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RURAL DEVELOPMENT STRATEGY PAPER:  
CONSIDERATIONS FOR PROGRAM DESIGN AND IMPLEMENTATION

Agency for International Development

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## PREFACE

This paper presents a conceptual framework for use in developing a country and AID Mission rural development (RD) strategy. It identifies program priorities necessary to achieve RD objectives. The paper, informed by Agency policy, provides guidance to Missions on the analysis necessary to define objectives and to develop or refine their RD portfolio. It is not a manual prescribing a fixed set of programs that must be established in all situations. While the program priorities described are all important to achieving RD objectives, the individual priorities that should be given greatest emphasis in Mission programs will depend on the specific requirements of individual countries. This paper will be continually updated as the Agency's understanding of the RD process grows from research and project experience.

### I. INTRODUCTION

#### A. AID Rural Development Program Assistance

The target of RD programs is the rural household, particularly the low-income rural household. An increasing number of these rural households are de facto headed by women making women an especially important target group.

Increasing farm and household productivity and creation of more and better nonfarm jobs are the most effective ways to improve the lot of rural households on a self-sustaining oasis. Therefore production and employment are the primary objectives of a RD strategy. This is achieved in two ways:

- agricultural productivity is the driving force.

However, agriculture cannot be a driving force without help from other sectors. A second function of RD is to

- maximize the impact of other sectors in stimulating agricultural productivity.

#### B. Policy Reference

Congressional legislation and Agency policy recognize RD as an important element of AID programs; RD has been a part of the Agency's programming for at least 10 years. Policy sources underlying AID RD activities are:

- the Foreign Assistance Act of 1961, as amended in 1981;
- AID Policy Papers covering specific subsectors within RD, particularly the June 1978 Agricultural Development Policy Paper and the May 1982 Food and Agricultural Development Policy Paper;
- Policy Determinations and other policy guidance contained in Agency Handbook No. 1 (see Annex I).

#### C. Agency Priorities in Rural Development

Seven program priorities that cut across traditional technical sector RD activities are critical to achieving RD objectives. These priorities (described in more detail later in the paper) should be central to AID's Rural Development program assistance. Many Missions will not be able to address all the proposed priorities set forth below. Missions will need to decide, using the analytical guidance provided in this paper, which are of greatest importance to the development needs of their host country and where AID can make a significant contribution.

The seven program priorities are:

- Local Institutional Capacity
- Access to Productive Resources
- Rural Technology Development and Diffusion
- Small Scale Enterprise
- Management of Natural Resource Use and Conservation
- Market Development
- Regional and Spatial Analysis and Development

## II. A CONCEPTUAL FRAMEWORK FOR IDENTIFYING CONSTRAINTS TO RURAL DEVELOPMENT

Raising productivity and improving quality of life for rural households depend upon increasing agricultural productivity and nonfarm employment because they have the greatest and most direct impact on levels of income and general well-being. Support to agricultural development and rural nonfarm economic enterprise are thus designated as the primary objectives of this approach to RD. Achievement of these objectives can be constrained, however, where there is inadequate development of:

- 1) rural infrastructure
- 2) human resources

In some cases, the human and physical resource base may be so minimal that basic infrastructure (e.g., roads, irrigation schemes, markets, service centers) or human resource development (e.g., primary education, nutrition, health and sanitation programs), or both, are necessary prerequisites before increases in production or employment can be expected. In these situations, strategic, carefully targeted AID interventions may be warranted if such interventions are not provided by host government or other donor programs.

#### A. Dynamics of the Rural Development Process

Figure 1 (page 5) presents one view of the RD process. The starting point ("inputs") is the resource base of a given area, which encompasses the physical environment, human resources and institutional capacity. These resources are combined at a given level of technology to generate output. The income generated in the process of creating this output generates in turn demand for food and wage-goods and the purchase of services.

There are three principal instruments that can be utilized to improve upon the resource base in order to achieve the RD objectives of increased production and employment (Note -- These "instruments" are not portrayed in Figure 1 in order to keep the diagram as simple as possible). These are:

- new technologies, which, when appropriately applied, can lead to increases in levels of output;
- institutional changes, which encourage producers to take advantage of technologies;
- policies, which may affect the flow of external inputs and incentives for: 1) producers to utilize technologies;  
2) institutional change.

Figure 1  
RURAL DEVELOPMENT PROCESS

|  |  |
|--|--|
| Target                                       | Rural Households*  |
| Goal   | Improved incomes and quality of life of rural population   |
| Purpose of AID Strategy                      | Increased productivity and incomes of rural poor households  |
| Critical Assumptions                         | Understanding of local socio-economic conditions, institutions and linkages among sectors  |
| Inputs                                       | <u>Existing Base</u> <ul style="list-style-type: none"><li>- Natural resources</li><li>- Human resources</li><li>- Institutions</li><li>- Level of technology</li></ul>  |
| Primary Objectives/<br>Activities            | <ul style="list-style-type: none"><li>● Increase <u>agricultural productivity</u></li><li>● Creation of nonfarm and onfarm <u>employment</u></li></ul>   |
| Supporting Activities,<br>Where Constraining | <ul style="list-style-type: none"><li>● Investment in human resources (health, education, training, nutrition, population)</li><li>● Improvement in physical infrastructure</li></ul>  |
| Core RD<br>Activities                        | (Crucial for Achieving Primary Objectives) <ul style="list-style-type: none"><li>● Increasing local institution and local government capacity*</li><li>● Increasing access to productive resources</li><li>● Development and diffusion of appropriate rural technology</li><li>● Development of small scale enterprise</li><li>● Improved natural resource management and utilization</li><li>● Market* development</li><li>● Spatial-regional analysis and planning</li></ul> |
| Outputs                                      | Increased agricultural productivity<br>Increased non-agricultural employment   |

## B. Three Key Rural Institutions

There are three critical institutions in rural areas:

1. Household: The household is the most basic institution for "integrating" development sectors and for regulating cross-sectoral resource flows. Precise definitions of what constitutes a "household" will, of course, vary across cultural settings, ranging from a nuclear family to the extended family based on blood and/or kin ties. In general, households have major responsibility for the health and education of children, allocation of labor and resources, management of production, conservation or degradation of natural resources, etc. As such, households become the central focus of a rural development strategy. Projects which help to improve the income, security and viability of the household are central to a rural development portfolio.
2. Markets: Markets are a second vital integrating institution in rural areas. This refers to markets in all factors of production -- land, labor, and capital. Traditional rural areas often have poorly developed market structures and commodity markets. The result is that resources are inefficiently allocated and incentives for development are lacking. Projects which improve markets, entrepreneurship, etc., are critical for rural development.
3. Local Organizations and Government: Collective action is essential in economies which are poorly endowed in public goods. Local organizations traditionally exist but need to be strengthened for new tasks. Without them self-help and local initiative is difficult to achieve. Local governments are often lacking.

As the Agency moves away from direct resource transfer it may well be that investment in the improvement of local organizations and government may be the most significant contribution A.I.D. can make at the local level in such areas as health and education and infrastructure. This will permit local communities to take advantage of improvements at the national level in, for example, educational technologies, policies, etc.

Efforts to strengthen these three critical institutions should lie at the heart of RD programs. They are key integrating institutions that mediate intersectoral flows of resources. They are central to achievement of RD production and employment objectives while at the same time they facilitate achievement of more traditional sectoral objectives, e.g., in human resource development.

### C. Intersectoral Linkages -- An Analytical Overview

The following is intended as general analytical, not specific program, guidance. Missions cannot and should not attempt to address all the intersectoral linkages described. Many of the sectoral activities described will be catered for by host governments or other donors. Instead, Missions should use the description for bringing program focus on areas that clearly constrain achievement of the primary RD objectives. Consideration of the policy environment and host government and other donor investments will further assist this focus. This paper emphasizes in particular the need for investment in human resource and infrastructure development where these obviously innit increase in agricultural production and employment.

In RD there is considerable mutual reinforcement among sectors over the long term. Agricultural development, for example, raises incomes that in turn provide the purchasing power to stimulate rural enterprises. Rural

enterprises provide:

- inputs and machinery for agriculture;
- desirable goods and services which offer incentives to increase production and incomes;
- job opportunities that furnish income to invest in agricultural technology and that remove excess labor from farm employment.

Agricultural development in turn requires infrastructure -- roads, irrigation, communication networks, storage facilities, etc. -- and a sustainable natural resource base -- soil, water and forest. Obviously, rural enterprises also require an adequate infrastructure and many are based on the exploitation of natural resources, directly or indirectly, so the preservation and better utilization of the latter must be regarded as essential for increasing both on and offfarm employment.

Agricultural and nonagricultural enterprises depend on a healthy, educated labor force, one that can learn and use new technologies. The health and education sectors are mutually reinforcing. Basic education increases a household's receptivity to improved health and nutrition which, in turn, create a more productive household (see "AID Education Sector Strategy"). Education increases receptivity to innovations that can lead to adoption of improved farm and household technologies and to more active participation in the nonfarm labor force. Moreover, evidence indicates that educated women have lower fertility rates than uneducated women.

Lower population growth rates reduce the pressure on the natural resource base as well as on infrastructure, health and education facilities. Moreover, more education and improved health (lowered infant mortality) further contribute to lower population growth rates over time.

The interrelationship of the activities described above is complicated by

sequences in different settings. There is no one sequence of events that applies universally. Instead, the appropriate sequence of interventions is dependent on the resources and the degree of their development and use within individual countries.

#### D. The Spatial Factor -- An Additional Analytical Consideration

This paper stresses the need to include in the design of sectoral activities an understanding of regional characteristics -- settlement patterns, transport and marketing patterns, institutional capacity and the characteristics of local ecozones and resources. Regional analysis provides such a perspective within which local linkages and interdependencies become clear.

Urban and rural development cannot be dealt with in isolation. Rural development is enhanced where careful investments in services, facilities and productive inputs among larger villages create a network of rural service centers, market towns and tertiary centers. These centers provide direct marketing and service links for farmers and are capable of absorbing increased population and providing employment for surplus rural labor. Moreover, the regional settlement system is an important channel for disseminating technological innovations from larger urban centers to rural regions and for providing an efficient hierarchy of services that can increase the productivity and income of rural residents.

A regional perspective encourages consideration of the interaction of geography and ecology on the one hand and patterns of public investment and marketing on the other. Similarly, it permits consideration of the problems of common property -- forest lands, open range, watershed management, etc. Finally, it permits a focus on specialized needs of particular ecological

zones that may require unique public investments, e.g., river basins, steep hillsides.

### III. RURAL DEVELOPMENT PROGRAMMING

#### A. Determining Program Priorities

Missions are encouraged to use the conceptual framework presented above to identify rural development constraints within their respective host countries and to then design focused, strategic interventions. This should be done with consideration to existing national programs and RD activities of other donors. Often it may be possible to stimulate a pooling of other donors and host country human and financial resources in a joint country program based on the concepts contained in this paper. For example, Missions might seek, where feasible and appropriate, to directly relate AID-sponsored technical assistance to the major rural infrastructure support activities of the World Bank and other donors.

#### B. Proposed Program Priorities

There is a set of seven program areas that past experience has demonstrated address key constraints in RD and will have high payoff in terms of the objectives of increasing productivity and employment. These program areas enhance key institutional and other linkages across sectors. Further, either directly or indirectly, they concentrate on strengthening the three critical rural institutions cited in Part II.3 above.

The following section summarizes activities Missions are encouraged to undertake in each of the identified priority areas. Some may warrant a separate project; others may be incorporated as components of a larger

address all the proposed priorities set forth below, certainly not simultaneously. Missions will need to decide which are of greatest importance to the development needs of their host country and where AID can make a significant contribution.

1. Local Institutional Capacity.

Missions are encouraged to help build sustained development capacity for mobilizing and managing local resources within countries to which they are providing assistance. This is best done through local organizations and local governments. However, it must be noted that this approach does not imply bypassing higher levels of government. Where genuine potential for improvement seems evident, Missions may want to concentrate on developing the capacity of national and intermediate levels of government to support locally initiated and managed development processes. Care must be taken, however, that such assistance increases rather than decreases local autonomy.

a) Local organizations

Missions are encouraged to design projects so that the planning, managerial and implementation capabilities of local organizations are increased. Participation of the local people in project design and implementation increases the chances of achieving program and project objectives.

Participatory local organizations should be linked to specific developmental tasks. Their role, for example, in the community management of natural resources (maintenance of irrigation systems, management of communal pasture and woodland resources, etc.) complements technical production activities that use these resources.

Examples of activities Missions are encouraged to support are:

- Description and analysis of existing organizations and their role in economic development. Assessment of their potential assistance or impediments to specific project activities.
- Training, particularly in leadership and financial management, for staff of nongovernment or private agencies to plan and carry out local initiatives.
- Identification and support of individuals and organizations who can play a catalytic role in encouraging local initiative and can serve as mediators between local organizations and government or nongovernment agencies.
- Development of a policy and legal environment that encourages local initiative.

Develop the capacity of local administration to work effectively to serve and support community organizations and to encourage self-help.

b) Local government

Local governments: i) can be an important means to express local community needs and desires to central governments (though considerable variation in the capacities and potential of local governments across continents must be recognized); ii) are typically one mechanism by which local community resources may be mobilized; iii) can become effective mechanisms for managing local public investments and services.

In general, the most effective way of supporting local governments will be to design projects that provide specific sectoral services or public goods to local areas (e.g., roads, health clinics, primary schools) and to include in such projects strong institutional building components. Mission support to local governments should emphasize institutional performance, i.e., the ability to deliver specific products. This will help to focus institution building activities on key constraints and tie any expansion of the public sector to essential local government functions.

Missions are encouraged to adhere to several additional "rules of thumb" in working with local governments:

- In supporting product-oriented projects such as those cited above, Missions will need to be committed to a long enough time frame to ensure that the necessary institution building will take place, e.g., establishment of a functioning maintenance system.
- There may be situations where local governments are so weak that proportionately greater attention will need to be paid to building some generic capacity -- emphasis on training, improvements in revenue generation, etc.
- cost benefit analysis should be undertaken to ensure reasonable economic return from both the specific product (road, clinic) and also the institution building component of a local government support project (which may provide significant externalities for other sectors that need to be included in an analysis).

In pursuit of achieving specific sectoral local government products, Missions are encouraged to include the following institution building activities:

- Identify the capabilities and potential opportunities for local governments to support recurring costs of development projects. This will entail working with Finance Ministries to design incentives to stimulate local governments to raise more of their own revenues for development. It may also involve helping them formulate long-term plans to finance certain activities by the central government in areas where local governments cannot now assume this responsibility.
- Encourage local development banks and other sources of self-financing financial assistance.
- Provide financial management training in recurrent cost analysis, budgeting and accounting to local government personnel.
- Help local governments identify and utilize nongovernmental resources such as paraprofessionals, self-help schemes, local fees and contributions from PVOs or the private sector.
- Foster a legal and policy context that encourages local democracy, decentralization and local initiative.

## 2. Access to Productive Resources

Missions are encouraged to design and implement projects that increase the opportunity for rural households, especially low-income households, to utilize productive resources. An agriculturally-led RD strategy depends on the productive potential of the large rural working force but without greater access to productive resources, there is often little opportunity or incentive for low-income households to increase production.

Specific activities such as the following might be included:

- Critical analyses of institutional structures governing peoples rights to own, control and use land, water and other resources especially as these rights influence production incentives, distribution of income, disposition to exploit economic opportunities and the ability to assure appropriate political representation.
- Design and implement improvements in the access to and effective use of land and water by rural producers. This could include improvement of land markets, land titling efforts, modification of traditional irrigation water allocation practices, etc.
- Design projects that more fully utilize the earning and productive potential of rural women or other disadvantaged groups in the development process. There is a special need to adapt project designs to promote and protect access by rural women to productive resources.
- Engage in policy dialogue in countries where it is clear project activities desired by the host government will exacerbate existing problems of skewed resource distribution.

## 3. Rural Technology Development and Diffusion

Missions are encouraged to focus research and development activities on identifying, creating and disseminating new and improved technologies suited to small farms or private entrepreneurs. The development of appropriate rural technologies is essential if small farms and entrepreneurs are to improve their productivity because technology is the major source of growth. If one assumes that traditional farmers are using their resources relatively efficiently, then improved technology is essential for agricultural growth.

The key is how this technology is developed and delivered in the context of the farmers' knowledge and incentives for adopting it in light of social, economic and institutional constraints to adoption.

- Missions are encouraged to develop programs to diffuse new technologies that embody the process of experimental trials, on-site adaptation, recipient feedback and final adjustment before new recommendations are extended to rural producers.

The process becomes part of the diffusion strategy. On-site trials and farmer participation in demonstrations add to knowledge transfer and personal identification with the new technologies. As new or improved technologies pass through the process, they can be modified to fit environmental and institutional constraints. The final step is the test of market viability. Wherever possible transfer to the private sector should be encouraged.

- Missions are encouraged to develop appropriate technology programs in agriculture within the context of AID's farming systems strategy.

This analysis views the farm in its entirety -- all crops and livestock production given existing local resource and environmental constraints. Programs designed as a result of this analysis should then address critical constraints that have been identified. (Development of specific agricultural technologies, e.g., testing for pesticide effectiveness, developing improved crop varieties, or designing specialized input application equipment is discussed in the Agricultural Sector Strategy Paper.)

An important aspect of developing technologies involves disaggregating their impact on households. For example, introducing biological innovations may result in disproportionate labor or other burdens on women and children.

- Mission are encouraged to concentrate their research, training and extension programs on the development and adoption of biological and mechanical innovations, which are, in general, land-saving and employment-generating.

This land-saving and labor-deepening approach must, of course, be adapted to the resources of a country. In cases where mechanical technologies are labor saving they should be included if they produce substantially higher yields on small farm fields, e.g., irrigation pumps in Asia . A consideration in addition to the labor-generating nature of innovations is the potential productivity of the additional labor to be employed.

Moreover, some labor-saving technologies such as mechanical plowing, seeding and weeding in rainfed areas of Africa and Latin America could be considered if, by doing so, more intensive cropping systems are stimulated. Such technologies should be designed to level off labor demand throughout the season, thereby avoiding labor shortages at peak demand periods and employing more labor than would otherwise be the case. The same would be true for technologies for post-harvest crop handling when new cropping patterns create labor constraints for threshing and milling. Particular attention must be paid to the effect of each new technology on demand or wages for women's labor.

For nonagricultural technologies, the same principles hold true but the comparison is not among land or labor-saving technologies, but of degrees to which the technology demands added capital investments compared with employment of new or additional labor. This field of nonagricultural

technologies has not received adequate attention in AID programs. Activities or industries that are low cost in terms of fixed capital, and which use seasonal surplus nonfarm labor or rural labor, are preferred.

- Mission programs are encouraged to use the private sector to develop and diffuse nonfarm technologies.

Private businesses are frequently the most appropriate change agents and providers of new technologies, services and consumer goods to the local population.

#### 4. Small Scale Enterprise

Missions are encouraged to foster the creation and growth of small-scale enterprise activities to achieve increased production efficiency and rural employment. Small and medium-sized enterprises have significant potential for efficient capital use and rural employment generation. They generate less output per worker and pay lower wages than large enterprises but also appear to have higher output per unit of capital and lower capital cost per job.

Recognizing that wages and working conditions must under no circumstances fall so low as to constitute classical labor exploitation, it is nonetheless the case that relatively low cost and efficient utilization of the factors of production are the essence of small nonfarm enterprises' advantage in labor absorption when compared with the modern sector in other areas. In particular, the small- and medium-sized firms represent the most promising means of reaching the landless and near landless and female workers who rarely benefit from the initial gains from new farm technologies.

Moreover, because of low fixed capital and operating costs, these firms rapidly enter and leave the production process, depending upon the supply of inputs, their relative prices and changes in demand. This lends itself to

production cycle. In addition, small-scale enterprises have strong complementary forward and backward linkages with the agricultural sector and may play an important liaison role with respect to the nonagricultural/industrial sector. They create capital (both working and fixed) either from the surplus generated by a growing agricultural sector or from the modern sector because of the increase in demand for food and consumer goods brought about by that surplus.

The most important input for small-scale enterprises is use of excess rural labor or off-season idle farm labor. Recent research suggests that this kind of an employment strategy increases rural incomes even when onfarm labor demand is increasing. When onfarm labor returns are high, these enterprises reduce production activities; when returns are low, they increase work load and output rates. The unique contribution of the private sector operating within this capital-labor market needs to be explored.

Missions are encouraged to concentrate on the following activities to enhance small- and medium-sized enterprise sector development:

- ) Encourage policies that foster business investment. Proper pricing policies for complementary inputs, marketing regulations for inputs and outputs, wage structures for nonfarm rural labor, norms that govern transportation of goods from one area to another and tax rates on the enterprise's value-added and final goods must all be adjusted to place the production or service activity in a favorable economic position.

- Provide credit to obtain working capital as well as fixed asset financing. Collateral requirements should be liberalized. New forms of operation within the financial markets, especially with regard to collateral requirements, are necessary. A shift to offering credit based on minimal cash flow projections rather than value of land or fixed assets (which may or may not be saleable) is occurring in many Third World countries. This change has the potential of improving access to institutional sources of credit by many small-scale entrepreneurs, including women.
- Provide or help to develop management capacity for marketing, accounting, feasibility studies, credit acquisition and production planning. Training programs that meet the requirements and business atmospheres of each development region are proving successful.
- Provide training in production skills for surplus rural labor and seasonal farm labor. Areas that typically experience vocational skill shortages are metalworking, food processing and appliance and motor repair.
- Remove technological, raw material and other input constraints by encouraging policy adjustments or more direct technology diffusing intervention.
- Provide technical assistance to identify small and medium-sized enterprise opportunities and design implementation schedules and requirements.
- Encourage studies that explore the relative balance and roles of the private and public sectors in small and medium enterprise promotion.

5. Management of Natural Resource Use and Conservation

Missions are encouraged to support activities designed to improve management of the natural resource base. Technical solutions to natural resource problems should be integrated with resource management approaches that foster the development of local institutions and organizations that incorporate participation and feedback from the proposed users.

Rural progress and sustained agricultural productivity increases are dependent on resource conservation in light of:

- excessive soil-erosion-and soil nutrient loss, which clog streams with silt and lower crop productivity;
- deforestation, which contributes to rural energy shortages and land and water management problems;
- problems of management of water for irrigation, power and drinking.

In an agriculturally-led RD strategy, the protection, exploitation and management of the natural resource base is crucial for the whole process. The key is to provide the incentives, institutional mechanisms and knowledge to preserve this resource base.

Projects intended to conserve and better manage natural resources and the local environment should incorporate the participation, in all phases, of the intended beneficiaries. This requires:

- enlisting the support and involvement of local organizations in project design and implementation, e.g., in local forestry and water management projects;
- attention to rules (traditional or legal) governing land tenure and water access that might constrain project effectiveness and, especially, affect incentives to conserve natural resources;
- a mix of bio/physical and social science disciplines in project design, implementation and evaluation teams.
- experimentation with institutional mechanisms that provide appropriate incentives and reasonable equity to users.

## 6. Market Development

Missions are encouraged to support the development of marketing institutions and market incentives to enhance and stimulate agricultural production and nonfarm enterprise. Marketing links production and consumption and is a key process in RD. Marketing takes place in production input markets, produce markets, financial markets, commodity markets and export markets. The marketing process transforms products in time (cold storage for perishables, silos for grains), in space (farm to village to wholesaler to retailer), in commodity form (drying, shelling, canning, freezing) and in utility (price, preference, elasticity).

Missions are encouraged to improve access to marketing facilities and institutions by reforming existing institutions where possible and creating new institutions where necessary. Missions might consider concentrating on the following:

- Provide better access to inputs and working capital. Support should be provided for improving the timeliness of agricultural input deliveries and establishing lines of credit for working capital for input supply and produce marketing.
- Promote forward contracts. Develop stable contractual relationships between producers or producers' associations and marketing agents to reduce risks to producers and provide a more continuous supply of products to consumers.
- Develop improved distribution networks. Training producers' association staff and marketing agents in cost accounting, maintenance of sanitation and delivery scheduling will improve existing markets. Investments in produce collection centers close to rural markets and in small-scale urban satellite markets and in financing transportation for marketing agents should be stressed rather than major infrastructure projects. Care must be taken to promote such developments with full cognizance of local conditions and existing traditional market channels.
- Implement price information and market clearance systems. Support should be given to establishing market information systems (radio bulletins, newsletters) to provide daily produce prices and quantities sold in local and urban markets. Producers' associations and marketing agents should be trained in crop forecasting and delivery scheduling. Better market information systems can help

- Devote attention to marketing policy. Where special incentives -- such as guarantees or contract discounting, interest rate discounts for financing specific links in the marketing chain, insurance programs for forward contractees, tax holdings for marketing entrepreneurs, etc.--can be introduced, they should be given priority.

Marketing processes may be carried out within any of several institutional structures of varying size and orientation -- indigenous rural marketing places, private trading and transport companies, producer cooperatives and parastatals. Much attention and support has gone to marketing processes in centralized institutions, mostly parastatals. Indigenous rural marketing systems are in general preferred to centralized institutions for the distribution of commodities from small-farm production and present an opportunity to develop equitable marketing programs based on existing viable institutions.

## 7. Regional and Spatial Analysis and Development

Missions are encouraged to early in their design of regional and area based projects include a regional assessment to address and take into account issues of location, accessibility and resource endowments and constraints.

Many Mission projects are carried out in a specific sub-national region. The location of services, physical infrastructure, natural resources and economic opportunities in the region and reasonable access to them is a critical consideration in the design and implementation of these region based projects.<sup>1</sup>

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<sup>1</sup>It is important to note that regional and spatial planning does not inevitably lead to a so-called "integrated rural development" (IRD) approach. Single-sector interventions that are area based also require careful analysis

Specific approaches are:

- assessment of the resource and population concentrations in the regions relative to the objectives and requirements of the project.
- Assessment of the system of rural service centers, market towns and larger urban centers and their rural economic and service coverage in the region to indentify inherent weaknesses and constraints that might impede the project.
- Regional locational analysis to identify the most effective locations for project activities in terms of access by intended beneficiaries and prospects for sustained operation.
- Assessment and design of activities to strengthen local institutional capacity for regional analysis, as needed, to insure project replication.
- Project design and implementation should pay particular attention to the interrelation of project sub-activities over time throughout the life-of-project. Estimates should be made as to the time it will realistically take for project goals to be observed after project outputs have been achieved.

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ANNEX I

## RURAL DEVELOPMENT AND EXISTING AGENCY POLICY GUIDANCE

This annex provides a description of policies that have shaped AID's rural development programs. It presents information essential to understanding the evolution of AID's rural development portfolio.

Three policy sources underlie AID activities in developing nations:

- The Foreign Assistance Act (FAA) of 1961 (as amended in 1981) promulgated by the U.S. Congress
- AID Policy Papers covering specific sub-sectors within RD
- Policy Determinations and other policy guidance contained in Agency Handbook No. 1

The FAA (Section 101) states that "United States development cooperation policy should emphasize four principal goals:

- the alleviation of the worst physical manifestations of poverty among the world's poor majority;
- the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits;
- the encouragement of the development process in which individual civil and economic rights are respected and enhanced; and
- the integration of the developing countries into an open and equitable international economic system."

Section 102 of the FAA declares the principal purpose of U.S. assistance is:

to help the poor majority of people in developing countries to participate in a process of equitable growth through productive work and to influence decisions that shape their lives, with the goal of increasing their incomes and their access to public services which will enable them to satisfy their basic needs and lead lives of decency, dignity, and hope.

Specific goals and preferred means of assistance for rural development are stated explicitly in Section 103 (Agriculture, Rural Development and Nutrition) of the Act. The policy goal for rural development states, "Assistance provided under this section shall be used primarily for activities which are specifically designed to increase the productivity and income of the rural poor."

The Act cites the following preferred means:

- creation and strengthening of local institutions linked to the regional and national levels;
- organization of a system of financial institutions which provide both savings and credit services to the poor;
- stimulation of small, labor-intensive enterprises in rural towns;
- improvement of marketing facilities and systems;
- expansion of rural infrastructure and utilities such as farm-to-market roads, water management systems, land improvement, energy, and storage facilities;
- establishment of more equitable and more secure land tenure arrangements;
- creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training, fertilizer, water, forestry, soil conservation and improved seed, in ways which assure access by small farmers.

The Act directs special attention to the least developed nations in terms of allocation of funds, and concludes, "Increasing the emphasis on rural development and expanded food production in the poorest nations of the developing world is a matter of social justice and a principal element contributing to broadly based economic growth."

AID has produced several sectoral policy papers on topics that fall within RD's realm. In the absence of an official Agency RD policy paper, these sectoral papers contain policy guidance that bears on RD programs.

The June 1978 Agricultural Development Policy Paper reiterated the FAA's emphasis on productivity and income and employment through people-oriented projects and identified five priority functional areas:

- Asset distribution and access (land tenure and local participatory institutions);
- Planning and policy analysis;
- Development and diffusion of new technology (research, education and extension);
- Rural infrastructure (land and water development, energy including rural electrification, and rural roads);
- Marketing and storage, input supply, rural industry and credit.

The nature of these priorities is noteworthy. First, apart from rural industry and marketing, they are oriented to pre-production activities -- the requisite physical and institutional infrastructure to support production. Second, with the possible exception of the development of new technology, most entail substantial social science analysis and input by physical and agricultural production scientists. In other words, beginning in the mid-1970s, AID's agricultural policy supported broad human and institutional development as an integral part of the rural development process.

The 1978 Agricultural Development Policy Paper was supplemented by a May 1982 Food and Agricultural Development Policy Paper, which reflects an the

expanded focus on "food and agriculture." Also AID's overall food and agricultural objectives are to "enable countries to become self-reliant in food, assure food security to their populations and contribute to broadly-based economic growth."

The 1982 policy paper advocates two major sub-objectives:

- Increased food availability, through:
  - increased agricultural production, with emphasis on increasing and sustaining the productivity, incomes and market participation of small farmers, with special attention to food production
  - greater economic efficiency in the marketing and distribution of agricultural and food production, exports and imports
- Improved food consumption in rural and urban areas, through:
  - expanded productive employment and incomes of men and women who at present lack the purchasing power to obtain adequate food
  - increased awareness and incorporation of sound nutritional principles in the design and implementation of production, marketing, health and education policies and programs, including improved access to and utilization of food for those at nutritional risk
  - effective direct distribution of food from domestic or external sources to those facing severe malnutrition and temporary food shortages (i.e., a short-run lack of food security).

Four policy elements have been identified as priority areas for the Agency:

- improve country policies to remove constraints to food and agricultural production, marketing and consumption;
- develop human resources and institutional capabilities, especially to generate, adapt and apply improved science and technology for food and agricultural development, and conduct research on developing country food and agriculture problems;
- expand the role of developing country private sectors in agricultural and rural development, and the complementary role of the U.S. private sector in assisting this expansion; and
- employ all available assistance instruments in an integrated manner, including provision of PL 480 food aid in a way that contributes to the other three strategy elements as well as meeting food security and nutritional needs.

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The November 1982 Policy Paper on Pricing, Subsidies and Related Policies in Food and Agriculture describes and analyses the consequences of certain policies regarding pricing and distribution in markets directly connected with food and agriculture: markets for agricultural inputs, agricultural credit, and food itself. The paper argues for, in general, minimal government intervention in price formation and distribution systems.

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AID also has sectoral policy papers in nutrition, population, health, domestic water and sanitation, basic education and technical training, and housing. In each, the primary focus relates broadly to increasing productivity, incomes and employment of the rural poor. The May 1982 Nutrition Policy Paper, for example, "places highest priority on alleviating undernutrition--that is, inadequate consumption of food." This is consistent with the Food and Agricultural Development Policy Paper. The linkages to other RD sub-sectors and concerns is highlighted thusly:

On the regional, household, and individual level, the nutrition problem relates to many factors in addition to food supply. Physical access--markets, roads, transportation, production for auto-consumption -- often limits the availability of food within and between regions of a country. Furthermore, economic access and purchasing power are usually limiting factors for the rural and urban poor. High consumer prices, low income, low producer prices, and unreliable employment may limit economic access to food. In many cases food availability has a seasonal component as well--preharvest hunger is common in subsistence economies. For this reason, improved productivity, on-farm grain storage, food preservation, local food security and seasonal employment can affect nutritional status.

AID also has policy papers that are more generic in nature. The May 1982 Policy Paper on Private Enterprise Development concerns promotion of free enterprise and market mechanisms in all of the Agency's development activities (AID Program Evaluation Discussion Paper No. 14, "Private Sector: Ideas and Opportunities - A Review of Basic Concepts and Selected Experience," also provides relevant guidance). The four priority sectors -- agriculture, agribusiness, small and medium scale industry and privately operated service enterprises -- relate directly to RD in general and food and agriculture in particular. Small producers are the backbone of the private sector in most rural economies and private traders and entrepreneurs provide most of their inputs and market their outputs.

The May 1982 Policy Paper on the Bureau for Private Enterprise (PRE) describes the role that PRE is to play in fostering private sector initiatives. As a complement to the two policy papers on the private sector, the May 1983 Policy Paper on Co-financing outlines the potential that co-financing arrangements can have in AID's broader private sector initiative.

The May 1982 Policy Paper on Recurrent Costs spells out explicit criteria which should be applied in justifying AID support for recurrent expenses, namely:

- an acceptable policy framework or clear movement toward such a policy framework;
- an assurance that recurrent cost support has higher development impact than new investments;
- an inability of the host country to undertake recurrent cost financing;
- a carefully phased plan exists for shifting the entire burden to the host government.

The long-term development objective is to encourage the growth of local revenue generating capacity. AID's policy on support to local governments is stated in Administrator McPherson's guidance to field missions (State 199220):

AID assistance [should] strengthen, not weaken, the independent capacity of local government to promote broadly-based, self-sustaining development at the local level, and our assistance [should] positively encourage, not discourage greater community participation and self-reliance.

As indicated throughout the body of this paper on RD, sound policies are critical to the achievement of RD objectives. The Policy Paper "Approaches to the Policy Dialogue" (December 1982) provides guidance on "the process of sharing information and ideas [with host countries] regarding economic policy actions and options which impact on the development performance and prospects [of these countries]."

Guidance on other general topics important to RD is found in additional policy papers. The Policy Paper on Women In Development (October 1982) indicates "how LDC women's concerns are to be integrated into AID's programs", a theme stressed in this paper on RD. The March 1983 Policy Paper on Institutional Development provides broad guidance on how AID can assist in building effective LDC institutions. Principles and/or requirements for AID Offices or Missions to assure effective use of PVOs in achieving development objectives are set forth in the September 1982 Policy Paper on Private and Voluntary Organizations.

AID Handbook No. 1 contains a series of policy statements and summaries of policy papers that guide RD activities. The following outline indicates the range of policy issues addressed in existing documents:<sup>1</sup>

Economic Assistance Policy Framework and Core Concepts

1. Approaches to Policy Dialogue
2. Private Enterprise Development
3. Institutional Development

<sup>1</sup>Some areas listed will be superseded by new policy guidance currently being completed.

Sectoral Policies

1. Food and Agriculture
  - a) Pricing, Subsidies and Related Policies in Food and Agriculture
2. Nutrition
3. Population
4. Health
5. Domestic Water and Sanitation
6. Basic Education and Technical Training
7. Urban Development
8. Housing
9. Physical Infrastructure
10. Small-scale Industry

Cross-Sectoral Emphases

Economic-Social Concerns

1. Income Distribution and Employment
2. Recurrent Costs
3. Labor - Manpower
4. Popular Participation in Development
5. Women in Development
6. LDC Export Development

Technical Concerns

1. Science and Technology
2. Research and Innovation
3. Development Administration

Resource Use Policies

(Selected areas of RD concern)

1. Foreign Disaster Assistance
2. Food for Peace
3. Private Voluntary Organizations
4. Cooperatives

Many non-sectoral-specific policy concerns have been addressed in Policy Determinations (PD) issued by the Agency. The following are most relevant for RD activities:

- Employment and Income Distribution Objectives for AID Programs and Policies (48)
- AID and the Relatively Less Developed Countries (50)

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- Policy Determination on Labor-Manpower (52)
- Environmental and Natural Resource Aspects of Development Assistance (6)
- Urbanization and the Urban Poor (67)
- Development Administration (69)
- AID Policy on Agricultural Asset Distribution: Land Reform (72)
- Policy on AID-US Cooperative Organization Relationships (73)
- Forestry Policy and Programs (7)

The range of policy statements relevant to RD is therefore very broad. They include cross-cutting issues that cover all major sub-sectors of RD, and address issues of implementation. Each is consistent with and reinforces U.S. objectives to increase the productivity, incomes and employment of rural people by supporting human resource and institutional development. These papers collectively constitute an Agency policy position on RD.

## ANNEX II

### AN HISTORICAL PERSPECTIVE ON RURAL DEVELOPMENT IN THE AGENCY

#### A. The Working Group on the Rural Poor

The basic character of the Agency's approach to RD was established by FAA 1961 (as amended in 1981). This act, as indicated above, stipulated that the "principal purpose" of U.S. development assistance is:

... to help the poor majority of people in developing countries to participate in a process of equitable growth through productive work and to influence decisions that shape their lives with the goal of increasing their incomes and their access to public services which will enable them to satisfy their basic needs and lead lives of decency, dignity, and hope.

This statement provided the underlying rationale for what was to become Congress' "New Directions" mandate.

The first formal attempt to articulate an overall conceptual framework with which to guide the Agency's RD programs took the form of the Working Group on the Rural Poor (WGRP). This task force was established in 1973 at PPC's request to assist in accelerating and improving the Agency's capability to focus development efforts on the rural poor, as directed by the New Directions mandate.

The paper produced by the Working Group was not a policy statement but represented an attempt to reflect and build upon the broad range of RD knowledge and experience in the Agency. The paper was intended to improve the Agency's understanding of and ability to foster the RD process.

The WGRP paper set forth a number of propositions and assumptions it argued were critical to the RD process and, therefore, to AID's program. While not all-inclusive, these included emphasis on the following for RD programs:

- small farmers as the appropriate major target group
- rural-based, labor intensive program activities
- viable local organizations as vehicles for local participation to give farmers access to development inputs and for giving them greater control over decisions affecting their welfare
- creation of both farm and non-farm jobs in rural areas to stimulate growth of wider markets
- new agricultural technology appropriate to local agricultural settings
- financial institutions to mobilize rural savings
- rationalization of markets so supply and demand could be more closely linked
- market towns and urban centers as well as consideration of spatial relationships critical to urban-rural linkages
- rural infrastructure and utilities as an important complement to agricultural production

Underlying these more programmatic concerns were three basic assertions/assumptions about the essential character of the RD process:

- production and equity are complementary, not contradictory, objectives;
- RD should involve more "bottom-up" input than had been the case in AID projects;
- RD is fundamentally a systemic process -- "It is the linkage of traditional agricultural production functions to a broad range of related activities to improve overall system performance that characterizes the new RD approach."

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The Agency's Agricultural Development Policy Paper, June 1978, represented an important Agency statement of crucial policy concerns for development assistance. The paper (reviewed in the previous Annex) called for a "broadly participatory, employment-oriented agricultural production strategy." The paper cited as central to the Agency's agricultural development program emphases previously identified (by the WGRP) as important components of an RD strategy.

Throughout the mid- and late-1970s, other donors voiced RD concerns similar to those in AID. Most notable was the World Bank's Sector Policy Paper (1975) on RD which postulated that RD extends beyond any particular sector and must involve a mix of activities complementary to agricultural development activities.

#### B. Organization of AID Rural Development Functions

An Office of Rural Development (TA/RD) was established in FY 1976 in AID's Technical Assistance Bureau (TAB) to carry on the initiatives started by the WGRP and to coordinate R&D efforts on RD with TAB, PPC and the regional bureaus. The office's mandate was to help improve the quality of AID's RD work by marshalling resources the Agency could draw upon for information, ideas, consulting and applied research.

From the outset, a mission-oriented, "applied research and consulting" approach typified TA/RD's program. It stressed a multidisciplinary approach and drew upon a range of social science disciplines relevant to major RD problem areas. With input from the regional bureaus and field missions, a TA/RD portfolio emerged involving an R&D concentration on "Critical Problems in Rural Development."

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The problem areas selected for examination were: Participation in RD, Data Gathering and Analysis Methodologies for RD, Land Tenure, Area Development, Rural Financial Institutions, Rural Market Systems, Off-Farm Employment, Alternative Rural Development Strategies and Integration of Income Producing and Social Service Activities.

TAB's Office of Urban Development, also responding to the Agency's rural development goals, developed a complementary portfolio of projects and resources designed to strengthen the contribution of urban centers (service centers, market towns and regional centers) to rural and agricultural programs. Its rural-oriented programs stressed improved regional development, increasing farmer access to urban based services and employment generation programs to help absorb surplus farm labor and increase rural household incomes.

As part of the 1982 organization of the Science and Technology Bureau, the Office of Multi-Sectoral Development (ST/MD) was created which includes in its portfolio activities within the general areas of rural institutions development, development administration, regional and area development, local natural resource management and employment and small enterprises, including agribusiness. The office was created by merging complementary functions and staff of the former Offices of Rural Development and Development Administration, Urban Development and the Agribusiness Division of the Office of Agriculture. Though there has been some expansion in focus, ST/MD activities continue to concentrate on the substantive areas noted above and the employment of social science expertise in the support of field mission RD programs.

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RD program support in the regional bureaus also has undergone organizational changes. Three of the four regional bureaus have united RD and Agricultural Divisions: Africa Bureau, Office of Technical Resources, Agriculture and Rural Development Division (AFR/DR/ARD); Asia Bureau, Office of Technical Resources, Agriculture and Rural Development Division (ASIA/TR/ARD); and Latin America and Caribbean Bureau, Office of Development Resources, Rural Development Division (LAC/DR/RD).

In the Near East Bureau, the rural development and social analysis division is separate (NE/TECH/SARD) from the agricultural development division (NE/TECH/AD). The Bureau for Program and Policy Coordination has a division for agriculture and rural development in its Office of Policy Development and Program Review (PPC/PDPR). Most field Missions have integrated agriculture and rural development functions.

## ANNEX III

### ADVANCES IN UNDERSTANDING RURAL DEVELOPMENT

The conceptual framework set forth in Section II synthesizes knowledge about rural development which emerged, primarily in the 1970s, from worldwide rural development experience. AID was a major contributor to this body of knowledge acquired through its applied research and program and project activities.

Much of this understanding of rural development was derived from lessons learned about specific types of interventions and/or the manner in which these interventions should be undertaken. This annex is by no means all-inclusive of lessons that have contributed to the formulation of the above conceptual framework. It does, however, highlight some key contributions to an understanding of rural development and is particularly useful in noting potential program priorities the Agency should emphasize in its RD program.

The first general lesson is that raising the incomes and productive capacity of poor rural households is a much more complex task than previously believed. Neither single-line solutions, such as crop investment, irrigation (favored in the 1960s), nor the packaging together of multiple components (popular in the 1970s), have proven to be fully satisfactory. The impact of the so-called "integrated rural development" project approach to rural development has been disappointing not only because such projects multiplied the usual managerial and organizational weaknesses, but also because these multi-sectoral projects frequently turned out to be poorly integrated. It is confirmed that rural development requires a systems approach, but that much greater attention needs to be placed on the linkages and sequence between the components of the system, the identification of lead elements and the design of programs capable of reinforcing and sustaining these key elements. It is also crucial to draw on past experience to try to identify reasonable estimates

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of the time required between commencement of project components and the achievement of final effects.

Future rural development programs of the Agency, should therefore:

- integrate, in a programmatic context, the various sectoral and specialized approaches, in a functional as well as in a spatial framework<sup>1</sup>;
- provide increased support for the development of rural institutions, which can act as the "binding agent," and organizational basis for the particular pattern of rural strategy chosen;
- discover key linkages within components and supply knowledge on missing and weak elements.

Clearly, the Agency must continue to work on specialized aspects of rural development in agriculture, health, water supply etc. and to bring the latest knowledge to bear on assisting countries. But, the AID program simultaneously must stress those aspects of rural development that can relate and bind the various elements together and those without which the separate technical approaches will not be fully effective.

Second, the impressive advances of food crop production in several countries frequently bypassed certain segments of their populations and have highlighted other problems. In general, the smaller farmers have not readily adopted new agricultural technologies mainly because these are not appropriate for their needs, are not profitable, are too risky or require the

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<sup>1</sup> Such integration refers to encouraging complementarities between sectors. It does not imply that this will necessarily take place within a given project as is the case in integrated rural development projects referred to above.

availability of support services, access to which lags behind the availability of production technology. Despite recent advances, research and technology development based at universities or experimental stations has not met small farmer realities. Therefore, efforts to develop new methodologies for on-farm, farming systems research has a very high payoff, especially when designed for small farmer households normally engaged in survival strategies and dividing their family labor between subsistence, cash crops and off-farm employment. A related matter is the fact that, compared to agricultural research, very little resources and ingenuity have been applied to extension/diffusion techniques applicable to small farmers.

Third, evidence is accumulating that much more attention needs to be given to non-farm income and employment. Rural development programs have not provided much employment for the landless and the near-landless. As technology spreads, more farm workers and marginal farmers will be displaced. Thus, the development of potential part time or full time non-farm employment opportunities is likely to become a major element in future rural development strategies. AID-sponsored research has shown that non-farm activities already comprise a significant share of total rural household income. Surveys indicate that non-farm enterprises in rural areas provide a source of employment for from 30 to 50% of the rural labor force in developing countries, when primary and secondary occupations are included. In addition to their role in income and employment creation, non-farm enterprises can provide essential support services to agriculture in areas such as processing, input supply and marketing, and they tend to be an efficient use of capital and help to generate rural savings.

Fourth, it is evident that, among the supporting services and institutions, marketing in most countries is a relatively neglected area. The lack of adequate marketing policies, facilities and enterprises is a serious

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bottleneck in rural development, even where upgrading of the product is well on the way. The building of marketing, infrastructure, especially large-scale storage facilities, has not been generally effective, but investments in feeder roads has shown impressive returns. What is needed is more systematic attention to the marketing sub-system in rural development, including a proper mix of public and private initiative.

Fifth, as in the case of employment, experience has shown that the non-farm elements of rural development and rural-urban linkages will become a growing concern. Through the early 1970s, little or no attention was being given in Agency, donor and host country programs to the role of small urban and market centers and their connecting linkages in rural development. Pilot and demonstration programs introduced by AID in the late 1970s have led to a better understanding of these relationships and to approaches for addressing constraints where they exist.

Research has shown that small and medium-sized towns have a significant role in complementing and strengthening the farm-oriented components of rural development programs. Rural-urban linkages can best be articulated within the framework of spatially- or regionally-oriented rural strategies. Such programs are especially useful in planning for non-farm employment creation, an adequate service network for rural areas, market and transport planning and municipal development for rural regions. Many rural development programs are carried out in a spatial or area context. Regional analysis, therefore, has shown its usefulness in planning such programs, discovering key linkages and establishing priorities and sequences of investments. Furthermore, the spatial perspective has proven its usefulness in strengthening sub-national organizations which coordinate or supplement the work of sectoral agencies at

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Sixth, the importance of local participation in project design and implementation has become an accepted, essential element of RD programs undertaken by AID and other major donors. In-country consulting and applied research work have led to greater attention to participation of beneficiary groups in project implementation in a number of host countries. AID attention to the role of local organizations was born out of evidence gleaned through RD research. More recently, there has emerged an awareness of the critical import of local group participation and of adequate local institutions in successful natural resource management (such as irrigation, forestry) as well as in agricultural research and extension programs. Earlier emphasis on community development and farmer cooperatives, largely through models borrowed from development country experiences, has given way to the search for indigenous solutions and flexible local group arrangements.

Evidence is also available that such new local management structures are crucial to build economies of scale into small farmer programs and to help to ensure a better income distribution. There may also be a new understanding on how to mitigate or overcome the intractable management problems and bureaucratic weaknesses inherent in the failures of so many development programs. Locally-based organizations can play a significant role in lessening the reliance on central bureaucracies.

Seventh, evaluation studies show that differential access to land and water resources and persistent land tenure problems remain serious obstacles to rural development. Where land tenure is insecure and inequitable, rural development either does not work or its benefits are narrowly concentrated. Furthermore, access and security of land tenure is not always an issue of land

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reform. While massive land redistribution, in the classical sense, is always a question of political commitment, once structural reforms have been initiated, the problem of designing a well functioning agrarian structure is often just beginning. This has been AID's experience in a number of countries, where the challenge is no longer land re-distribution, but how to make the post-reform agrarian structure work properly. In Africa, especially, tenure issues need to be addressed in connection with the evolution of the tribal system and the needs of designing agrarian systems suitable for permanent, diversified agriculture.

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