with competing viewpoints and interests require effective participatory processes based on generally accepted rules of the game. Nevertheless, although there is increasing support for that principle among international development professionals, little agreement exists about what that means in practice. Effective participation requires that the poor, including the unorganized poor, actually influence the substance of decisions and implementation arrangements. It is not enough to merely share information among parties without commitment to subsequent action. Nor is it enough to merely consult the poor in order to mobilize formal support for proposals already prepared by supply-side entities. Effective demand also requires that persons directly affected by policy and investment decisions take direct responsibility for the operational consequences of their choices; i.e., they must
participate in at least some aspects of implementation actions and be able to hold supply-side organizations accountable for their actual behaviors.

The trust required for effective participation requires some tolerance for discussions that wander all over the place while ensuring a reasonably rapid transition to the effective exchange of necessary information (Lahiri 1999). Establishing the appropriate balance between flexibility and discipline requires more than common sense. Rather, it involves technical skills based on well-established but not generally understood experience, including discrete roles assigned to: (i) supply-side specialists primarily responsible for identifying technically feasible options, (ii) potential consumers responsible for making choices based on those options, and (iii) neutral facilitators responsible for the quality and management of the process itself (Silverman, Kettering, and Schmidt 1986).

Finally, the willingness of the poor to participate—or not participate—in a supply-sponsored activity is deeply rooted in the particular physical, economic, political, and cultural context within which they find themselves (World Bank 1996). At least two incentives, besides that of the net economic benefit to be derived from participation, are clearly generic: (i) the outcome of previous experiences with participation in government-sponsored activities, and (ii) conformity of the process with preexisting nonformal institutions. For many community groups and individuals, past experience with government in general, and so-called participation in particular, has been negative: for example, (i) views solicited but then ignored, (ii) data collected locally but analysis not subsequently shared, or (iii) promises made but not kept. That is particularly true when superficially participatory methods are actually employed to mobilize grass-roots political support by governments or by international development agencies for predetermined policy or investment decisions.

These conventional modalities must be substantially changed if government officials are also to participate in effective understandings about what people are really willing to do in order to ensure compatibility with government policies (which also should have been formulated in a participatory manner). That, in turn, requires that all parties place value on achieving legitimate governance arrangements through effectively conforming formal government behaviors and nonformal practices even as their different natures are respected.

**Legitimate Governance**

Legitimate governance is a critical factor for the efficient achievement of poverty reduction or alleviation. Any effective approach to poverty alleviation among the heterogeneous poor must move from focusing on what specific investments to finance to an increasing emphasis on how such decisions ought to be made. In other words, the focus must move to legitimate governance that resolves conflict and achieves voluntary compliance with the outcome by most parties (Silverman 1974; Scott 1976).

If notions of poverty are largely subjective, notions of legitimate governance are wholly subjective (Silverman 1974). Governance is legitimate if it conforms to shared social norms and values that define appropriate structures of authority, the behavior of those persons exercising such authority, and the appropriate outcome of intrasocietal conflict. Because of the subjective nature of both poverty and legitimate governance, the relationship between them is location and time specific. Nevertheless, the World Bank’s *Voices of the Poor* study
identified several criteria employed by the poor to evaluate the performance of institutions with which they come in contact: effectiveness, timely support, access and contact, trust, unity, participation, and conflict resolution (Narayan 2000). It should not be surprising that in many RODAs, formal sovereign-state governments rank low on all of those criteria.

Although formal sovereign-state governments are necessary and important partners for the overall reduction of poverty within their countries’ borders, the reality remains that a wider range of informal and/or nonformal organizations perform governance functions. Ignoring established nonformal structures of authority is self-defeating. Whether because they are unaware of nonformal governance systems, fear them as rivals for power, or are simply daunted by the complexity of integrating formal and nonformal governance systems, many governments have relied on structural co-optation at best, or attempts at replacing them at worst. A more effective approach is to enhance intermediation between existing formal and nonformal governance systems.

**Intermediation: Linking Formal, Informal, and Nonformal Governance**

Effective intermediation requires the translation of diverse forms of legitimate decision making among nonformal groups into forms of commitment acceptable to formal governments. Intermediation does not mean transformation of nonformal governance systems into formal systems. What does that mean in practice? There are two key elements of an effective intermediation strategy: (i) recognizing the organizational capacity of the nonformal sector, and (ii) identifying appropriate agents of effective intermediation.

**Capacity**

A common assumption within the formal sector is that people at the community level—or consumers of specific services, more generally—do not have the capacity to manage their own involvement in poverty reduction efforts. The poor, in particular, are viewed as unorganized and lacking skills required to plan and manage effective project identification and implementation. The problem as perceived by key actors in the formal sector most often arises because: (i) by virtue of being nonformal, the organized poor do not have formal-sector legal status and, thus, cannot enter into legal contracts with formal-sector agencies; and/or (ii) they do not include persons who know how to conform to the specific administrative procedures required by the formal sector (e.g., they do not know how to procure goods or services in conformity with the requirements of formal governments or international development agencies). In reality, the organizational arrangements of the poor do not conform to formal-sector practices—it is not that the poor are unorganized.

The normal response to the perceived deficiencies summarized above is most often two-fold: (i) community development, which involves mobilizing and organizing people so as to enable them to participate effectively as a group within, and in conformity with, formal-sector norms, values, organizational arrangements, and behaviors; and (ii) capacity building, which involves training local leadership and other individuals in those specific skills required to perform tasks according to the rules established by the formal sector. However, the problem is not the absence of organization and capacity, but rather that norms, values, organizational arrangements, and behaviors are different. Such differences
make connections at the interface between formal and nonformal systems difficult. Ignoring the existence of the nonformal system makes mutually supportive connections impossible.

Effective intermediation is premised on the view that fundamental changes within nonformal governance systems are not required. As only one example, written contracts signed among groups with formal corporate identities might require transformation into other forms of commitment. Some organizations might need to be able to enter into those different forms of commitment in both directions for effective linkages among formal public sector and nonformal associations of poor people to be achieved. But whatever the form of intermediation that might be most suitable in location-specific situations, it is important to note that legitimating such nonformal sector institutions should not require legal registration in the formal sector. This would be contrary to the premise that the nonformal sector is, in some fundamental sense, more real than the formal system superimposed on it. Effectiveness requires that the formal sector adapt to already existing nonformal institutional structures and procedures, at least in the medium term. Over the longer term, intermediation can be expected to evolve toward the effective nation building desired by sovereign-state elites (Silverman 1997). The fact that the community-development, capacity-building, and intermediation approaches are different does not mean that they are mutually exclusive. Rather, the problem is that the need to craft effective means for efficient intermediation is almost always ignored or structured inappropriately.

**Intermediation Agents**

Facilitating interactions between formal and nonformal systems is most often accomplished through: (i) commercial middlemen who provide goods and/or credit by behaving one way in one arena and another way in other arenas (Nteireho 1991); (ii) middle- and lower-ranking public employees who commute between their formal roles in secular government and informal-sector economic activities (often investing rents accrued from corruption and other savings to investments in informal sector activities); (iii) retired or dismissed civil servants at all grades who often, upon retirement, return to membership in the informal sector; and (iv) full- or part-time employees of domestic NGOs and other quasi-governmental organizations that transform formal-sector resources into community-level investments. Although potentially subject to exploitation, the intermediation role is not inherently exploitative. The transaction costs incurred by nonformal sector clients often reflect the actual economic value of services provided.

**POVERTY REDUCTION STRATEGY PAPERS**

Most international development agencies are increasingly relying on the preparation of Poverty Reduction Strategy Papers (PRSPs) to address at least some of the issues identified above. PRSPs are viewed as key instruments for “achieving progress toward the Millennium Development Goals (MDGs). . . . [by] provid[ing] the crucial link between national [sic] public actions, donor support, and the development outcomes needed to meet the MDGs” (World Bank/International Monetary Fund Development Committee 2002, 5). Initially introduced as a requirement for access to debt relief by highly indebted countries, they are now also required for all low-income countries applying for concessional finance.
Further, the World Bank and other international development assistance agencies encourage the preparation of some form of PRSP by some middle-income countries as well. As of January 2003, twenty-one full PRSPs had been completed and another nineteen or so were scheduled for completion by the end of 2003, along with another fifteen interim PRSPs (World Bank 2003).

The preparation of PRSPs is expected to involve “broad-based participation by civil society and the private sector in all operational steps” (World Bank 2003). A PRSP is intended to provide a comprehensive policy framework for subsequent financing by all international development assistance agencies, whether in the form of loans or grants (World Bank 2001a). All such financing during the fifteen-year PRSP plan period is expected to conform to that agreed document, although in practice the alignment of all such assistance has been identified as a significant problem (World Bank/International Monetary Fund Development Committee 2002). Thus, the content of a PRSP is not intended to be the specification of just another development program. That is no small burden. Although in principle a step in the right direction, it is in the context of that burden that the quality of PRSPs must be judged as inadequate.

Although the World Bank and the International Monetary Fund (IMF) view PRSPs as strategic documents, in actual practice the most fundamental deficiency has been a focus within many, although not all, on the specification of discrete policy reforms and investments without clear articulation of an overall strategic vision. One unintended consequence is that the PRSP process tends to reinforce the discredited central planning tendencies of many RODA governments because it is unrealistic to plan what specifically ought to be done over an extended fifteen year period. The World Bank and IMF intend to redress that problem by encouraging PRSP updates every two to five years (World Bank/International Monetary Fund Development Committee 2002). However, given the level of effort required to prepare approved full PRSPs, substantial revisions based on changing circumstances are not likely—especially if not required to generate additional financing.

At a less strategic level, PRSPs also suffer from some combination of the following:

i. formulation of objectives in terms of basic needs (e.g., the MDGs);
ii. assignment of responsibilities solely to formal sector organizations (primarily central government agencies and, to some extent, formal-sector NGOs);
iii. insufficient prioritization of policies, programs, and investments;
iv. absence of criteria for evaluating subsequent performance;
v. inadequate specification of the process through which implementation will be decentralized, broadly participatory, and transparent;
vii. inadequate engagement of poor people and their nonformal, demand-side institutions during national consultations; and
vii. absence of commitment to a sustained process leading to eventual institutionalization of effective mechanisms for mutual leveraging.
Partially in response to such deficiencies and to provide guidance to both international development assistance agency staff and key domestic actors, the World Bank has published the *Poverty Reduction Strategy Sourcebook* (2001), guidance to World Bank and IMF staff for the preparation of annual Joint Staff Assessments (JSAs; Annex 1 of Joint Committee 2002), and a draft user’s guide to PSIA (Poverty and Social Impact Analysis). A PSIA toolkit is also being prepared to provide more detailed guidance on specific techniques (Joint Committee 2002). Nevertheless, efforts by the World Bank and IMF to remedy current PRSP deficiencies will not adequately contribute to real poverty reduction without commensurate changes to the underlying model employed. Unfortunately, there is little evidence of a shift toward emphasis on how decisions will be made (i.e., toward a demand-driven/supply-responsive approach) rather than the current focus on what will be done.

**CONCLUSION**

This article has focused on changes required in the relationships between the poor, nonformal governance systems, and formal governments within sovereign-states. Within that limited domestic context, the key change required is attitudinal; that is, acceptance that the subjective attitudes and prioritized demands of the poor have legitimacy. Poverty reduction objectives should not be limited to basic needs as defined a priori by non-poor “experts.” This, in turn, requires that those faced with the practical task of formulating and implementing strategies for effective poverty reduction must meld key elements of an objective basic needs approach with the subjective requirements for an effective participatory decision-making process responsive to consumer demand. Such an approach must place primary emphasis on the demand side of relationships among the poor, intermediary organizations, and sovereign-state governments. For that to happen, several changes in the roles of formal-sector governments and international development assistance agencies will be required. Those changes are recapitulated here in terms of basic premises and actions required.

**RODA Governments**

The gap between formal sector RODA elites and the poor has been greater than between those elites and sources of both public and private international development finance. Congruence among RODA elites and the principles of globalization can facilitate the formulation of macroeconomic policies required to generate economic growth through mobilization of both formal domestic and international-sector resources. Nevertheless, the generation of necessary formal sector resources is not sufficient to achieve effective poverty reduction.

In addition to aggregate economic growth, absolute poverty reduction requires equitable access to available resources (however equity might be defined by the poor) because: (i) economic growth both contributes to and results from improved human and physical infrastructure; and (ii) efforts to improve such infrastructure requires sufficient agreement among the poor with the form, content, and procedures employed. Governments must behave in conformity with the fact that they are only one party, albeit an important party, to
the formulation and implementation of poverty-reduction efforts. Governments cannot
close the process; they can only influence it. As argued throughout this article,
governments’ ability to substantially influence poverty reduction outcomes requires
effective linkages with nonformal parallel governance systems. This in turn requires mutual
dependencies between those two systems.

Government actions in support of poverty reduction need to be taken in both
international and domestic arenas. In the international arena, the primary role of formal
governments should be intermediation between their country’s complex domestic
institutional realities and established global political, economic, and financial systems. Such
intermediation includes the establishment of enabling environments for effective
interactions and leveraging of support internationally, including appropriate policies for the
promotion of macrolevel economic growth through trade, investment, and international
finance.

Domestically, governments need to legitimate nonformal governance systems and
enable effective intermediation between themselves and those systems. At the same time,
governments need to take a leading role in the identification of policies and investments
that contribute to countrywide human and physical infrastructure, i.e., improved health,
education, energy, communications, and transport. Further, governments should identify
effective mechanisms to supplement, rather than displace, existing nonformal safety nets.
Finally, incentives that motivate government decision making need to be restructured so
that they support supply-responsiveness. This requires that line agencies directly engaged in
poverty reduction efforts be largely dependent on the provision of investment-specific
resources by poor consumers. Realism requires recognition that necessary restructuring of
incentives is unlikely unless internationally provided resources are conditioned on such
changes.

International Development Assistance Agencies

Much of the argument presented in this article is echoed either explicitly or implicitly in
the analytical work and publications of international development assistance agencies. A
fundamental problem, however, is that such analytical findings are not effectively translated
into the actual policy advice or investment programs and projects financed by them. An
important implication of the recommendations advocated here is that international
development assistance agencies recognize that the poor are their primary clients rather
than the formal RODA governments with which they normally interact. That is easier said
than done because of the membership structure of multilateral organizations and the official
agreements that establish the legal relationship between RODA governments and bilateral
agencies.

It is not realistic to recommend a new approach that requires the restructuring of the
current sovereign-state system or the legal basis for agreements between RODA
governments and international development assistance agencies. Therefore, international
development assistance agencies should condition their financing of poverty reduction on
policies and investments that conform to truly demand-driven/supply-responsive
approaches—even though advocating external leveraging using conditional ties is not
currently considered politically correct. However, conditioning finance is not sufficient. It
will also be necessary to carefully assess the impact of external financing on the incentive structures of RODA governments. Substituting external finance for resources that should be contributed by the poor themselves subverts the accountability of RODA governments to those primary domestic clients. It is unlikely that a demand-driven/supply-responsive approach will be effectively adopted as long as reliance on international sources of finance is both easier and sufficiently productive for RODA elites.

NOTES

The views expressed in this article are solely those of the author and do not necessarily represent the views of any organization with which he has been or is currently affiliated. All errors of fact, omission, and interpretation are solely those of the author.

1. All of the terms commonly used to label the countries of primary concern in this article (underdeveloped, developing, lesser developed, newly industrializing, newly emerging, third world, fourth world, and so forth) strongly suggest narrowly Western economic and cultural perspectives that are ethnocentrically paternalistic at best and arrogant at worst. Therefore, the term RODA—for recipients of official development assistance—is introduced here. A country either does factually receive official development assistance, or it does not.

2. Although Amartya Sen and Peter Townsend are probably the best-known scholars associated with what has been characterized as the objective vs. subjective approaches in this article (respectively), their arguments are substantially more complex and nuanced than is presented here. For example, in his more recent work, Sen has included obstacles to the exercise of the substantive freedoms a person should enjoy to lead the kind of life he or she values within his view of poverty (1999). Nevertheless, his previous work (1981, 1984, 1987) has, on balance, emphasized generalized objective factors rather than the more subjective approach advocated by Townsend (1954, 1985, 1993).


4. Lahiri (1999) presents rural sanitation options in terms of technology ladders; i.e., simplified presentations of comparative trade-offs between feasible technologies in a format that enables even illiterate persons to understand comparisons among them and, thus, make informed choices.

5. Although the World Bank and IMF emphasize the importance of participation in the preparation of PRSPs and subsequent monitoring of implementation, it is clear that the expectation is essentially limited to private-sector commercial enterprises and labor organizations, religious groups (where significant), NGOs/CSOs, and other international development assistance agencies (see Development Committee 2002).

REFERENCES


