

*Getting to the 21st Century: Voluntary  
Action and the Global Agenda*

by David C. Korten

Kumarian Press, 1990. ISBN 0-931816-84-X (pbk).

AND

*Where Credit Is Due: Income-Generating  
Programmes for the Poor in Developing  
Countries*

by Joe Remenyi

Westview Press, 1991. ISBN 1-85339-079-8.

**H**ow should governments and individuals best act to eliminate poverty? Two new books speak to this issue, long of interest to Christian economists. In particular, they focus on the burgeoning role in development of nongovernmental organizations, a role which has attracted much attention and hope from development workers. NGOs, as they are inelegantly called, are big business now. For instance, in the Philippines 35% of Canadian aid goes directly to NGOs and a substantial portion of the remainder is allocated to them by the Philippine government itself.<sup>1</sup> The multilateral development banks routinely require that part of their assistance be channeled through NGOs in the recipient country. So these books, if nothing else, are timely: the role of NGOs is ripe for evaluation. And while neither book is without flaws in accounting for NGOs' performance and potential they nevertheless will stimulate some useful thinking about ways to undo poverty.

They come at the topic in opposite ways. Korten's book, which I will discuss first, is very ambitious. He tries to sketch out a universal view of all of development and NGOs' role in it. Its subtitle could have been "A Theory of Everything." Being the more ambitious, it has more ways to fail. Remenyi's book, on the other hand, is focused on the experiences of 26 "income-generating" NGO programs he visited for the study. Yet both authors are optimistic about what NGOs can accomplish.

**REVIEWER**

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Korten brings to his work Ph.D. and M.B.A. degrees from Stanford's Graduate School of Business and extensive experience in developing countries with government and private aid agencies. He now is President of the People-Centered Development Forum, which he founded to encourage "a global citizens movement" for economic development and whose agenda the book is designed to promote. The book has garnered a fair amount of attention, being reviewed in the National Academy of Science's magazine and being the subject of workshops at several Christian development organizations. One can only hope that its readers will have the patience to sift the wheat from the chaff, for it contains a lot of both.

Korten's arguments can be succinctly stated: The world faces three interrelated crises—widespread poverty, "collapsing ecological systems," and "deeply stressed social structures;" traditional economic policies are born of a "growth-centered development vision" which "equates human progress with growth in the market value of economic output and subordinates both human and environmental considerations to that goal . . . to the point of endangering the continued well-being of everyone on planet earth" (p. 3); the solution is to recognize justice, sustainability, and inclusiveness as the central elements of "authentic development," and to rely on private, voluntary organizations to provide the vision and energy actually to transform economic institutions. For economists, parts of this argument will set off alarms. Is the book a rehash of neo-Malthusian scaremongering? Economists will also be skeptical of Korten's near-utopian vision for what "people's movements" can achieve. Such skepticism, while fully justified, should not obscure the merit of Korten's view that NGOs can play a far more constructive role in development than they have hitherto.

Consider first Korten's analysis of the world's environmental and economic

problems, which he lays out in the first half of the book. The crises he points to in the areas of poverty, the environment, and social integration (by which he means communal violence and drug use) mean that

we are reaching the natural limits of an era of rapid population growth and unrestrained resource consumption by the fortunate few. The patterns of growth in both population and consumption have accentuated injustice and undermined the legitimacy of the social institutions that have supported that injustice (p. 16).

Korten would not be the first to be wrong about the globe reaching a natural limit on human activity. But unfortunately, on environmental issues he is long on rhetoric and short on analysis. He relies exclusively on secondary sources and provides scant documentation of his sweeping views. Though his analysis of poverty and the past 40 years of development is more thorough, it too contains flaws and gross generalizations. The "growth-centered vision" of development which he says has infused international aid institutions and development policymakers, holds that growth "is achieved primarily through the productive investment of domestic savings and foreign grants, loans, and investments." This implies a "preference for increasing the incomes of the rich" (p. 41). Korten tries to tar virtually all development economics with this brush, arguing that most policy questions—and even basic needs strategies—are evaluated "within the boundaries" of the growth-centered vision (p. 42). It is a mistake to generalize so broadly about development economics. Too much has been learned about—and too much depends upon choosing between—state or private ownership, favoring industry or agriculture in investment, and planned or free markets, for these questions to be dismissed.

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affinity with the market-oriented recommendations emerging nowadays from international institutions and academia. Far from resisting this movement, Korten urges aid donors, development agencies, and LDC governments to work together to take advantage of the changed environment: "...the way [is prepared] for a substantially new development dynamic in the South in which the people take the lead and government enables the people to develop themselves" (p.28). And, more important, Korten advocates a development strategy which, if adhered to by a reinvigorated voluntary sector, could indeed be helpful. His favored approach, "equity-led sustainable growth," will be familiar to development economists as a version of Adelman's "agricultural-development-led" strategy.<sup>2</sup>

Its essence is that asset redistribution—of land, and, through education, of human capital—needs to occur before equitable growth can take place. Korten throws environmental sustainability into the mix, admits cheerfully that no country has used this strategy in its entirety, and proceeds to give a cogent account of how it could work. The key sequence is for society to focus first on asset reform and building up rural infrastructure, to achieve agricultural intensification and diversification; then broad-based industrialization and trade growth can occur rapidly, maintaining rather than eroding income equity. While market mechanisms are used, government is active in maintaining a stable macroeconomic environment, a sound legal and human rights system, and a functional social service network. This approach has much to recommend it. Korten notes that, apart from concern for the environment, it is the approach taken by Taiwan, South Korea, and Japan. He is on solid ground in emphasizing that these countries exemplify the importance of getting more things "right" than trade policy alone.

The second half of the book discusses NGOs and the enormous potential he

believes they have to energize development and achieve equity-led sustainable growth. There are actually several different kinds of NGO, and the differences matter for Korten's thesis. Voluntary organizations (VOs) are dedicated to serving the needs of third parties ("persons who are not themselves members of the organization") and depend "primarily upon appeals to shared values as the basis for mobilizing human and financial resources" (pp. 96, 98). In contrast, public service contractors (PSCs) are nonprofit "businesses" for hire for public purposes. People's organizations (POs), different still, are "first party" organizations dedicated to serving members' direct economic and political interests; they should be democratic and self-supporting. Cooperatives, labor unions, and political interest groups, for instance, may be POs. The typical Christian development organization is a VO.

The crux of the argument is that a vibrant voluntary sector can hold the government and business sectors accountable for delivering equitable and sustainable growth, and can initiate such growth if VOs act in a concerted, coordinated and political manner. Korten's confidence in VOs is almost unbounded:

In political roles, [VOs] supplement political parties as varied and flexible mechanisms through which citizens define and articulate a broad range of interests . . . In their educational roles they provide training grounds for democratic citizenship. . . and educate the broader public on a wide variety of public interest issues. In their watchdog roles they serve, along with the press, as checks on ' . . . the relentless tendency of the state to centralize its power' (p. 99).

And Korten's vision goes further: the most promising aspect of VOs is that they can assist the emergence of, and can sometimes themselves become, true people's organizations. POs have such a significant role to play in society, Korten argues, that

they merit recognition as a "fourth sector" alongside the government, business, and voluntary sectors. Korten's point is the POs are crucial to the emergence of people-centered development: they are the actual means "for distributing power within society by strengthening the economic and political power of the previously marginalized" (p. 101). The major difficulty Korten identifies for VOs—apart from lack of vision—is the temptation to become PSCs and thereby lose the ability to act as social catalysts.

The book concludes by exploring how VOs can move from mere relief or community development work to the promotion of "people-centered development." Korten's exposition wanders but two major points stand out. First, external financial aid must be re-thought. It creates "expectations within the community that development will come as the gift from an outside agent rather than through people's own efforts" (p. 140). Even the NGOs which have worked hardest at giving aid well—intermediating between donors, recipient governments, and the poor in order to make certain that aid reaches the poor—come in for criticism for retaining "a heavily top-down, welfare-oriented perspective" (p. 146). Far superior, he argues, would be a "system of mutual empowerment" in which VOs promote "mutual assistance relationships" among country governments, local governments, and people's organizations. The key to the relationships should be "information, not money" which should be focused on "people helping one another make better use of their own resources" (p. 146).

Second, in this vision one of the NGOs' most important tasks is education. Korten doesn't stint in identifying issues about which VOs should educate the public, nor in identifying the correct position to take. Consider this partial list: lifestyle issues, urging Northern nations to rein in their overconsumption (p. 165); promotion of population control in the South (p. 166); spiritual development,

urging that "the human spirit must be strengthened to the point that greed and egotism play a less dominant role" (p. 168); political democratization, such that a "commitment to guaranteeing the rights and freedoms of its people should be a basic precondition for international recognition of, and support to, any government" (p. 173); economic democratization, including land reform (p. 173); and trade and investment relations, including pressure on countries to keep trade balanced, lest trade imbalances "undermine economic democracy and responsible environmental stewardship" (p. 179).

What are we to make of all this? Christians are called to serve others whether or not the world faces imminent ecological and economic collapse. I would hope Korten's forecast of future catastrophes is unnecessary as a spur to action, quite apart from the economics of it. It is also hard not to criticize Korten's hyperbole, which, if taken seriously, would do more harm than good. To pick but one example, can he really mean that the U.S. government should not recognize any government which doesn't guarantee human rights? Exactly how would progress be made, say, on global warming, if the U.S. didn't recognize China?

The more fundamental problem with Korten's brief for VOs is his utterly uncritical assessment of their potential. First, he does not distinguish what NGOs legitimately can be expected to do from what they cannot. A VO following Korten's advice would be involved in so much—lifestyle exhortations, economic policy analysis, environmental policy research, efforts to enhance spirituality—it's hard to imagine it functioning at all, even if it had sensible things to say. Fortunately, one can accept Korten's contention that NGOs need a proper vision of economic development to guide their actions, without accepting that to be effective NGOs must foment large social movements. Most VOs will have their hands full working on community devel-

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opment projects and reforming institutions and policies with which they have the most experience. A Christian development organization that meets this prodigious challenge should not feel a failure if it is not part of a PO which transforms the entire nation. The second consequence of Korten's uncritical stance is that he both ignores the problems POs might pose for society and overestimates the importance of POs in attaining desirable economic goals. With respect to the former, what stops POs from usurping legitimate government roles, or from becoming platforms for demagogic and special-interest agitation? With respect to the latter, far be it for Christian economists to deny the value of NGOs' educational role or to downplay the importance of social attitudes—but does positive economic change depend necessarily on a vibrant voluntary sector? Korten offers no clues.

Yet Korten surely is correct that the present decade marks a distinct window of opportunity for NGOs. In a climate of economic liberalization the world over, NGOs should innovate, work, and challenge Christians as never before. If they are guided by a vision of equity-led sustainable growth, it is hard to see how they can do anything but help the poor, even if they are not the globe-spanning, global institution-shaking "people's movement" Korten calls for.

In sharp contrast to Korten, Remenyi focuses on a single slice of the universe of NGOs: credit-based income generating programs. To add to development's alphabet soup, Remenyi (who teaches economics at Deakin University in Australia) labels such programs CIGPs. His study was commissioned in 1987 at the first meeting of the Oxford Conference on Christian Faith and Economics and was presented at its second meeting in 1990. The Oxford Conference intended for the results to be publicized widely, and this slender but substantive volume will make that job easy.

The essence of a credit-based income

generating program is to provide small amounts of credit to poor individuals (who would not have access to credit other than through informal sector moneylenders) for use in small commercial enterprises. Many NGOs, including Oxfam and World Vision, have added this kind of "micro-enterprise" program to their repertoire, and some NGOs, such as Opportunity International, have made lending to micro-enterprises their focus. The appeal is that small amounts of credit can be sufficient to establish successful businesses which, by the very nature of the borrower, benefit the poorest in society and have far more labor-intensive factor demands than formal sector firms. Some of the cases Remenyi cites are truly astonishing—some involve loans as small as \$20.

The heart of the book is a detailed discussion of the major types of CIGPs and the operations of the 26 more-or-less successful CIGPs visited for the study. All CIGPs are revolving funds in some way or another, but differ in how the funds are generated, the terms under which loans are made (interest rates, maturity, and conditions on how the micro-enterprise is run), and the extent of NGO involvement. Remenyi identifies three basic varieties. "Pure-credit groups" are just that: CIGPs which lend funds raised by local NGOs or donated from abroad. These can operate very simply, piggy-backing on existing community networks (such as church groups) and eschewing any provision of business training, or they can operate more elaborately and provide a range of business services. "Savings-linked credit groups" use their client borrowers' own savings to finance the venture. In principle, these can function much like co-operative banks in the U.S. In practice in developing countries they have adopted more formal rules, typically requiring each member to save according to a pre-set schedule and giving members the right to borrow only at particular times. The Grameen Bank in Bangladesh is the most

well-known institution of this type. It follows a "solidarity group" model in which groups of at most six people (with members guaranteeing the loans made to one another) take on the task of monitoring and disciplining the saving and lending process. NGOs help this kind of CIGP mostly by providing start-up funds and administrative help. Finally, the third type is the "welfare-oriented credit group," distinctive because its credit provision is but a "component of a wider welfare-focused program of broad-based community development" (p. 60). Often this kind of CIGP will "broker" funds from the formal sector for relending to micro-enterprises, using the good offices of the sponsoring NGO to obtain a low interest rate and to absorb the transaction costs of lending to micro-entrepreneurs.

While noting that some CIGPs fail, Remenyi is bullish on them: "as an exercise in wealth creation and self-reliance for and by the poor, CIGPs work very well and are worthy of substantially increased support" (p. 111). Remenyi bases this conclusion on his visits to CIGPs and on a survey of the existing literature on micro-enterprise lending, which persuade him that

Diminishing returns have not yet set in in this field of development assistance. . . cost-benefit ratios, internal rates of return and social accounting studies . . . reveal benefits to society well in excess of the opportunity cost of investment (pp. 106-107).

Furthermore, CIGPs are effective in generating employment: "The typical successful CIGP examined in this study. . . indicates an investment well below \$1,000 per sustained wage-paying position created," in contrast to the \$10,000 or more needed per position in the modern sector (p. 106). Finally, the effect of CIGPs on the livelihood of the participants is "dramatic, rather than marginal" such that the

impact on the regular income of borrowers. . . typically exceeds 20

per cent . . . and when one is living at the margin of survival earning around US \$1 a day. . . [this] represents a substantial improvement in cash flow and the capacity to act on the range of economic choices available for investment, saving, and consumption (p. 106).

The book concludes with a blaze of seemingly commonsense—at least to economists—observations about the keys to success in CIGPs. One is that interest rate subsidies are not crucial. Simply making credit available at formal sector market rates represents an improvement over the rates charged by traditional informal sector moneylenders. Others are that a project's long-term impact is directly related to "the extent to which the project is pitched at a level that the beneficiaries find appropriate to their resource constraints and technological competence" (p. 124), and that the project should allow some flexibility in loan terms depending upon "the nature of the enterprise and the business cycle peculiar to the market in which the enterprise operates" (p. 126). The most bold of his recommendations is that savings-linked models are "on the whole. . . superior in several important ways to minimalist pure credit-delivery types" (p. 111). This is because they offer both a means to monitor lending and to induce poor people to begin to save, as well as offering the most independence from donors. Although Remenyi does not point this out, his recommendations are in line with recent World Bank work on credit cooperatives.<sup>3</sup>

The most striking gap in Remenyi's coverage is his lack of concern for the issues that usually preoccupy economists studying small enterprise credit. He takes it for granted that a massive market failure exists—that a vast number of small, deserving projects are simply not funded by traditional financial institutions. This undoubtedly is correct, but why? If it is because transaction costs in servicing the market are high, imagine how high they

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must be if formal sector banks are willing to forego the very high rates of return Remenyi reports! What is it about CIGPs that allows them to be overcome? If the problems have more to do with moral hazard and adverse selection, what are the implications for how best to structure a CIGP? Do CIGPs succeed where group and church-based lending in effect raises the cost of default? Remenyi speaks to these issues only implicitly, and although such considerations probably underlie his preference for the savings-linked CIGP model they should be made explicit.

After reading Remenyi's book it's easy to see why Christian NGOs get excited about micro-enterprise lending. Church and para-church networks in developing countries may find it relatively easy to establish CIGPs. And, by virtue of their explicit commercial nature, CIGPs stand to benefit even more than most NGO-sponsored programs from the recent

legitimization of markets and the informal sector in the eyes of development agencies. One can only hope that program expansion in this area takes place judiciously and is mindful of the helpful guidelines Remenyi articulates. ■

1 *Far Eastern Economic Review*, August 8, 1991.

2 See Irma Adelman, "A Poverty Focused Approach to Development," in Lewis, J.P. and V. Kallab, *Development Strategies Reconsidered* (Washington, D.C.: Overseas Development Council, 1986).

3 See M. Huppi and G. Feder, "The Role of Groups and Credit Cooperatives in Rural Lending" *The World Bank Research Observer*, Vol. 5 No. 2 (July 1990).

## *With Liberty and Justice for Whom? The Recent Evangelical Debate over Capitalism* by Craig Gay

William B. Eerdmans, 1991. ISBN 0-8028-0289-3 (pbk.).

### REVIEWER

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Why has the unity of American evangelicals in their defense of capitalism given way to considerable diversity, particularly over the past 20 years? This is the primary question Craig Gay asks in his book, *With Liberty and Justice for Whom?* He surveys the evangelical writers in this period with the objective of relating theology to economic, social and political issues. His goal is to assist evangelicals to "arrive at more theologically balanced appraisals of public policy issues." He hopes his analysis will be a "lens to correct ideologically distorted vision."