

## Seven Theses in Support of Successful Rural Development

by

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During the last decade, the economic, political, and institutional context for rural development has changed markedly in most developing countries with the general achievements of economic recovery following implementation of adjustment policies, transition to more representative forms of governance, and consolidation of a thick web of civil society organizations. This context creates new perspectives to address the urgent problem of extensive rural poverty and to put into place successful programs of rural development. There has also been considerable experimentation with a new participatory and decentralized approach to rural development, grounded on the role of organizations in civil society and decentralized governance, that departs radically from the previous state-led integrated approach to rural development. These experiences were pursued in a dispersed and all too often loosely rationalized fashion by a number of NGOs and international organizations, most particularly IFAD (the International Fund for Agricultural Development, a member of the United Nations). While every country and, in fact, every particular social group needs specific programs, there are a number of broad principles that can be derived from these experiences. Cautioning against facile generalizations and stressing at the outset that adaptation to every particular situation is essential, we explore in this note seven broad theses for successful rural development following this approach in the economic, political, and institutional context that currently characterizes most developing countries.

*Thesis 1: A sound macroeconomic context, achieved by implementation of successful stabilization and adjustment programs, is necessary but not sufficient for successful rural development.*

A sound macroeconomic context is clearly necessary as it enables to remove historical anti-agriculture biases created by exchange rate overvaluation, import substitution industrialization policies, and direct taxation of agriculture, and to eliminate inflation which discourages investment and imposes a cruel tax on the poor. Exchange rate and trade liberalization allow to put into place a more realistic and credible price system, which, in principle, should create price incentives for agriculture. In the short run, however, these benefits may be canceled by elimination of subsidies to agriculture and recurrence of exchange rate appreciation due to capital inflows. This implies the need for the state to explicitly manage the incentive system during transition periods to help agriculture modernize and diversify as it adjusts to its newly found comparative advantages. However, even when these incentives become effective, benefits are only derived if there is a high elasticity of supply response in agriculture. The key to successful rural development thus depends on jointly achieving successful macroeconomic adjustment and putting into place the determinants of a high elasticity of supply response among smallholders. It is one of the fundamental purposes of rural development interventions to engineer this high elasticity of supply response.

While creating incentives for sellers of an agricultural surplus, the process of adjustment typically raises the price of food and increases unemployment, again at least in a transition period. Since many of the rural poor are landless and net buying smallholders, this transition will worsen poverty among them, at least until adjustment creates enough growth, employment, and response in the production of non-tradable foods. To shelter these groups, special programs of income generation (public works programs) and targeted food subsidies (social funds) are required. These programs address transitory poverty and help insure the political feasibility of reforms, but they do not solve the much more difficult and extensive problem of structural poverty which is the object of rural development.

Macroeconomic contexts will continue to change beyond the phase of structural adjustment as domestic economies respond to international shocks and opportunities, go through the successive phases of business cycles, and are affected by cumulative processes such as population growth, learning-by-doing, and depletion of resources. For this reason, the correspondence between macroeconomic policy and rural development interventions is a process that needs to be continuously adjusted. This requires the ability to coordinate the making of macroeconomic policy with the making of rural development policy. In general, however, the branches of government where rural development is designed have little interface with the

branches of government where macropolicy is made. This raises three important issues for successful rural development:

1. The need for the branches of government responsible for rural development and the interests of civil society concerned with rural development to be part of a continuous dialogue with the branches of government charged with the making of macro policy. If rural development is an important concern for government, opportunities for this dialogue to occur need to be explicitly provided.

2. The need to find a location for rural development within the governmental structure which allows for both effective representation in this dialogue and effective service for implementation, a difficult challenge. Observation of the administrative location of rural development services across country governments reveals a wide range of solutions including ministries of agriculture, ministries of social welfare, ministries for the environment, central planning and budgeting agencies, specialized services directly attached to the executive, and agricultural research institutes. Clearly, no unique solution that reconciles all the exigencies for successful rural development seems to prevail at the level of central government.

3. In choosing this location, the need to clearly separate rural development from welfare activities, so that the perceived likelihood of public transfers by rural households does not divert their energies toward rent seeking, does not postpone private initiatives in new projects as they wait for public rents, and does not tempt governments to use rural development programs for short term political gain.

*Thesis 2: The institutional gaps created by government contraction are currently the most serious hurdle to smallholder response to incentives to invest.*

Implementation of stabilization and adjustment policies has resulted in fiscal austerity and descaling of the direct role of the state in the economy. For rural development, this has implied the contraction or foreclosure of many public institutions such as development banks and parastatals which had served agriculture, the descaling of subsidies that had often been introduced to compensate agriculture for appreciated real exchange rates and industrial protectionism, and the privatization of many services to agriculture. This wholesale institutional change has induced differentiated responses across sectors of agriculture. The more commercial sectors have in general successfully gained access to new sources of institutional support through commercial banks, private merchants, contracts with agroindustry, and professional organizations or private consulting firms delivering technical advice. The extreme poor have sometimes benefited from access to safety nets temporarily put into place by social funds. By contrast, the middle sector of smallholders, the principal clientele of rural development programs, has all too often been left dispossessed of access to institutions delivering credit, efficient financial services, marketing, and information about technology and market opportunities, creating a serious institutional vacuum that threatens the very existence of this social sector as it compromises its competitiveness vis-a-vis the commercial sector of agriculture. As land markets become liberalized in a context of pervasive institutional gaps for smallholders, land could easily concentrate in the hands of a minority of commercial farmers and mass migration of displaced smallholders ensue.

Successful rural development thus needs to focus on the reconstruction of civil institutions in support of an efficient smallholder economy. This includes a wide array of institutions which had been suppressed by preponderance of the state or failed to emerge for the same reason: credit unions, savings and loans associations, and financial NGOs; marketing cooperatives and community storage organizations; organizations for the co-production with government of public goods and services, for instance for infrastructure and its maintenance, or for research and development; water users associations which can assume the direct management of devolved water districts; and community organizations that can enforce cooperation in the management and improvement of common property resources such as grazing lands, forests, and fishing grounds. These institutions are key in permitting smallholders to reduce transactions costs in accessing markets, relax constraints on investment and factor use, and insure effective management of productive resources, i.e., in increasing the elasticity of supply response of smallholders.

In all cases, the key principle for the construction of civil institutions that can effectively substitute for former government service agencies is to capitalize on the unique informational and

enforcement advantages which local (often traditional) institutions have. The superior ability of local institutions in capturing local information allows them to control opportunistic behavior that takes the form of adverse selection and moral hazards in contractual relations. To compensate for the disadvantages of locality, such as diseconomies of scale and high covariation in local events, integration between local institutions and broader formal institutions should be sought. Enforcement of cooperative behavior by local institutions can be achieved through interlinked transactions, exercise of social pressure, advocacy of social norms, and repeated games with no exit option for participants.

*Thesis 3: Rural poverty is fundamentally created by insufficient control by the poor over income generating assets.*

It is control over assets which gives households, and the members of a household differentiated by gender and age, the opportunity to generate income. There exists a wide array of assets which serve this purpose. They include: land and water, the primary assets for rural smallholders; other productive capital such as tools, animals, and machinery; human capital including the health, education, skills, and experience of working age adults; organizational capital such as membership to cooperatives and credit unions; social capital such as membership to communities where social collateral can be used in accessing loans, where face-to-face relations in exchange help reduce transactions costs, and where mutual insurance is practiced; and migration capital under the form of membership to networks of migrants which help increase the chances of successful migration.

Anti-poverty programs need focus on mechanisms that increase the asset entitlement of the rural poor. For rural development, access to land and water and the nature of property rights over these assets are key issues that are far from resolved for a large share of the rural poor in most developing countries, and most particularly for the poorest. Solving this problem is a pre-condition for successful rural development programs. This re-opens the tremendously complex problem of land reform, a problem that needs to be placed high on the political agenda, and of the associated institutional reforms in support of competitiveness of the land reform beneficiaries. Where landlessness, non-viable farm sizes, and uncertain property rights prevail, no agriculture-based rural development effort can succeed in reducing rural poverty without first addressing this question.

Yet, the record of land reform has in general been at best mixed, often leading to the expropriation of tenants and the worsening of rural poverty, or to the modernization of large estates in response to threats of expropriation without redistributive gains for the poor. The four most difficult issues for successful land reform are:

(1) To restore the inverse relation between total factor productivity and farm size, based on the superior advantage of small farms in making use of self-motivated and partially captive family labor. This relation has often been perverted by the capitalization of agriculture occurring in a context of policy and institutional biases favoring large farms such as tax breaks for wealthy landowners, privileged access to credit and to government services for commercial farmers, and in general successful rent seeking by larger farmers. Eliminating these biases through policy and institutional reforms is thus a precondition for the inverse relation to hold, itself a condition to achieve both equity and efficiency gains through land redistribution.

(2) To organize powerful political coalitions in support of land redistribution in order to countervail the power of traditional landlords and local elites to derail the reform, even against the will of a progressive central government. These coalitions need go beyond the direct land reform beneficiaries to include urban industrial and services interests, both producers and labor, who see in increased domestic market size, reduced urban migration, and greater political stability advantages to the reform.

(3) To promote organizations among beneficiaries and to construct service institutions through which they can have efficient access to financial services, input supply, marketing, and extension, that will help them achieve competitiveness after the reform. To be successful, land reforms must consequently go well beyond land redistribution and address extensive organizational and institutional reforms.

(4) To mobilize government support for the beneficiaries beyond land redistribution so they gain access to a redesigned infrastructure and to the necessary public goods and services in complement of private initiatives.

*Thesis 4: The rural poor are highly heterogeneous and solutions to rural poverty must be correspondingly differentiated.*

Heterogeneity across households comes from highly varied asset endowments and highly varied constraints on performance such as differential access to markets, credit, infrastructure, information, and insurance. The result is a bewildering variety of (constrained) opportunities for households to design survival strategies, even while remaining poor within this exercise of choice. This applies both to households as a whole and to gender categories within households. Sources of income typically include crops and livestock, forestry and fisheries, participation to the labor market, self-employment in microenterprises, and migration and remittances. To design rural development interventions, this heterogeneity needs to be characterized and understood, usually by conducting household case studies and surveys, and constructing typologies of household categories.

Heterogeneity is both a difficulty for the design of solutions and a valuable opportunity: it says that there is no unique solution to poverty, but also that there exist many potential roads out of poverty. For instance, households with little land but good human capital can use the labor market as an important source of income; households with migration capital can rely on remittances to complement meager farm incomes. With an heterogeneous population, a same policy or program such as structural adjustment, will have highly uneven implications across household types; at the same time, heterogeneity allows to design differentiated interventions and to target these interventions on particular segments of the rural poor. In facing to heterogeneity, rural development programs must consequently be able to offer poor households a broad portfolio of options as opposed to looking for unique *passé partout* solutions.

*Thesis 5: Because of heterogeneity and existence of a multiplicity of continuously changing solutions, rural development programs must be demand-driven since only the poor themselves, with appropriate organizational and technical assistance, have the information necessary to identify solutions that will fit them and belong to them.*

Following a demand-driven approach to rural development is by now a well recognized principle with which IFAD and a number of other development agencies and governments have started to experiment widely, but yet without synthesis of the lessons learned because most programs following this approach are still at early stages of implementation. Under the veil of limited information, the challenge is thus to design a demand-driven approach to rural development that is likely to succeed. There are a few broad preliminary principles that can be derived from the experiments in progress. They suggest that demand-driven rural development should be crafted along the following principles:

1. Start with a strong effort to organize the poor households and communities. NGOs can be particularly useful to assist in this effort, especially to bring into organizations the poorest and traditionally least organized households. Project resources need to be devoted to this effort.

2. Organize regional executive agencies, following the model of Community Development Funds (IFAD) or Social Action Funds (World Bank). These local agencies typically include representatives from central and local government, NGOs, community-based and grassroots organizations, and local traditional structures of leadership. They are charged with the responsibility of setting broad priorities for the disbursement of funds and inviting organized households and communities to submit projects for funding, both as grants and loans (clearly separated), on a competitive basis. Superior access to local information by these regional agencies helps them channel resources to the poor while mitigating adverse selection and moral hazards problems.

3. NGOs and technical assistance consultants (on a voucher basis funded by the project) can be called upon by the organized households and communities to help in the formulation and submission of projects to the regional executive agency. Demands for loans are mediated by the regional agency, often through a financial NGO or a local financial institution on a percentage points basis, but channeled to

commercial or development banks. Grants and loans are allocated on a competitive basis by the regional agency, inducing organized groups to make their demands more competitive by contributing local resources (for instance for the co-production of public goods and the maintenance of infrastructure) and offering guarantees of loans repayment and credible delivery of results.

4. The regional executive agencies can be regrouped in peak organizations allowing efficient dialogue among such organizations, as well as with government and donors. This national forum permits the definition of priorities consistent with the government's long term plans and with donor priorities. It allows beneficiaries to lobby for continuity of program support and for access to additional assets by the organized poor. It also allows for resources to be allocated in a transparent fashion, and for accountability to be achieved by making fully public information on the allocation of such funds (ex-ante) and on the results achieved by use of these funds (ex-post).

5. Sustained government and donor commitment to rural development requires organization of broad pro-poor coalitions that can lobby in support of this approach. Because governments respond to political pressures, poverty-related public expenditures need compete with demands by other organized groups, backed by resources allocated to rent seeking, and hence expectedly more powerful than pro-poor coalitions. Constitutive elements of a pro-poor coalition could include: political representatives of the direct beneficiaries, particularly through local governments with close relations to poor constituencies; interests indirectly benefited by rural development through linkage effects such as merchants, entrepreneurs catering to the effective demand of the poor, and employees of anti-poverty programs; individuals and institutions concerned with the negative social and political consequences of poverty and urban migration such as urban labor and the urban middle class; individuals and institutions concerned with the negative environmental consequences of rural poverty such as downstream interests and users of water emanating from watersheds where the poor practice slash-and-burn and deforestation; institutions of a moral character motivated by altruism or proselitism; and international and national agencies concerned with poverty.

Following these broad principles, which are to be adapted in each case to both the specific degree of organization of civil society and the current degree of decentralization and democratization in local governance, rural development programs should be:

1. Decentralized toward organized groups of households and communities.
2. Participatory to capture local information and resources, and achieve accountability of local government.
3. Demand-driven and differentiated to allow for asymmetrical information and heterogeneity of households and communities.
4. Strongly market oriented to achieve smallholder competitiveness within the new economic and institutional framework.
5. Complemented by effective construction of supportive civil society institutions in replacement of the descaling of state services.
6. Clearly separated from welfare to minimize false expectations by households and communities and populist gestures by government.
7. Based on a partnership between state and civil society to maximize complementarity between the initiatives of these two sets of institutions.
8. Backed by a broad pro-rural poor coalition that can effectively lobby for program sustainability.
9. And organized as a learning process, where learning is achieved in a participatory fashion.

*Thesis 6: This approach to rural development implies a strong/redefined role for the state, able to support and complement the role assumed by civil society in rural development programs.*

The central government and the local branches of government involved in this partnership need to perform the demanding task of catalysts in inducing the emergence of regional executive agencies and in performing specific roles as part of this alliance which only they can perform. Achieving success in performing these tasks requires devoting resources to the strengthening of the public institutions involved, particularly at the local levels of governance where the types of expertise needed for participatory rural

development are new and typically lacking. Good governance is thus a key to success of this approach to rural development, not substitution of the state by agents of civil society. In particular, the state needs to continue fulfilling functions that are its unique realm: macro and sectoral policy in support of rural development, the delivery of public goods and services, regulation of environmental effects, regulation of competitiveness of markets and the enforcement of contracts, provision of information when it creates positive externalities such as new technology, assistance in access to assets for the poor, and welfare and safety nets for the poorest.

Many countries have taken initiatives to decentralize governance toward provincial or municipal governments, effectively devolving a number of tasks from central to these levels of governance. This can be quite effective to entice civil society participation, to more effectively respond to local demands by the organized poor, and to achieve greater accountability in governance. However, to be effective decentralization of governance requires a number of pre-conditions to which the central government needs contribute. This includes democratic forms of governance at the local level and in particular due representation of the interests of the organized poor, fiscal decentralization to endow these local administrative bodies with control over resources, and training of local bureaucrats to perform the technical functions in support of participatory rural development.

A well functioning system of rural development, based on regional executive agencies, thus needs good governance, even if the direct role of the state in these agencies may be subsequently descaled as civil society gradually learns to assume more directly a number of functions which only the state can initially fulfill. A high elasticity of supply response in the context of market liberalization and a greater role for civil society thus require a redefined, pro-active, and efficient public sector as part of the new coalition with civil society on which rural development is constructed.

*Thesis 7: Successful rural development requires a thriving agriculture, but the problems of rural poverty and retention of rural populations can almost never be solved by agriculture alone, however successful agricultural development may be.*

Most rural incomes directly or indirectly derive from agriculture, including forestry and fisheries. Successful agricultural development is thus a pre-condition for successful rural development. However, given the rapid growth of rural populations, land scarcity, and mounting environmental pressures, off-farm and non-agricultural incomes need to be promoted in the rural areas as an integral component of rural development. This implies:

1. Promoting investments in microenterprises which can (1) add value to agricultural and forestry products, (2) produce the regionally non-tradable goods and services demanded by agriculture as inputs (backward linkages) or in response to the expenditure of agricultural incomes (final demand linkages), and (3) produce regionally tradable goods through the decentralization of industry. This last activity suggests emulating the Italian, Danish, and Brazilian (shoes and textiles in the state of Sao Paulo) experiences with flexible specialization, where formal industries subcontract production to rural households and cottage industries. These microenterprises will more often than not be part of a labor intensive informal sector, complementary to the modern sector.

2. Promoting skills and the quality of human capital for successful participation to the labor market and to seasonal migration. On the demand side of the labor market, promoting labor intensive industrialization in both the formal and informal sectors.

3. Developing financial institutions to channel remittances back to the emitting communities and make them available for investment by local entrepreneurs in productive, employment creating, activities.

In general, promotion of rural microenterprises is not the systematic purvey of any of the main ministries and tends to fall into the cracks of public administration. For rural development, the promotion of off-farm and non-farm sources of income also requires taking a broader view on the set of opportunities made available to organized households and communities, for instance in the options offered by regional executive agencies. International agencies often have difficulties in handling this diversity as they tend to be specialized in activities that focus on agriculture (FAO, IFAD), or on industry (ILO, UNIDO), or on

human capital development (UNESCO, UNICEF), calling on the need for coordination among these agencies and on broader coalitions of donors.

### *Conclusions*

Reflecting on these seven theses for participatory rural development is an exercise in high expectations, but also in modesty: while it charts a new and exciting potential for rural development initiatives, it also serves to underscore how little we still know about conducting effective rural development in the economic, institutional, and political context that prevails in the developing countries as they emerge from structural adjustment. It also helps us better understand that there is no unique solution and that much local innovation and experimentation will be needed. To succeed in this effort, key is to design this approach as a learning process, where each attempt is monitored in terms of achievements and failures, and where the broad spectrum of agents involved in the program is called to participate in assessment and in the drawing of lessons for the design and implementation of subsequent initiatives. It is these lessons that urgently need to be drawn and shared so that a new rural development science can emerge from the multiplicity of initiatives currently under way.