

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

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Batch 62

1. SUBJECT CLASSIFICATION	A. PRIMARY Food production and nutrition	AE30-0000-0000
	B. SECONDARY Development	

2. TITLE AND SUBTITLE
Conceptual overview of rural development

3. AUTHOR(S)
(101) AID/TA/Working Group on the Rural Poor

4. DOCUMENT DATE 1974	5. NUMBER OF PAGES 50p.	6. ARC NUMBER ARC
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7. REFERENCE ORGANIZATION NAME AND ADDRESS
AID/TA/RD

8. SUPPLEMENTARY NOTES (*Sponsoring Organization, Publishers, Availability*)
(In Draft working papers on rural development, no.1)
(In English and French. French, 52p.: PN-AAD-808)

9. ABSTRACT

10. CONTROL NUMBER PN-AAD-807	11. PRICE OF DOCUMENT
----------------------------------	-----------------------

12. DESCRIPTORS Strategy	13. PROJECT NUMBER
	14. CONTRACT NUMBER AID/TA/RD
	15. TYPE OF DOCUMENT

D R A F T

WORKING PAPERS ON RURAL DEVELOPMENT

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C O N C E P T U A L O V E R V I E W
O F
R U R A L D E V E L O P M E N T

Working Group on the Rural Poor
United States Agency for International Development
Washington, D.C.

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CONCEPTUAL OVERVIEW PAPER ON RURAL DEVELOPMENT

INTRODUCTION

There is now a widespread view in the development community that the goal of developing country efforts should be a substantial improvement in the productivity, health and skills of the poorest majority so that they will share equitably in the benefits of development. This view is clearly expressed in AID's present congressional mandate. In accordance with that mandate, AID will place great emphasis on the rural poor.

For operational purposes, the "rural poor" in developing countries can be defined as those persons living largely outside of or at the lower income end of the modernized sector and not in major cities. We assume that in Asian and African countries, but to a lesser extent in Latin America, these groups constitute the "poorest majority" referred to in the legislative history of the FAA, 1973. They include small semi-monetized and subsistence farm or pastoralist families, landless laborers and their families, plus craftsmen and the unemployed and underemployed in market towns and small cities in the rural hinterland. In addition, if rural programs are to reach the rural poor AID will also need to work with some whose income may be somewhat above the level of the poorest majority but whose activities are essential for rural advance, especially small and tiny non-farm entrepreneurs.

AID's approach to rural development is to provide effective financial and technical support for selected country operational and research programs which seem likely to enhance the productivity, health and skills

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of the rural poor. AID is already engaged in this work in a number of countries and through a number of research projects. AID is also trying to increase the in-house and outside expertise available to work on these problems.

An ambitious but feasible operational target for AID is for the agency to demonstrate by the end of FY 1976 (FY 1977 Congressional presentation) a response that would include:

1. In all countries interested in rural development programs focused on benefitting the rural poor, AID participation of a clearly constructive nature in light of the local circumstances.

2. In countries whose governments are not interested in such programs, the definition of a USAID approach to increase the interest of the government in such activities.

3. The assurance of an agency capacity to respond to request for rural development assistance in a manner consistent with the latest "state-of-the-art."

The purpose of this paper is to provide practitioners with a preliminary conceptual overview of current thinking on rural development. Part I sets out in very general terms some of the theoretical assumptions derived from the literature and the evolving body of AID experience which underlie current AID/W thinking about rural development. Part II sets out some strategic assumptions about the nature of rural development assistance, goals, target groups and the setting of national LDC policy within which the desired approach to rural development can be expected to function

effectively. Part III sets out some major issues common to many rural development programs about which there can be no agreement or generalization. These are some of the areas of critical importance which must be resolved locally. It is important that these issues be explored in any case so that the best solution achievable in the given case can be identified. Part IV explores the elements of the broadened rural development concept. The discussion emphasizes the more recent concepts and extensions of the scope of rural development. However, it should be understood that the new concepts are largely additive to AID's traditional concerns with agricultural production, technology transfer and institution building.

This statement should not be regarded as "policy". The policy will emerge as a consequence of dialogue between AID/W and field missions on the matters addressed by this paper. The FY 75-76 guidelines and field budget submission responses thereto were the first stage of this dialogue. This paper carries on that dialogue.

In the near future, a number of papers will be circulated to the field which will go into many of the subjects mentioned in this paper at greater depth.

The usefulness of these papers depends more upon their ability to initiate rethinking and discussion than their "objective truth" or direct applicability in any given case. Feel free to use or reject any part of the document. We would appreciate your comments and criticisms so that later versions of the paper will reflect a broad range of knowledge and experience in the agency.

I. Theoretical Assumptions of Rural Development

Until quite recently, the dual goals of increased production and equity might have been considered inconsistent. Current thinking, however, suggest that these goals are not only compatible but that questions of employment, income distribution, and increased food production are interdependent and must be addressed simultaneously. The current thinking is based on a body of experience and theory which has developed in the past few years.* On the basis of these materials, the following propositions or assumptions on rural development are viewed as basic premises for AID program planning:

1. Assuming that small farmers have adequate access to production inputs, technology, the financial system and the market:
 - a. Output per acre will be higher on small farms than on large farms.
 - b. Production will be increased at the lowest capital cost.
 - c. The largest possible number of jobs will be created (small farm, labor-intensive agriculture creates more employment than any other economic activity.)
 - d. Income distribution should be improved since large numbers of the poor will be increasing their incomes.

*A paper summarizing the evidence on the economics of small producers is nearing completion and will be distributed shortly.

2. Adequate access to the four elements (production inputs, financial system, the market and technology) of a high productivity-rising income agricultural system normally cannot be achieved without viable local institutions.

3. Development strategies aimed at increasing the productivity of farming through capital intensive means and through large farm methods do not produce optimal overall growth results because income effects tend to favor the wealthy, food production tends to be less than optimal, employment creation is limited and the potential effective demand for food and other basic products is curtailed.

4. Small producers can be expected to have a fairly high marginal savings rate if they own or control (through reasonable contractual arrangements) their own farms or business firms, even if per capita income is low at the starting point.

5. Creation of both farm and non-farm jobs in rural areas increases demand for commodities and products which facilitate the growth of markets at all levels of the economy, promotes a better distribution of population in a range of urban centers from small market towns to metropolitan centers and favorably affects the quality of life in various ways throughout the LDC society.

6. Programs aimed at increasing small farmer productivity are successful only where farmers' incomes can be substantially increased and their risks reduced. This usually implies introduction of agricultural technology which is new to farmers though often not new to agricultural specialists. In cases where technology currently in use is not sufficient to yield significant productivity and income gains, introduction of new technology is essential if programs in credit, extension and such are to be effective in increasing productivity and incomes.

7. There are many categories of industry in which small firms are as efficient as, or more efficient, than large firms. Many of these industries can be economically viable in the small-sized economy of market towns and small cities.

8. Financial institutions and intermediaries are needed not only to provide rural credit but also to mobilize rural savings.

9. Subsidized interest rates are generally dysfunctional and are particularly harmful to the interests of the large mass of poor and marginal farmers.

10. Geographical factors, including distance, significantly affect transportation time and costs, risk assessment, and the

cost of obtaining information about distant markets.

Geographical factors must be considered in rural development planning. Spatial relationships are critical to design of action programs, planning of resource allocation and creation of urban-rural linkages.

10. Geographical factors, including distance, significantly affect transportation time and costs, risk assessment, and the cost of obtaining information about distant markets and must be considered in rural development planning. Spatial relationships are critical to design of action programs, planning of resource allocation and creation of urban-rural linkages.

11. Market towns and district urban centers are essential to facilitate the flow of inputs and outputs. They also form growth centers where small rural industry and services can create non-agricultural jobs in rural areas.

12. The simultaneous availability of a minimum package of certain services and facilities: appropriate technology, financing and markets, must be assured if small producers are to be assisted.

13. Low cost rural transportation networks, utilities and land improvement are critical physical factors of spatial planning.

14. The existence of profitable agricultural production opportunities does not assure that those opportunities will be exploited, nor, if exploited, that benefits will be

equitably distributed. The capacity to organize rural people to exploit such opportunities is a very important element in achieving potential production increases and an absolutely essential element in assuring equitable income effects from those opportunities.

15. Rural development must be carried out in extraordinarily complex social, cultural, economic, political, historical framework which in each country has shaped the nature and degree of deviation from the desired norms set forth above. The interactions and interdependencies of these complex elements make it highly unlikely that any single intervention such as increasing small farmer credit or introduction of a new technology will be effective in isolation. To the contrary, the performance of the system as a whole requires a rather large number of elements functioning effectively and within a supportive national policy structure in order to produce significant advance. Thus, in most cases, one cannot think only of identifying specific constraints and relieving them as a strategy for rural development. To the contrary, it is the capacity of the system as a whole rather than isolated parts which must be the focus of attention in planning. However, an assessment of an LDC's current system may reveal a few critical parts whose improvement will make the whole work a great deal better for the benefit of the rural poor. Further,

broad-scale changes in the system as a whole cannot be induced quickly. Rather, changing the system must be regarded as a gradually evolving process.

While the foregoing propositions are not all regarded as conclusively proven and may not in certain specific cases be applicable, they may in general terms be regarded as underlying propositions on which AID country strategy may be formulated.

II. Strategic Assumptions of Rural Development Programs

AID rural development activities in the past have been carried out in the context of strategies dominated by a set of concerns primarily defined in economic terms such as increase in production, improvement in balance of payments and so forth. The new thrust toward dual equity/production goals raises some difficult problems of articulation of objectives. Stated simply, where AID is providing assistance, it wants to support local efforts to improve rural conditions in developing countries. In order to improve rural conditions, LDCs may need to make many economic and social changes. Various elements in local and national economic and social systems must support each other, and overall relationships among them may be more important than individual projects viewed separately. In order to improve performance, LDCs must change many elements of the overall system. Given this "systemic" viewpoint, AID can begin to formulate some assumptions on which AID's rural development strategies in LDCs can be premised:

1. Rural development is a description of an LDC policy, not an AID project or program as such. AID hopes to help the country view its rural development problem in comprehensive terms. Within the context of a systematic rural development program, AID will support one or several elements of a developing country's program. Indeed, rarely would AID support all aspects of an integrated rural development program.

2. The goal of rural development is a system which supports self-sustaining growth by promoting profitable farm

and non-farm productivity increases coupled with equitable distribution of the benefits of that productivity.

3. The target groups of rural development are persons living in villages, market towns, and small cities whose incomes are low relative to those living in the modernized sector. They include small farmers, pastoralists, landless laborers, artisans, craftsmen and small businessmen.

4. Rural development must be carried out within a framework of national policy which is supportive of self-generating growth in rural areas. The set of policies necessary and sufficient to carry out the objective will vary from case to case. However, some minimum set of LDC government policies and commitment to rural development must exist or neither government nor AID programs are likely to achieve the intended results. The following areas of policy concerns are among those which will significantly affect the effectiveness of any rural development activity. In the real world it is, of course, somewhat unlikely that many governments would have established or be working toward all of these policy goals simultaneously.

A. Investment Priorities

Investment priorities should be balanced between interests of urban and rural populations rather than promoting rural subsidization of urban industrial investment.

B. Spatial Planning

National planning on a sectoral basis should be broadened to include spatial considerations in the allocation of investments and the design of action programs.

C. Growth Centers

Planning strategies which promote economic growth at one or a few major urban centers should be shifted to a policy that will strengthen the economies of regional cities, district centers and market towns through a concerted effort at raising the productivity and incomes of rural populations and developing services and industries supporting rural populations.

D. Target Population

Rural development policies should be directed primarily at small farmers, herders, artisans, labor intensive industry and service workers in villages, market

towns and small cities rather than at large scale capital intensive commercial farms and capital intensive "agro-industries" located in big cities.

E. Agricultural Markets

Policies should give more emphasis to production of food for domestic use and expansion of domestic markets rather than favoring production for export.

F. Technology

The development of technologies that are economically and socially appropriate to the conditions of the country should be favored over the introduction of standard advanced Western technologies in agricultural production and manufacturing. Linkages to international research networks should facilitate the development of technology appropriate for the country's agriculture.

G. Irrigation & Settlement

Improvements in land management practices and small scale irrigation should be favored over large scale resettlement, colonization and irrigation programs.

II. Health

Emphasis should be placed on environmental sanitation, preventive medicine, eradication of endemic diseases, improved nutrition and family planning based on rural clinics, para-professionals and traditional rural health practitioners rather than on the provision of costly personal medical facilities based on highly trained professional staff and Western-type hospitals.

I. Education

Programs preparing adults and children for productive work in rural and smaller urban centers should be favored over education oriented predominantly to big city professional and sub-professional careers.

J. Transport

Transport investment should focus on the development of low-cost rural transport networks with the objective of providing farm to market access and achieving closer linkages among smaller cities and market towns and linking these rural networks with main railroad highway and air facilities.

K. Price & Fiscal Policies

Policies should support the objective of keeping surpluses generated within farming localities primarily for reinvestment for the benefit of local populations in those same localities. Policies which result in intersectoral and inter-regional transfer of economic surplus for the principal benefit of city populations should be discouraged.

L. Planning & Implementation

Emphasis should be placed on processes which link central planning with effective implementation at the local level and which facilitate feedback of information from the base level to the center rather than processes in which planning is separated from implementation and in which the needs of local populations are determined by central authority. "Bottom-up" flows of information and decisions should be emphasized over exclusively top-down direction and control. The capacity of planning authorities to diagnose problems in light of accurate information on local conditions should be emphasized in order to harmonize local and national

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interests. If at all possible, bringing people into a participative role in making decisions affecting their lives and welfare should be encouraged.

III. Rural Development Policy Issues

In contrast to the areas discussed in Part I above concerning which there is justification for the assertion of generalities, Section III will focus on areas where there is less consensus on theory and practice. In many respects, however, these areas are among the most important for careful examination in project design and implementation. Further, these and similar "unsettled" areas of practice are most in need of examination in light of experience. Therefore, we wish especially to emphasize the importance of your providing the benefit of your experience and observations in this connection by letter or airgram to the WGRP. The issues listed are of particular importance, but they do not constitute an exhaustive list.

1. Focus of Resources

Substantial benefits flow from assuring the simultaneous availability of all basic services in a particular area. When all major constraints are relieved synergistic effects are maximized and resources applied have their highest benefit potential. However, given constraints on resources, intensive integrated programs usually cannot be started in all areas of a country. This can cause a real dilemma for LDC planners.

One approach to resolving the policy problem (following A.T. Mosher's book, Creating a Progressive Rural Structure) is to divide potential areas of rural development activity into four classifications.

- a. Lands of immediate high potential for agricultural growth.
- b. Lands of future high potential for agricultural growth.
- c. Lands of low potential for agricultural growth.
- d. Sparsely populated non-agricultural rural lands.

Programs can be developed which provide incremental rural development program elements such as the following:

In areas with low growth potential, focus on rural welfare programs.

In areas of future potential for agricultural growth, focus on rural welfare plus regional research, land development and initiation of organizational and institutional development.

In areas with high potential for immediate agricultural growth, carry out programs including all the foregoing plus intensive introduction of new labor-intensive technology but with lower investment at the outset in rural welfare activities.

Using this approach, all regions of a country can get some benefits while emphasis is placed on productivity increases in high potential areas in the short run. Some income increases from higher GNP can be taxed to expand programs in lower potential areas.

is
Another approach to integrated rural development/to start in wide areas with one or several programs, such as rural public works. Additional program can be added as rapidly as money, trained manpower and institutional resources permit. In this "extensive" approach, integrated rural development is a target to be worked for over a period of years.

2. The Appropriate Mix of Public and Private Activities

In the public-private responsibility question, there can be no generally "correct" answer. But the search for a feasible solution in any given country is a critical problem.

The question of which activities will be public responsibilities and which will be left to private activity within an overall rural development program is fraught with political and ideological consideration. Foreign influence is likely to be minimal with respect to such decisions and LDC decisions on such matters often must be taken as given.

Where feasible, it seems desirable to encourage leaving to private responsibility those activities which the private sector can handle well. In some cases, it may be possible for an LDC government to retain responsibility until an activity or a unit can be "spun-off" to the private sector. For example, a government agency might retain responsibility for servicing local cooperatives to help them become viable business enterprises. Gradually, as cooperatives learn how to manage their own business, they can buy and sell in the private market. Federations of the local organizations can be formed to take over the functions initially performed by government agencies.

3. Sequence of Development Activity

Considerable attention has been given to the question of whether the sequence of development should focus first on generating marketable outputs and higher incomes and later on the provision of social services or to attempt a balanced approach providing resources for both increasing output and providing social services simultaneously. There are advantages to both although many experts now believe that the production/income increase activities should lead the provision of social services. Limited experience with decentralized decision-making suggest that local groups, such as the local council, farmers cooperative or irrigation associations, also give first priority to increased income, so long as more or less all producers can share in the increase. Essentially, welfare oriented rural programs tend to be associated with skewed land distribution systems or elite-dominated communities in which welfare (primary schools, rural clinics, small production loans in which full repayment is not expected) is a substitute for income opportunities for the poor.

4. The Organizational Unit of Rural Development

Should the focus of rural development assistance activity be upon village and kinship groups or upon farmer organizations organized as economic units? Village or kinship groups are useful units of develop-

ment assistance activity because there is trust and faith in local leadership and local people are familiar with local customs. On the other hand, efficiency, economies of scale, optimal utilization of trained manpower, access to marketing opportunities and so forth may best be served by using larger areas such as village clusters which are roughly the equivalent of "counties" or "townships". Where it is feasible to combine the two approaches effective by functions can and should be distributed between the two levels. For example, managerial and investment aspects of farmer organizations might be assigned to an organization representing as many as several hundred villages while implementation of specific activities such as screening credit applications might be the responsibility of individuals indigenous to each village who are given low-level training. Other functions, such as the introduction of new technologies in financial administration may involve people from both levels, such as a qualified extension agent at the higher level working in each village with "villager extension agents."

1. Training Issues

One common issue in training is whether manpower requirements at the village level should be filled by outsiders. The latter are always faced with the problem of gaining the trust of local people. Another issue is whether the content of training courses is designed for the jobs to be done, is sufficiently pragmatic and not too high a level. Still another issue is the willingness or obligation of participants to use their newly acquired skills where they are needed.

Experience suggests that some considerable revisions may be needed in training programs. Perhaps villagers themselves can be trained at a low technical level. If supervised tolerably well by qualified personnel from an organization located above the level of the individual village, the villager-extension agent could be a way of resolving the relationships issue between outsider and local communities. Sometimes people may be "over-trained" if training is viewed as a stepping stone to "white collar" jobs rather than a way of raising productivity and improving the quality of life of the poor. One of the countries with exceptionally high agricultural productivity has virtually no college-trained extension agents working directly with farmers. The agents are farm boys with some secondary schooling and vocational agricultural training. The current emphasis on the use of paramedics in integrated health programs is an example of efforts to make training more pragmatic, adjusted to the knowledge level of local communities and directed at local people who are willing to work in their own communities. This approach may be useful in other sectors. Finally periodic in-service courses for personnel working with local organizations and local people may be an under-used way of gradually up-grading skills through a combination of learning from experience and formal classroom work. In this fashion, the desirability of higher levels of education for individuals, perhaps could be accommodated with practical requirements for carrying out the specific tasks of development activity.

6. The Role of Women

There is a growing awareness of the importance of women in the development process in the development community and in the LDCs. It is apparent that in the past, the economic and social significance of the role of women has been vastly underestimated not only in the way that statistics are gathered and national planning is carried out, but also in project design.

Consideration must be given, particularly in rural development program, to the role of women as decision makers in the family and in local organizations; as agents of the implementation of projects; as beneficiaries of development activities, as workers, and potential entrepreneurs; as a critical influence in all aspects of the change process.

How this emphasis can be expressed in project activity may be a difficult problem given the cultural, legal, economic and attitudinal barriers which may exist in various countries and socio-economic groups (including, it should be noted, our own). But it is essential that this issue be addressed in analysis and project design.

7. Land Tenure

Land tenure considerations are critical in any rural or agricultural development program. The nature of the problems may vary widely from region to region but access to land and constraints on its use are

typical problems in rural development. Experience clearly demonstrates that those countries which have equitable land tenure and land use arrangements have achieved far better economic performance than those which have not.

In the past, AID has treated land reform activities with some reluctance because of political sensitivities involved. But it is obvious that land reform activities are sensitive because they are powerful instruments for change. Whether basic AID policy will be changed in this area remains to be seen. However, attention should be paid to land tenure issues in any diagnostic activity.

It should be borne in mind that full scale land reform, while apparently desirable, is not the only way to attack problems of land tenure. Mortgage financing and guarantees of private real estate transactions, laws providing security of tenancy, rent control and other mechanisms have been used in various parts of the world. Finding innovative ways of dealing with land tenure problems is one of the most difficult but potentially most important contributions that can be made in rural development programs.

8. Food Production Versus Equity

The argument is sometimes made that the need for food production is so great that equity considerations must yield to greater output in development planning. It is often true that a quicker increase in food

production can be achieved by supporting large producers. Small farmer projects tend to be more complex and slower to unfold. Nonetheless, support of small farmer projects generate economic and social benefits which can outweigh quick production payoffs in the medium to longer term and perhaps in the short run as well. Those countries which have achieved both high productivity and sustained agricultural growth have involved their small farmers. While local considerations will determine specific cases, current thinking would favor, other things being equal, AID support of that element of a government's program which promotes longer run production increases with equity outcomes.

9. Benefit Incidence

Rural development projects will often not benefit only the poor. Project design often presents difficult tradeoffs between feasibility and gross impact and assuring a flow of benefits to the poor. Indeed, it often is very difficult to determine benefit incidence effects after the fact let alone to predict those effects before the fact. What is clear is that benefit incidence should always be an issue in project design and implementation. Without a continuing focus on this question, equity goals can be subordinated or displaced. Procedures to assure continuing monitoring of benefit incidence effects should therefore be included in rural development projects as an integral part of the project management mechanism.

10. The Role of AID

The development of an AID approach to rural development, of which process this paper is a part, may be viewed as inconsistent with the principles of "collaborative style" and responsiveness to LDC initiatives. However, in many cases, a strong AID orientation toward effective rural development will parallel and complement the growth in this orientation among LDCs and the development community as a whole. In some cases, focusing the attention of governments on rural development problems must precede project financing. In any event, rural development investments are unlikely to be productive without strong government commitment to its goals. Further, rural development programs which are not responsive to local cultural, historical and political factors are not likely to be effective. Therefore, the AID approach to rural development assumes dialogue, not prescription. The many elements addressed in this paper should be viewed as areas for exploration, not a set of conditions or demands any or all of which must be accepted as a prerequisite of AID support.

11. Political Consideration.

While the subject of political stability falls outside the purview of AID, the Agency must be sensitive to the likely political impact of the rural development policies it supports and the projects which it helps to finance.

Rural development implies a transition from a traditional system which derives its stability from effective resistance to change to a

dynamic system which derives its stability from using productivity and a flexible approach to meeting the changing needs of people. One of the theoretical assumptions of rural development is that it will help promote political stability in a changing society. This is not to suggest that the transition out of an essentially low and static productivity society is not destabilizing along many dimensions including the political dimension. Rather, the issue is whether a country can develop the capacity to adjust and adapt to change in an orderly and relatively peaceful manner. All should recognize that some rural development activities are carried out against a background of tension and expectations. How people view rural programs will have a profound influence on whether stability can be maintained. If peaceful change is to be feasible people must have confidence in the processes and institutions of rural development. Part of this confidence comes from a government commitment to rural change. Without this commitment, long-run political stability is highly uncertain.

IV. Major Elements of Rural Development

This section speaks to the major elements of rural development. Many of these factors are the activities with which AID has had considerable experience such as agricultural production and technology, research and extension, marketing, financial and institutional frameworks and infrastructure. There are also certain elements which, if not wholly new, are now being given a higher degree of emphasis than in the past. These factors include regional planning, participation, institutional learning and growth, the systemic emphasis, effective linking of planning and implementation, and agriculturally related industry. The newer factors are considered important to achieving maximum benefits from the conventional activities. The differences between a rural development as practiced by AID to the present time and the new rural development approach will be seen to be primarily differences of emphasis and attention to the interaction of discreet activities. Very little of past practice is eliminated but a number of new concepts are introduced.

The following list presents a number of factors to be considered in rural development programs:

1. Overall Policy and Planning Framework

Macro Policies

Overall Integration and Coordination

Sector Analysis

Regional Planning: Spatial Organization

and Market Towns

Bottom-up Planning and Feedback Systems

II. Agricultural Production

Planning and Management

Research and Technology

Resource Endowment

III. Activities Supporting Agricultural Production

Research and Extension

Financial Development

Marketing

IV. Institutional Framework

National Agencies

Regional and Local Government

Base-level Farmer Organizations and

Federations of Such Organizations

V. Industry Related to Agriculture

VI. Infrastructure

Rural Roads

Irrigation Facilities

Utilities

VII. Human Resources Development

Nutrition

Population and Health

Education

VIII. Special Problems

Land Tenure and Water Rights

Energy

Motivation, Information and Learning

Employment and Welfare

Evaluation and Research

The following paragraphs comment on some of the foregoing elements with special emphasis on those factors where substantial changes from conventional rural development practice are being encouraged.

Overall Policy and Planning Framework

The kinds of macro policies which appear to be particularly supportive of effective rural development were discussed in Section II above. The planning and implementation of programs supporting a rural development policy present management challenges of the highest order. In this connection, some comments may be useful on three matters: systems approaches, sectoral analysis and regional planning.

1. Systemic Approaches

Rural development is a goal directed change in an enormously complex system of people and institutions. The interdependencies and interrelationships among these many complex elements are often extraordinarily difficult to perceive and understand, let alone manipulate. For example, recent research has demonstrated that growth rates of food grain production, employment and capital supplies and requirements are highly interdependent and sensitive to each other. A substantial growth rate in foodgrain production may not increase employment by very much if the production increase is concentrated among a small number of large

farmers. If the added income from increased food grain production goes largely to those comparatively well off, output prices may decline for lack of demand. In consequence, incentives are lost and production falls off despite the introduction of new technology. Increased production of non-food grain agricultural commodities and rural non-agricultural small industry may, however, create a flow of income and demand which will support greater food grain production. Both increased food grain and non-food grain production, and creation of non-agricultural jobs are necessary, if not simultaneously at least in quick succession, in order to shift a short term increase in production yields to a self-sustaining process of growth.

Correct decisions on a policy level in a complex system like the rural sector probably will require a set of decisions with respect to a number of variables rather than a single-minded push in one direction. The experience of the green revolution in Asia provides ample evidence of the dysfunctionality over time of uni-dimensional "attacks" on agricultural development problems.

At another level, it is important that a development effort recognize the importance not only of the improvement of management of institutions serving beneficiaries but also the viability of base level organizations.

Examples of why systemic approaches to rural development are necessary are legion. But the application of systemic thinking to operations,

planning and management is extremely difficult. It is necessary to probe not only into the detail of how each sub-system works, but how the performance of each sub-system affects and is affected by all other relevant sub-systems. We have not tended to think this way in the past. But it is now apparent that we must do so in rural development activities.

2. Sectoral Analysis

Sectoral analysis (agriculture, health, education, etc) remains a major tool of diagnosis and planning under the rural development concept. Added to the current approach is a heightened emphasis on the process of analysis as a learning and training tool not only for planners but for LDC agency management and the potential beneficiaries as well. To date, sectoral analysis has often been an instrument of top down planning by technicians. This process should be broadened as far as possible to include a flow of information and decision from the bottom up. Thus extensionists, local LDC governmental representatives and small farmers themselves should be involved at a minimum in data collections and if possible, in preliminary decision making as well.

3. Regional Planning

A factor in the rural development concept which has not been emphasized in recent years is regional planning. Regional Planning is itself a substantial area of knowledge. Its potency as a vehicle for expression of sub-national aspirations has been important and will grow. Its greatest value is that it is a disciplined approach to the difficult problem of decentralization. For purposes of this paper, we need dwell only on a few

Implications which flow from regional planning. Among these, none is more important than the significance of spatial arrangements of rural settlement and infrastructure.

It has been observed that there is a strong relationship between rural incomes and the access of rural people to roads, market facilities credit, utilities, health and education services and so forth. At any point in time, an ideal location pattern of these facilities may be specified for a given population. Such an arrangement might involve a cluster of villages around a head village or market town where retail markets and basic services for the cluster areas are concentrated. In turn, these clusters of villages may be grouped around district centers where wholesale distribution and more specialized facilities and services not economically viable in smaller towns can be positioned. The districts in turn may be grouped around a regional city. The number of levels and geographic distribution of hierarchies of agro-urban communities will vary according to variables such as country size, population size and density, topographic barriers, the common modes of transport used by the poor and, of course, the historical growth of the society to the present time.

The rational locating of services, facilities and connecting roads yields a minimization of infrastructure costs and optimization of the availability of important services to the rural population. The area serviced by the market town may be referred to as "farming locality". The "farming locality" centers on the market town. The market town connects

the locality with the outside world. Activities properly concentrated in the market town include health clinics, agricultural extension services, repair facilities, production input stores, savings and credit facilities, schools and other training facilities or perhaps sponsoring an "education center", both formal and non-formal education activities. The locality may also be viewed as an appropriate area for local verification trials.

The high complementarity among the listed elements results in significant improvement in the "system" performance of the farming locality when these factors are available. A higher synergistic effect is possible than if one or several of these factors were not present in the locality, or if they are scattered about in different sites rather than being grouped together.

It should be noted even in this very general overview that the ideal size for a farming locality changes and expands over time as better transportation facilities become available. But at the early stages of agricultural commercialization, farming localities need to be small to facilitate agricultural growth. (A common radius is seven or eight miles from the market town.)

The farming districts service farming localities in the same way that localities serve farmers. District centers provide for an appropriate level of concentration and specialization of services for a number of farming localities. The basic services provided by a district center include wholesale markets for farm products; farm supplies and

and equipment; regional agricultural research facilities; district extension service administration; district banking facilities and major transportation and communication links.

Agricultural Production and Supporting Activities

1. Agricultural Production

The economic engine of rural development is agricultural production. Substantial increases in agricultural output are essential to move the system, provide jobs, and generate income in the rural sector to buy goods and services. Generally, such substantial increases can be achieved only through improved agricultural technology supported by a variety of activities required to assure access to the benefits of that technology. Specifically, one or more profitable technologies must be available and applied in every situation for rural development to take place. Hence, the centerpiece of AID rural development strategy in the past remains the centerpiece of the new rural development concept. The planning and management of technology and inputs to achieve greater physical outputs on the farm is the necessary, though not sufficient, central element in any rural development program.

2. Activities Supporting Agricultural Production

AID has long recognized that numerous supporting activities are essential to agricultural production activity. Research and extension, seed multiplication, marketing, agricultural credit and other related activities are well understood by AID practitioners. Such functions are

In no sense viewed as less important under the emerging rural development concept. The new concept does attempt to incorporate the lessons of experience which show that the effectiveness of the traditional agriculture support activity projects can be enhanced and assured by systematic development of many functions beyond agriculture as such. It is the linking of the traditional functions to a broad range of related activities to improve overall system performance that characterizes the new rural development approach.

In this connection, new approaches to traditional services are encouraged. For example, the use of villagers as extension agents is one of the concepts of rural development that is fairly new to AID. In essence, this is a system in which villagers serve as the communications link between LDC agency professional and technical staff assigned to the base level organizations and individual village communities. The village agents are given some low level technical training through nonformal programs conducted by the properly trained staff and their work in the villages must be supervised by the trained staff. In the village, the agents are responsible for demonstrations, organizing discussions and otherwise trying to involve their fellow villagers in the project. Their exact set of activities will depend, of course, upon the technical subject involved.

Another possible innovation is the use of large numbers of small farmers for field trials in support of extension work. In this fashion, field trials more closely approximate use by relatively less sophisticated farmers. The task of inducing the farmer to try new methods is simplified if he has had a practical, low risk experience with the new technology.

3. Financial Development

Greater importance is now being attached to the development of integrated capital markets in order to increase the efficiency of resource allocation. Small producers must have convenient access to credit and savings facilities if they are to increase their productivity and investment. Organizing financial institutions that are conveniently accessible to all producers is now being viewed as an important condition of rural development. Mechanisms which facilitate the flow of capital to, from and within the rural sector to profitable investment opportunities are necessary for sustained growth.

Discontinuous, fractionated financial development results in inefficient allocation of investment funds, including credit, and an inability to mobilize savings that are potentially available. Existing distortions in financial development tend to favor the larger producers, capital intensive rather than labor intensive investment, and large city rather than farm and agriculturally-related small town investments.

The dysfunctional effects of subsidized interest rates - including disincentives to savings and distorted or corrupt rationing of available credit - are now generally understood. A rational financial market, including rational prices for the use of money, is viewed as a necessary condition for self-sustaining growth in the rural sector.

In many cases, the need for more effective financial development may require innovative approaches to central banking, commercial

banking and financing of agricultural commodities, working capital and rural capital projects. In many countries, the development potential of the financial sector may be exploited more effectively and creatively to accelerate rural development.

4. Marketing

AID, other donor agencies, and most of the IDCs have often emphasized increasing the supply of goods and services while not giving enough attention to increasing aggregate demand and making demand effective. Experience suggests that this imbalance needs to be righted and also that linkages between supply and demand need to be assured as much as this is possible. Markets must be rationalized so that supply and demand are more closely linked and so that increases in production will in fact, lead to higher incomes for small producers.

With respect to services, much attention needs to be given to the condition in which services are wanted and used. (For example, under what circumstances do farmers want the help of agricultural extension?)

Marketing problems tend to be particularly difficult because they so often involve either very costly government pricing solutions, or solutions involving controlling the behavior of large numbers of individuals in private markets. Benefit incidence is often hard to predict in marketing projects. The analysis of these and many other problems of market development should be handled in the context of regional planning problems.

Institutional Framework

1. Institutional Learning & Growth

The institutional framework for rural development has long been recognized as critical. The national government, its major ministries and agencies and some private agencies have been the subject of institution building activities for many years. Rural development incorporates a number of concepts which have evolved in recent years relating to matters of organization practice and procedure, the linkages between institutions and their beneficiaries and most importantly the way that information and influence flows from the beneficiaries into the institutional structure. In this connection, a substantial amount of new and potentially useful ideas are available from the field of organizational studies and other management disciplines.

In addition to the governmental institutional framework, a new emphasis is placed upon farm groups. The history of farmers organizations in developing countries has been discouraging. But the cost of providing the services small farmers need is prohibitive if they are provided individually. Effective forms of group action must be found if economies of scale are to be achieved in the management of savings and credit and other elements of a modern agricultural system.

The shift in emphasis toward the involvement of large numbers of low income farmers implies for any developing country an enormous

institutional challenge. Agriculture ministries, banks, cooperative federations and other LDC institutions are faced with greatly expanded and more varied responsibilities when such a shift in strategy is adopted. In most, if not all cases, the transformation to modern, client-centered service institutions capable of coping with the difficulties of organizing and relating to base level development activity will require a program of planned institutional development growth and change taking place over a period of time.

The process of agricultural sector management sufficient to support base level participation involves not only the expansion and improvement of traditional activities such as agricultural credit and extension. It also requires some new approaches and functions.

Most important of these is the emphasis on better understanding of the beneficiary, his needs and his behavior. Therefore, successful rural development places heavy stress on development within the LDC government of research and evaluation capability linked to the management system. Research thus becomes not an adjunct of planning as such. Rather it becomes an integral part of management which is conceived as a process of planning, implementation and evaluation. The focus is shifted from general, "academic" research to "action research", a system of dynamic, on-going evaluation generating timely, useful data to support management decisions. Such research is not only on economic but also on social and behavioral factors affecting project design and execution.

Only in the most unusual case can an LDC institutional structure be thought to have the capability of substantial expansion and modernization in a short period of time. Ordinarily, it must be assumed that the institutions involved must undergo a process of transformation. In the past we have referred to the process of improving institutional capacity to deal with social and economic problems as "institution building". This term carries with it the implication of the construction of a structure starting at one point and finishing at another point. When "finished", the structure is then fully capable of carrying out the function for which it was designed. But the process of adjustment by institutions to the challenges of rural development is better analogized to the organic concepts of learning and growth. The process of transformation and change in that sense is a continuous one. The nature and quality of an institution must be assessed in terms of its ability to respond to new challenges and responsibilities as well as its capacities to carry out a given function at any point in time.

Viewed in this light, it becomes apparent that considerable emphasis must be placed upon the ability of the institution to gather information and understand what is going on at the base level. The ability of an institution to gather relevant economic and social data and provide communication pathways by which such information can be fed back into its managerial processes becomes critical. Thus, the need for "action research" - research by the institution concerning its clients and its own functioning emerges as a function of equal importance with the gathering of general economic data for economic planning and resource allocation purposes.

2. Base Level Organizations

Increasing agricultural production and general rural welfare depends upon improving the efficiency and productivity of small scale producers. This in turn depends on assuring access of small producers to a range of inputs, new technology, marketing opportunities and so forth. The individual servicing of small producers and independent marketing of outputs generally appears to be neither administratively feasible nor beneficial to the small producers. In consequence, some form of base level organization of small producers is critical to facilitate access and to provide some degree of power in relevant markets and influence through linkages to the national government.

Base level groups of small producers are desirable for other reasons as well. Groups are a valuable vehicle for feed-back to agencies providing services to its clients. The delivery of services and inputs is administratively more convenient and less costly when focused on groups rather than individuals. Carrying out activities involving joint investments and labor is difficult outside the context of an ongoing group which can facilitate both economies of scale and social pressures to encourage participation by all members. Many aspects of rural development require changes in individual behavior on the part of beneficiaries. Changes in attitudes and behavior are facilitated by participation in group activities and decision making. Further, the reinforcement of behavioral change is facilitated by the existence of an ongoing and supportive group.

Base level organizations tend to be most effective when they are designed, organized and managed on the principle of viable business enterprises. This, as a minimum, means for both private and public organizations that revenue equals or exceeds expenditure. Development planners often select key criteria other than viability of business enterprise such as an existing cultural group in a village. Indeed, a village, an existing cultural and social group, may well be an easier focus for a given task than a group of villages. A whole area or region on the other hand might be viewed as an economic unit for mass delivery of inputs and services under government control. The planning of farmers organizations on the principle of a "viable business enterprise" provides a mechanism for management, ongoing evaluation, and the capability for self-sustaining growth.

A number of other factors bear on the successful development of base level organizations. Indigenous leadership, trained if necessary in training centers and returned to their organization rather than utilization of outside promoters is favored conceptually. Experience demonstrates that effective base level organizations take time to develop. They should be started with a few functions. New functions can be added as the organizations acquire the capacity to handle them. Forcing the pace of development can be counter-productive. Base level organizations need sufficient autonomy to define their own purposes and goals within the general policy framework set forth by the center. Excessive control designed to assure conformity with a master plan can be seriously counter-productive.

3. Participation

The emerging rural development concept places a renewed emphasis on human factors in development planning and management. While the concern for human values is intuitively appealing and supportable on moral grounds alone, the case for participation can be built on purely pragmatic considerations.

From a managerial viewpoint, the participation principle is of great importance. A participatory process of development generates much better information for decision making in the system as a whole. Thus the process of participation facilitates better planning and more effective resource allocation. Furthermore, the process of participation results in higher commitments to success and higher expenditures of energy and resources by the beneficiaries. Thus, in effect, a participatory process calls into being or makes available to the development process resources which otherwise would be unavailable. Capturing these peculiar characteristics of participatory activity and exploiting them for the benefit of the development process is perhaps the most difficult yet the most promising and important of the new approaches.

The essence of the participatory process is based on the proposition that a person's motivation to achieve a particular objective is optimized under circumstances where he can:

1. Identify his own needs.
2. Plan how to meet those needs

3. Have decision making power to call in the particular resources which he feels are appropriate to meeting his needs.
4. Experience either success or failure of his own planning as well as physical efforts.
5. Evaluate the causes of success or failure
6. Feed-back the results of that self-evaluation into a new planning-acting cycle.

Where such conditions apply, the individual may be said to be operating in a problem solving climate rather than a dependency climate.

The benefits of a participatory, problem solving approach are substantial. But just as overdoing top-down planning can be damaging, overdoing "bottom-up" planning may result in the misallocation of scarce resources. In any given case a balance must be struck between "top-down" and "bottom-up" approaches. That balance might be characterized as a system in which policies and technical and administrative standards of performance are directed down from "the top", detailed plans are developed at "the bottom" and moved up through the system to appropriate levels of aggregation at which levels resources are allocated according to criteria known and understood by all participants. This implies a substantial change in the distribution of decision making power. It also implies a much greater investment in helping beneficiaries learn to cope with their environment. But the management skills thus learned are the very essence of self-sustained growth and development.

Industry Related to Agriculture

The emerging rural development concept places greater emphasis on the creation of non-agricultural jobs in rural areas. Job creation opportunities should be promoted not only in agricultural activity but also in small labor intensive industries including agricultural product processing, consumer goods, construction, service activities, transport and so forth. These activities should be located in market towns and district centers in accordance with the potential market for the services. Activities of this nature often will require working capital financing more than capital investment finance. They often require as much concern for technical assistance as agricultural activities. Thus, it may be useful to apply earlier experience with urban based small business development projects.

Conclusion

The foregoing materials highlight a number of factors characterizing current thinking on rural development. In their totality, they reflect an idealized set of considerations and circumstances which are unlikely to be simultaneously applicable or feasible in any given country. Viewed as a set of converging goals, they present an agenda of factors which, if effectuated over time, are highly supportive of progress in both food production and equitable distribution of benefits of development.

Comments and criticisms of this draft paper would be greatly appreciated. It is hoped that the document in its current form will be a useful if not authoritative expression of current views. Its refinement depends upon the feedback that experienced practitioners can provide.

Bibliography

(NOTE: The following books and articles will be sent to Missions as rapidly as they can be purchased (books) or reproduced (articles). The number of books on production/equity rural development is still rather few.

The number of professional articles is multiplying rapidly and can now be counted in the hundreds. From this enormous number, the following few have been selected as key articles on major points covered in this Conceptual Overview Paper. Missions desiring additional materials on particular subjects should send their requests to the WGRP. To the list of books and articles there is attached a list of AID airgrams on matters relating to production/equity rural development.)

Books

Ranaan Weitz, "From Peasant to Farmer"
Arthur D. Mosher, "Creating a Progressive Rural Structure"
Edgar Owens and Robert Shaw, "Development Reconsidered"
Ronald McKinnon, "Money and Capital in Developing Countries"
Doreen Warriner, "Land Reform in Theory and Practice"
Ranaan Weitz, editor, "Rural Development in a Changing World"
David Turnham and Ingilies Jaeger, "The Employment Problem in Less Developed Countries"
Richard Jolly et. al., Editors, "Third World Employment"

Articles

Barbara Ward, "A 'People' Strategy of Development"
Dudley Seers, "The Meaning of Development"
Mahbub ul Haq, "The Crisis in Development Strategies"
Peter Dorner, "Needed Redirection in Economic Analysis for Agricultural Development Policy"
Polly Hill, "A Pleas for Indigenous Economics"
(Chapter 1 of "Rural Capitalism in West Africa")
Albert Waterston, "Resolving the Three-Horned Planning Dilemma"
Keith Marsden, "Towards a Synthesis of Economic Growth and Social Justice"
Akhter Hameed Khan, "The Comilla Projects - A Personal Account"
"Tour of Twenty Thanas," Part I
Dev Weintraub, "Rural Periphery, Societal Center, and Their Interaction in the Process of Agrarian Development"
Bruce F. Johnston, "Agriculture and Economic Development: The Relevance of the Japanese Experience"
Gustav Ranis, "Technology Choice, Employment and Growth"
John W. Mellor, "The Impact of New Agricultural Technology on Employment and Income Distribution"
Ong, Adams and Single, "Voluntary Rural Savings Capacities in Taiwan, 1960 to 1970"

AID airgrams

1. AIDTO CIRC A-448, 6/22/74: FY 1976 Program Budget Submission Guidance.
2. AIDTO CIRC A-275, 4/2/74: Program Guidance on Implementing AID's Strategy for the Education and Human Resources Sector.
3. AIDTO CIRC A-230, 3/19/74: Planning and Evaluation of Integrated Health Delivery Programs: A Systems Approach.
4. AIDTO CIRC A-996, 9/29/73: AID Nutrition Strategy
5. AIDTO CIRC A-461, 4/21/73: pp. 6 and 7 of Program Planning for FY 1975 and beyond.
6. AIDTO CIRC A-415, 6/6/74. Guidelines of Small Farmer Credit
7. Legislative History of Sections 103-107 of the Foreign Assistance Act, 1973