

# MOVING TOWARDS PEOPLE CENTERED ECONOMY

- Ela R. Bhatt



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[www.sewaresearch.org](http://www.sewaresearch.org)

**SEWA**  
**SEWA Reception Centre,**  
**Ahmedabad 380 001.**  
**India.**  
**Telephone : 00 91-79- 5506477**  
**Fax : 0091-79-5506446**  
**Web: www.sewa.org – Email : mail@sewa.org**

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## I. THE CONTEXT : PUTTING POOR PEOPLE FIRST

Our global leaders often speak of eradicating poverty as well as of national and international economic growth, but when their speeches are analyzed, it becomes clear that they are talking about growth for a very small proportion, at the most 5% of the world's population. The remaining 95%, the majority, are hardly included in these plans for growth. This excluded majority is largely made up of the poor who have little or no access to the engines of growth: assets and credit.

Amongst poor, almost all work, particularly women. Otherwise they cannot survive. When we talk about the poor we need to know who they are, how many of them exist, where they live and work, what kind of work they do – we need to make them visible, to give them a voice, to listen to their situations and aspirations, and to open the economy so as to give them their due.

### a. Giving a Face to the Poor Majority

In many parts of the world the poor are the overwhelming number of the population. In my country, India, they make up approximately 30%, who are living below poverty line, i.e. Rs. 12000/- (US \$ 400)- income per annum. About 80% of them live in rural areas, who are usually illiterate or semi-literate, and the majority are women. The poor are also economically very active. They contribute to the national economy each year, and they grow, produce, transport, and sell most of the commodities we all take for granted. The numbers of poor globally is difficult to pinpoint. A conservative estimate (1990) is 2.5 billion people, or 65% of the world's population who consume less than 2 \$ per day (1990). Out of them, the majority are the poor from South and East Africa as well as South Asia. In Sub-Saharan Africa, poverty grew by 3% from 1985 to 1990. That is the magnitude of poverty. And, we must remember that amongst poor, women are the poorest.

Despite their contributions, the poor remain invisible in national statistics. They are unrepresented, unprotected, unorganised and unrecognized. The poor exist outside the planned economy in what is known as the informal sector. The informal sector in many parts of the world is comprised of about 80% of the economically active population, and most of these people are self-employed.

The international economy as a whole will be unable to grow to its full potential unless it takes along the majority of the world's working

population. Lack of growth of the Informal Sector will hold back growth as a whole. Is it not in our collective self-interest to open the world of finance and enterprise to the poor majority ?

## **b. Self-Employment : The New Work Paradigm**

Historically, the world's decision-makers have focused on industrialization. The legal and financial regimes they have developed usually presupposed an industrial model, where there is a relationship between a clearly defined employer and employee, and a clearly defined private and public sector. This model is no longer applicable in many parts of the world. Today, more and more of the work-force is self-employed, and more and more of the self-employed are in low or very low income brackets.

The informal sector and the self-employed or 'people's sector' that I would like to call them increasingly has far more members than the formal sector of the economy. The people's sector usually contains these categories: home-based producers, petty vendors and hawkers, and providers of services. These categories are not necessarily exclusive, for example, a family may raise poultry, and also produce small handicrafts that are sold in local markets. Many of the enterprises owned by self-employed workers are family-based and include contributions from men, women and children, both the old and the young.

In India, the statistics are overwhelming : 93% of employment generates from the unorganised sector of the economy where there is no specific employer-employee relationship. In effect, today the organised sector is shrinking in India : In 1972, the organised sector was 11% of the workforce, in 2000, it is 6.7%. Out of the total workforce, 57.3% are self-employed.

The reality in India and elsewhere is that the private, the public and the people's sectors are interdependent. Much of the production happens in the people's sector, while marketing occurs in the private sector, and regulation originates in the public sector. However, the terms of trade are weighted against the people's sector, and there is little government or private sector encouragement for growth within this sector, despite declining employment opportunities.

## **c. Government Policies**

Governments around the world have recently made moves toward increased liberalization of trade, but these policies have benefited only the private sector, while the people's sector has experienced increased regulation. For example, while big corporations are receiving tax breaks, petty vendors are encountering more and more zoning and licensing restrictions. Government economic policies tend to favour those business people who are rich in assets, and the people's sector tends to be asset-poor. The private sector can enjoy

the benefits of the free-market economy since it had the assets to go to where profits can be made. The people's sector, however, is often tied to middlemen and operate in a much more restricted market structure. They are unable to travel to sell goods in wholesale markets and therefore only realize a fraction of the profits on the final price of their goods. For example, small producers sell fruit and vegetables to larger traders at the village level and at village prices, but the trader then takes the goods to the city and sells them at considerably high profit. Similarly in the case of capital markets, the private sector can obtain capital at competitive rates, whereas the people's sector is forced to borrow from money lenders at exorbitant interest rates.

The people's sector also needs favorable terms of trade so that its enterprises can grow and so that standards of living can increase amongst the poorest members of society. There are clear benefits to society as a whole in supporting the enterprises of the people's sector like increased productivity, income for consumption, more savings, better health, higher education, smaller families. With increased assets, poor women invest in their own businesses, buying better tools or seeds. They invest in their economies by buying more goods such as food, clothes and household products. They invest in their families by buying the services of teachers, doctors. The enterprises of the poor need to move beyond survival if national and global economies are to be transformed.

## **II. STRUCTURES AND MECHANISMS TO INCREASE LOW INCOME WOMEN'S ASSETS AND ECONOMIC SECURITY : MOVING BEYOND SURVIVAL**

The poor, and poor women in particular, are struggling to move beyond survival. Where they have been successful, it is chiefly as a result of two key factors : acting collectively as a people's organisation and then forging linkages with the private and public sectors. In this way, the poor can build structures and mechanisms that will increase their assets and economic security.

People's organisations are best equipped to take up the cause of the people's sector. These organisations are motivated to create workable solutions to the problems facing the poor, solutions which are geared at promoting economic self-sufficiency not dependency. People's organisations are also beginning to form linkages with the private and public sectors to ensure that their members have a voice in local, national and global economic decision-making.

### **a. Organising**

When individuals, who are amongst the poorest, least educated and most disenfranchised members of society, come together as a sector they experience dramatic changes in their lives. First, they gain knowledge. This

includes information about their rights and obligations as producers, traders or service providers, about health and education for their families, about the possibility of better terms of credit and the opportunity to save, and about political choices. Second, they gain self-esteem. They realize that they have the ability to improve their families' standard of living and they gain respect when they do. Third, they gain a sense of community. They find that they are offered support from people with common values. They gain the power of acting as a collective. As a collective, members of the people's sector can ensure their own economic security by setting up their own benefit schemes; they have a common voice which can be used to influence local economic decision-making; and they begin to have political power.

In order to be effective, people's organisation must have a participative and democratic structure. The poor must be stakeholders in their own organisations. Organisations in which the poor do not feel ownership and accountability usually do not progress fast. The organisations should also be free from political interference so that the interests of members are paramount.

Organising the poor usually has two aspects and both of these are crucial of the organisation is to succeed. The first is to identify a specific cause or an issue over which struggle is necessary. For example, street vendors may mobilize around the issue of raising the number of available licenses, petty vendors might organise in order to demand space in the market where they can sell their ware without police harassment. Since this aspect of organising is issue-based, it is usually short-lived irrespective of the success of the struggle. The second aspect of organising is programme-based, it is more important because it ensures that organising efforts continue into the future and encompass a variety projects that are geared toward building assets and achieving economic security for members. This development-oriented aspect of organising might include : setting up a cooperative bank or devising other mechanisms to allow members to borrow and save; setting up marketing federation for agriculture producers, milk producers or artisans; setting up benefit schemes for members such as social security or maternity benefits; initiating insurance schemes in cases of floods or other natural disasters; or other economic security building schemes.

## **b. Asset Building**

The poor need to be able to build assets if they are to break the cycle of subsistence, deprivation and survival. With assets, the poor can build more assets, their control over their enterprises increases, and their lives begin to change. With assets, poor women invest in the health, education and welfare of their families. Poor women need to be able to borrow and save, they need bank accounts in their own names, they need to be free of dependence on money-lenders, they need loans to buy better tools, and they need loans for housing improvements and repairs. Poor women need assets as individuals,

but also as a collective, such as group loans for village fish ponds or fodder farms. Most importantly, poor women need banks willing to make tiny loans of short duration, tailored to their needs. The SEWA Cooperative Bank caters exclusively to this clientele. SEWA Bank has a 96% (2000) repayment rate, indicating that poor women are the most reliable clients a bank could have. Asset is safer in the hands of women than in the hands of their men. Also, those with even some assets are able to fight poverty and exploitation better than those who are totally assetless.

Provision of productive assets in the hands of women have led to qualitative improvement in their life over a period of time, given other inputs such as knowledge, skill, organisation, and confidence. This has been shown to be so in the case of women working in rural areas with assets of land, trees, cattle, related equipment, machinery. Similarly, poor women working in urban areas with assets like tools, equipment, plant, sheds, land, market place have been able to improve their lives. It is certain that asset in the hands of women (ownership) has been safer than in the hands of men.

### **c. Credit**

It is imperative to address the issue of poor people's lack of access to productive resources. They need credit facility for their small enterprises. Poor women's need for financial services is equally important as of poor men. They need loans to build their businesses. They need a safe place to put their savings. These women need recognition as economic agents who save, who repay loans, used the loan productively, utilize the income for family and redemption of loans from private sharks. The development of credit supply to small producers must be an integral part of financial policy and development assistance at all levels. Ultimately, the process of capitalisation has to conclude at the formulation of capital at the level of the poor individual's household and at their group's level. That is where the real benefit lies of sustainability and growth.

### **d. Income**

The quantitative contribution of poor women to their family income is not only highly significant but the qualitative contribution is also of immense value to their families. Unlike the males who spend a portion of average 50%-55% on themselves, the poor female workers hardly spend anything more than average 5% on themselves (Shram Shakti Report surveys, 1988). Their entire earnings are spent invariably on the upbringing and the settlement of the family members. Therefore as more and more income go in the hands of women, the quality of life of poor families goes up, faster.

### **e. Economic Security**

Credit, however, is not enough, the self-employed poor also need creative economic security schemes. In many parts of the world they are not covered

by government benefits such as workman's compensation or social security. They do not have access to life insurance or maternity benefits. They do however, merit access to the same employment rights that full-time formal sector workers take for granted. We call access to these basic rights "full employment". Despite past promises, full-employment has not yet come from governments or the private sector at the household level. The reliable source for the economic security brought by full-employment is people's organisations comprised of the self-employed themselves.

Developing economic security schemes by and for the poor is not a dream, it is already a reality in some parts of the world. At SEWA in India, we have set up a successful social security scheme built on members' contributions that covers risks of their life and work viz. life, accident, widowhood, hospitalization, maternity benefits, damage to working tools and work space because of calamities.

The people's sector needs organising efforts that build members' economic self-sufficiency, move them beyond survival, and give them something tangible to rely on, in the future. The poor cannot rely only on governments or the private sector, they need people's organisations to build the structures and mechanisms that will increase their economic security.

#### **f. Linkages**

People's organisations also need to forge links with the private and public sector so as to further their members' interests. They need to develop relationship with insurance companies to establish economic security schemes. They need to negotiate with banks to generate loan funds to finance these schemes. They need to communicate with city planners to ensure that markets are developed that meet the needs of petty vendors and hawkers. They need to have a voice in the Chambers of Commerce and City Government to set standards, liberalize licensing requirements, and establishment fair zoning regulations.

Without a voice in the hallways of power, the poor self-employed will not be heard. The self-employed need advocates who can explain to decision-makers that however tiny, they are legitimate business people who bring considerable amounts of money into the national economy, both through paying indirect taxes as their income grow and by not being public charges as their businesses become self-sustaining. People's organisation can provide the necessary link.

### **III. STRUCTURE AND MECHANISMS FOR PROMOTING PARTICIPATION AND CHANGE : DEMOCRATIZING ACCESS TO THE ECONOMY**

The challenge today is to design structures and mechanisms for promoting the participation of the people's sector in the broader economy, so

that poor women can really participate in economic change. We need decentralized structures where the people have access to economic decision-making and resources in reality, not just in name. We also need better enforcement mechanisms that include representation from the informal sector.

#### **a. Democratic Decision-Making : Multipartite Mechanisms**

A sure way to ensure that the people's sector is able to participate in the broad economy is to include its representatives in decision-making. A means to accomplish this is through multipartite boards. A multipartite board operates, that implements programs as well as serving to iron out disputes and initiate policy interventions. Tripartite boards have worked well at the national and international level in dispute resolution, setting standards and on other employment related issues involving the private sector (unions/employees and employers) and the public sector.

The most successful tripartite mechanism in India is the Bombay Dock-workers Tripartite board. It includes the dock-workers' union, the merchants' association and the local government. Initially, the board managed labour affairs and settled disputes. It ensures that minimum wages are paid. The Board has enforcement power. After some time it also started to deliver economic security programs, and now the dock-workers have their own bank of which they are the shareholders.

There are a variety of incentives for the different actors - local government, merchants' associations and consumers to participate in multipartite decision-making with the informal sector. It gives local government a way to communicate directly with a group of citizens it usually does not have access to. Often the informal sector is perceived by government as a problem or nuisance element. Here, tripartite boards provide an opportunity to overcome biases. Local government begins to see the informal sector in a different light, the poor self-employed are recognized as legitimate business people from whom taxes can eventually be levied.

In addition, governments tend to receive favourable media coverage if appear to be helping the poor. Merchants also benefit from this contact. Direct communication with representatives of the informal sector lessens antagonism that may exist due to competition in pricing or for street and market access. Mutually advantageous dispute resolution mechanism makes it much easier to conduct business on a daily basis. Consumers are able to advocate for higher standards to increase the quality and safety of products available for purchase. They can use the boards as an opportunity to voice complaints and suggest proactive solutions.

Multipartite boards give the self-employed the opportunity to participate in a decision-making forum in which they can negotiate better on conditions of work, zoning laws, and licensing requirements, it also enables them to

participate in setting prices, develop relations with the business world, and improve the conditions under which they do work. Finally, it helps to raise their self-esteem, increase their visibility, and enable them to gain access to the benefits of the formal economy. Multiple boards encourage all parties to learn to work together.

## **b. Building Participatory Structures :**

### **Democratization and Decentralization**

Organisations whose mission is to serve the poorer sectors of the economy such as trade unions or NGOs, have to constantly struggle to remain democratic. To avoid corruptive practices and traditional hierarchies, or domination by a small unrepresentative group of people is a big challenge to the leadership of these organisations. Such organisations have stagnated, they need to be revamped, to reexamine their mission and to reconnect with people's organisations.

The unorganised people sector needs to operate within participative structures. This means that since the poor self-employed are often illiterate, organisations that serve them should not be dominated by the written world. Since they are usually tied to their micro businesses, the institutions that serve them should be located close to where they work or should be willing to travel to their clients. The self-employed should be able to expect timely, quality service that is need-based and demand-driven.

Decentralization is also important in terms of the basic services which are provided by the state. Resources, such as health care and education, need to be made available as close as possible to people's sector organisations. Their representatives should be invited to participate on local boards and planning bodies where their interests are being discussed and fates sealed.

## **c. Capacity Building Mechanisms :**

### **Access to Information and Markets**

In order to strengthen their businesses, the majority poor need access to capacity building mechanisms. They need opportunities to upgrade skills as well as to take advantage of available information on new technologies, better tools, improved product design, and export opportunities.

Academic institutions provide skill upgrading and knowledge to a small percentage of the population. Since the majority of the population remains outside these progressive institutions, creative solutions are necessary to provide the needed access. Agricultural colleges and management institutes ought to offer affordable courses designed for the self-employed on topics

such as dairy and agroprocessing. National budgets should provide for such capacity building mechanisms.

Where skill upgrading for the poor self-employed has been tried, it has significantly increased their productivity and income. In India, for example, traditional midwives who used to only be birth attendants now perform pre and post natal work and they teach family planning, and immunise infants. Local agricultural university provided training for women farmers in drip irrigation, and rag-pickers were trained to weave rag rugs.

The incentives for initiating capacity building mechanisms at the local level are enormous. These mechanisms serve to generate more income for the nation by improving the efficiency of sub-sectors of the local economy, for example, dairy, poultry, and agroprocessing. Training also helps to improve local quality standards and to decrease costs by improving efficiency. Capacity building increases the purchasing power of the poor self-employed and it enables them to improve their living standards and their consumption patterns. The relationships developed during the training process also serve to increase linkages between enterprises, for example, one chain of enterprises might include farmers, processors, packagers, vendors, transporters and lenders. These factors indicate that an investment in the people's sector is an investment in the economy as a whole.

#### **IV. POLICIES AND SYSTEMS TO ADDRESS CONSTRAINTS TO GROWTH : HOW TO TAKE ECONOMIC LIBERALIZATION TO THE PEOPLE**

The people's sector is faced with a conspiracy of policies that make it extraordinarily difficult for them to function as business people. These policies amount to what is virtually a restriction on their ability to trade.

Liberalization policies have not reached the people's sector. Governments must review laws to remove the hindrances experienced by the sector. In India, it takes time and lots of paper-work to complete the registration requirements to form an organisation. It should not be so difficult for the people's sector to develop self-help institutions. Licenses to sell in the open market are limited and based on quotas. Certificate standards for producers are stringent and admission to institutes that set the standards are restricted based both on prejudices against the poor self-employed and on quotas. Training opportunities are scarce or inadequate. Access to commodities and raw materials such as forests are often the exclusive right of contractors and are denied to the poor.

In order to grow in economic strength, the people's sector needs access to the basic elements that the private sector takes for granted: land, natural resources (such as forests), raw materials, a physical plant, infrastructure such as electricity, and credit. They need liberalized licensing and zoning laws, as

well as a revision of banking regulations that restrict lending to people's organisations such as cooperatives or proscribe high interest rate policies, the size of loans, and the area of operation. And where progressive policies exist, these policies need adequate and consistent enforcement.

The poor need positive measure that will improve their access to finance, new skills, technology and information. They need access to the formal sector on equal terms and they need greater commercial linkages. The best way to deliver these measures is through supporting people's organisations, both through enabling legislation and direct resources as people's organisations are the missing link in our economy.



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