

DRAFT

**DEVELOPING RURAL INSTITUTIONS THAT STRENGTHEN
THE VOICE OF THE RURAL POOR**

Eduardo T. Gonzalez

Prepared for Policy Forum

*Agricultural and Rural Development
for Reducing Poverty and Hunger in Asia:
In Pursuit of Inclusive and Sustainable Growth*

Session I on “Developing Effective Agricultural and Rural Institutions”

**Organized by
International Food Policy Research Institute (IFPRI)
and Asian Development Bank (ADB)
ADB Headquarters, Manila, Philippines
August 9–10, 2007**

DRAFT

**Developing Rural Institutions
that Strengthen the Voice of the Rural Poor**

- **Eduardo T. Gonzalez**

Life has improved for most rural Asians, yet about 600 million still live on less than one dollar per day, held back by low levels of health, literacy and general well-being, and by a lack of understanding of their rights and how to exercise them. Another 300 million are likely to join their ranks by 2020.

The vast majority of these rural inhabitants still depend, directly or indirectly, on agriculture, forestry, or fishing for their sustenance. They rarely control, however, the conditions that shape their livelihoods, having little income and limited access to land and other productive resources. Low levels of social services and physical infrastructure increase their vulnerability, exclusion and powerlessness. Such access deficits are not restricted to the poor, but the poor tend to endure them more acutely. Among the poor, women are more deprived than men, having noticeably less access to knowledge, assets and services, education and employment.

For many rural people—smallholders, landless wage laborers and sharecroppers, small entrepreneurs, nomadic pastoralists, artisanal fishermen and women, indigenous peoples, ethnic minorities and members of scheduled castes—voicelessness and lack of a collective organization deprive them of the power to influence decisions affecting their lives, negotiate better terms of trade, interact on equal terms with generally stronger market intermediaries, and make governmental and non-governmental organizations (NGOs) accountable to them. Indeed, most of Asia's poor are excluded from interacting fully within the political processes of their countries.

Yet to be successful, poverty reduction efforts must recognize the rural poor for what they are, that is, as a largely untapped resource that can contribute to improving a nation's productive capacities, enlarging its domestic markets and advancing innovation. But fundamental to the creation of wealth is improved access to assets and services. Empowering the poor means supporting them to achieve secure resource (especially land and water) rights, entitlements to services (education, health and extension) and sustainable agricultural technology (to increase output), access to markets and financial services, and fostering their direct participation in the development process.

Where resource rights and security of access have been addressed, there has been a break with Asia's feudal systems. As well, there have been greater food security, income gains, a steady rural economy, safety net effects, lower levels of conflict, higher educational participation of children and adoption of more sustainable resource practices.

DRAFT

To reduce access shortfalls, an institutional approach to poverty reduction must have two key objectives: (a) strengthening the capacity of the rural poor and their organizations, and (b) increasing access to financial services and markets. This is consistent with the goals of the 2002 World Summit on Sustainable Development, when governments reaffirmed their commitment to the Access Principles of the Rio Declaration. The Access Principles involve the rights to information, participation in decision-making processes, and redress (access to justice to protect their rights and to challenge decisions that do not take their interests).

Rural institutions that matter (that is, that strengthen the voice of the rural poor)

Rural institutions mean the rules and formal/informal structures that govern the interaction among economic, social and political organizations in rural areas. The best, and perhaps the only, way to accelerate rural poverty reduction is to harness the rural poor's underutilized capacity by creating an institutional framework that offers them a greater voice in decision-making, and in the process, facilitates their access to assets, financial and other services, technologies and markets. Rural institutions are important to support participation (voice), conflict mitigation (peace), and external linkage (market expansion), at the same time that they address and mitigate factors of insecurity and instability.

Two important rural institutions that strengthen the voice of the rural poor are (1) organizations that empower the poor, and (2) access to financial services and markets that link the rural poor to dynamic sectors of the rural economy.

Organizing the rural poor

Small-scale, dispersed and unorganized rural folk are unlikely to exploit opportunities in the rural economy and compete with those wielding market power as they cannot achieve economies of scale and lack bargaining ability. A viable strategy to offset this uneven playing field would be to evolve new collective forms of organization that would help the rural poor reduce transaction costs and benefit from negotiating experience in securing access to assets, financial services, technologies and markets. Collective action also helps improve the rural poor's influence over rules (laws, customs and administrative practices) that determine whether they would benefit from such access. Where there has been cooperative action in the past, the chances of development policies and programs being captured by vested interests (with the active collusion or passive acquiescence of state elites) are minimized.

Organized groups and communities (e.g. traditional village and sub-village work groups, small self-help groups, savings and credit associations, water users' associations, rural workers' unions, women's and indigenous peoples' groups, and farmer cooperatives) are more likely to have their voices heard and their demands met. Rural organizations are part of the social and institutional context within which rural households build and adapt their livelihoods. They are simultaneously a social capital for rural people and a political

DRAFT

resource. Typically, Asian collective action is characterized by shared norms of fairness, reciprocity and trust in a community, which enable rural groups to perform diverse functions such as advocacy, production and marketing and local development. Improving the social capital base of the rural poor will enable them to interact with power wielders on more equitable and informed bases, and thus come through more effectively on issues that affect their livelihood and well-being. An effective rural organization, though, must have both a solid membership base, and a coherent set of objectives derived from members' core interests.

Empirical evidence suggests that enhancing women's role as agents of change in rural organizations often leads to successful economic activities and improved influence on government policies. Because they are effective at initiating and sustaining local self-help initiatives—they draw from knowledge and practices based on generations of experience—they must be at the center of the initiative to transform organizations, rules and policies. An early study from Kerala, India, for instance, revealed a positive correlation between the consumption of children and women's outputs from home gardens or income under their control—indicating that women's access to and control over resources is extremely important for their households' wellbeing. As women begin to exercise the powers to which they have gained access, including as heads of committees, many studies show more concessions on the part of governments (for instance, adoption of community-based budgeting), less corruption in the use of public funds and higher spending for family and child welfare and education.

Studies also report that indigenous groups—more than two-thirds of the world's more than 300 million indigenous peoples live in Asia—have played responsible roles in rural upland organizations, acting as stewards of natural resources and biodiversity in a context where their rich traditional knowledge systems (ecosystem management and technologies, medicinal plants, local crops) are increasingly attracting the attention of commercial interests. Empowering indigenous groups should end their de facto exclusion and marginalization, and increase their share of collective benefits. A study has documented a small-scale fishermen project in Bangladesh and a forestry leasehold project in Nepal as examples of successful redistribution of community assets to deprived minority ethnic or tribal people through “social fencing.”

Rural organizations can gain greater voice if they form coalitions at higher levels. Representative associations, or networks of these associations drawn from communities and localities, have been successful in confronting or conducting business with central and local governments. Other also need to be strengthened. The diversity and dynamism which characterize the changing situation in the Asian region call for broader and deeper forms of social capital with wider horizontal and deeper vertical ties, in order to provide cohesive structures of support through solidarity groups as well as to find executable answers leading to a new and better form of governance and interest-mediation.

DRAFT

Linking the rural poor to dynamic sectors of the rural economy

Weak markets are not necessarily supportive of poverty reduction. Smallholder farmers and other poor producers are numerous and scattered, each with a low level of production. Less-favored areas and disadvantaged groups (women, indigenous peoples) face labor mobility problems and are impaired by asymmetrical market power and their lack of knowledge of market mechanisms—an outcome of lack of information and organization. Inadequate resources and skills prevent rural folk from participating in opportunities offered by—and avoiding the risks associated with—trade liberalization, which lead to their exclusion from the global economy. Poor rural producers are often hampered by binding liquidity constraints, forcing them to rely on brokers and other market intermediaries, who are usually far more costly and may lead them into chronic debt traps. Moreover, lack of access to market infrastructure and geographical isolation either due to remoteness or poor roads and poor communication systems limit the development of markets.

There is therefore a serious need to make rural financial markets and other institutions more responsive to the needs of poor rural producers and consumers. The poor often need investment and working capital. Overcoming weak market links would require a deliberate attempt to integrate production, processing and marketing. Efforts to diversify income sources, either by going into non-traditional cropping or by taking advantage of off-farm engagement possibilities, will reduce the perils posed by fluctuations both in market conditions and in income and consumption. All these would call for poverty reduction schemes that focus on developing professional and responsive *rural finance* institutions which can expand poor people's choices and opportunities, help them increase their asset base, and reduce their vulnerability to external shocks and crisis.

Micro-finance is one such example of a strategic institution that is a successful innovation in enabling the assetless poor to obtain access to rural finance services. Microfinance institutions deliver small loans to poor borrowers organized into small self-help groups, combined with accessible deposit facilities and much greater attention to risk management. Most microfinance clients are women, more likely to invest the additional income generated from using financial services for augmenting household income and smoothing consumption as well as for the education, health and nutrition of their children and of the whole household.

The success of the Grameen Bank in Bangladesh and other similar replications has provided the basis for the microcredit and the self-help group system now at work in many Asian countries. The loan is supplied to a group, but the whole group is denied further credit if one person defaults. This creates economic incentives for the group to act responsibly, increasing Grameen's economic viability. Today, microfinance institutions tend to rely more on peer group monitoring and joint liability to overcome the screening, monitoring and enforcement problems commonly encountered by formal lending institutions. Grameen's track record has also been notable, with very high payback rates—over 98 percent. One unusual feature of the Grameen Bank is that it is owned by the poor borrowers of the bank, most of whom are women. Successful innovations such

DRAFT

as the Grameen Bank have promoted deep outreach by drawing rural finance closer to the very poor, supplying services and outreach mechanisms adapted to their specific handicaps and needs.

Microfinancing services have expanded rapidly in rural areas of Asia in recent years, with many rural poor having benefited from these services. They take varied forms, such as rural credit cooperatives in the Philippines and China, and self-help groups in India and Nepal. But regardless of their unique features, they are interventions that have proven ripple-effect possibilities. Such diverseness, which must always be taken into account, mirrors the region's varied cultures, environments, constraints and historical experiences with rural finance.

Study after study has also shown that rural producer groups are the key organizational instruments that can promote coordination in the rural economy, and leverage market functions for smallholder farmers and poor fisherfolk. They can also facilitate access to credit, and integrate production, processing and collective marketing of small marketable surplus emanating from a large number of widely dispersed small producers. Such collective action allows small-scale farmers and fisherfolk to spread costs, raise their ability to pull off better deals, and improve their market power. Producer associations shorten the supply and marketing chain by directly connecting small producers to input providers, as well as secondary and tertiary markets, thus eliminating middlemen.

Facilitating the poor's access to independent income and financial services and promoting self-employment, all enhance people's control over local resources. Access to credit contributes to the likelihood of an improvement in asset holdings by the poor, in their exercise of purchasing power, and in their political and legal awareness. Access to credit is likewise correlated with higher levels of mobility, political participation and involvement in local decision-making.

Strategies that can be used to develop rural institutions

Efforts to reduce rural poverty can only be effective if good strategies are in place to draw the poor into collective action. This requires (1) investing in capacity-building to enable the rural poor and their organizations to grasp opportunities and overcome obstacles, and (2) empowering them to enhance their power to participate in the marketplace and influence institutions (including rules, laws, regulations) and policies of relevance to rural poverty alleviation.

Developing and strengthening the capacity of the rural poor and their organizations

Organizational capacity-building is time-consuming, but critical for the rural poor to help themselves. Investing in capacity-building for a diverse range of organizations allows people to participate in decision-making, "learn the ropes" in gaining access to assets and services, and sharpen their business acumen when they operate in the marketplace. However, organizational development is context-specific, and requires that each rural

DRAFT

poverty program is tailored-fit to particular country circumstances. A good training design should reflect an understanding of the contexts in which individuals and groups learn, and use information. Successful capacity building also depends on how well individual and collective capabilities improve the rural poor's expected net benefit streams above and beyond what can be achieved without such organization development schemes.

A cursory profiling of rural organizations would suggest the need for the following competencies by its leaders and members:

- know when and how to use appropriate basic tools (for example, accounting, project management, record-keeping)
- have basic knowledge of market instruments (microfinance, rural credit, marketing)
- keep up to date on market changes and their impact on challenges/opportunities
- understand local policy-making process and inter-relationships with local governments; understand impact of policy on organization's initiatives
- cultivate links with external players—stakeholders, interest groups, market players, NGOs
- know how to move the organizational agenda forward
- think in a broad, strategic manner; discern options, trends, symptoms, causes and effects; see interconnections, linkages
- exercise good judgement in balancing and weighing competing interests, views, information
- respond to challenges and opportunities with innovative yet practical solutions
- cope well with uncertainty and change
- seek out opportunities for continuous learning and organizational improvement.

New forms of organization among small and spatially dispersed producers require good leadership and management skills and the development of knowledge in business and agro-enterprise development. Some of the “musts” include, in their most basic forms, cost-benefit analysis, trend analysis, environmental scanning, and forecasting. For some, good oral and written communication skills would spell the difference between success and failure in dealing with donors and government.

The existing skills/experience of members in relation to what is required to undertake organizational activities matter, as would their ability to draw on their own social capital. Organizational interventions which enhance trust and reciprocity among members in a group, including laws of engagement and operational democracy, are likely to contribute to successful collective action. Likewise, capacity-generating programs that are geared towards facilitating self-reliance and enhancing organizational and management skills are likely to equip groups with the capacity to actively participate in local decision-making and to forge effective business interactions in the marketplace.

Beyond the formation of specific technical and administrative skills, organization development requires paying attention to larger issues of strategic planning, information flows, monitoring and control. Often, it would require members of the rural organization

DRAFT

to come up with a shared vision and a strategic plan, clear and working organizational responsibility flow chart and internal controls. A modest but reliable management information system may involve making informed choices about communication for development approaches, that is, coming up with the most appropriate and creative use of traditional media and new ICTs (laptops, cellphones) to make relevant decisions about livelihood strategies. A simple but multi-stakeholder ICT initiative often crosses the domains of health, education, rural finance, training and knowledge resources.

Along these lines, an important goal of capacity-building is guiding the rural organizations to a stage of self-mobilization. With the appropriate skills, the rural poor can take initiatives independently of outside assistance. Or they can develop contacts with external institutions for the resources and technical advice that they need, but retain control over how the resources are used.

The savings and credit cooperative movement in Sri Lanka is a good example of how investments in capacity building have yielded organizational dividends for its members. According to one study, SANASA, a national federation of rural cooperatives in Sri Lanka, drawing from its own saving and loan operations, has converted its original training center (which conducted courses and sessions for several hundred thousand members annually) into an “education campus” to invest in human resource development on a broader scale for the rural sector. It also established a consultancy service capitalized by the movement which hires professionals with technical and financial expertise to give advice to members and other rural residents who want to start or expand small businesses.

There is, of course, some danger that with professionalization, rural organizations will become alienated from their membership bases. In general though, with hindsight, rural organizations tend to succeed only when rural folk can manage them autonomously with minimal government interference, when farmers participate actively in decision-making at every stage of the process, and when their collective action reap economic benefits.

There is no cut-and-dried model for organizational transformation. The nature of capacity-building depends on the degree of awareness of organization of the rural poor, their cultural background, the country’s political structure (authoritarian or participatory), the extent of decentralization (how close organizations are to their beneficiaries) and the strength of auxiliary organizations (like NGOs) which can work with them.

Empowering the rural poor and their organizations to influence institutions and policies

The rural poor’s chance to influence the development of *rules, norms and policies* that empower the poor, and to help shape a favorable institutional environment, depends on their power and solidarity. These, in turn, depend on their knowledge and a firm exercise of their access rights. Rural organizations have the potential to empower and strengthen a community in its relations with outsiders and the wider society (including international agencies, political authorities and central government). For this purpose, the poor must have a direct role in setting policies affecting access to resources and related factor markets, and in networking with other communities and regions to share information and

DRAFT

develop strategic alliances for advocacy and action. They need support and solidarity of various forms along with the moral authority of credible partners.

Farmers' and fisherfolk organizations are usually successful proponents of change for their members and effective intermediaries when there is a favorable political and institutional environment, including:

- legislation securing freedom of association and encouraging the formation of groups for economic and social activities and giving them legal recognition
- decentralization of political authorities and central technical ministries (agriculture, research, extension) to move them closer to their constituents and share the decision load down below (subsidiarity).

The political context defines, to a significant degree, the depth of participation that can be achieved. It is worth remembering that instruments of participation can be used either to enfranchise the rural poor, or control them. Indeed, power relationships may get in the way of effective interaction. Dynamic rural organizations that gain significant headway in securing funds, often also attain the power to demand public goods and services that are suited to their needs. However, institutional transformation that opens up institutions to the priorities of poor groups is sometimes seen as threatening by government which in this case may be reluctant to lend a helping hand. Asia's varied political cultures are central to understanding the effectiveness of different approaches to molding a favorable institutional environment for the rural poor.

Within both civil-society organizations and financial institutions there is a growing number of influential persons who share a common interest in building broad-based political and economic support for rural credit reform, access to factor inputs and markets and protecting the rural resources base. These are the key actors who need to be engaged in dialogue in order to influence the internal policies and practices of financial institutions and governments, towards improvements in access, reach and flexibility.

At this time, advocacy rests with civil-society organizations. NGOs can intercede with the concerned authorities to secure the benefits for the rural poor and minimize leakages. They can motivate local communities to act upon specific livelihood programs and manage decentralized systems (such as credit and savings associations). At the same time, they can convince the bureaucracy to work with the community but not to be bogged down by inertia, routine or agency capture. They can make use of ICT to raise rural and agricultural stakeholder voices in order to better influence policies, regulations and procedures that directly impact rural livelihoods. Over time, they can help promote a process of more broad-based changes in institutional mechanisms for funding/managing local development activities to meet the specific needs of the rural poor. In the end, it may be useful to test the viability of scaling up the experiences of civil society into national initiatives. Giving NGOs ample space to maneuver is thus highly desirable.

All things considered, it is worth emphasizing that there are no blueprint approaches to institutional transformation: opportunities and constraints are location-specific;

DRAFT

empowerment strategies are context-dependent. Institutional arrangements that people are able to engage in depend upon and affect their relative power (individually or collectively).

Initially, there may be path dependence (institutional inertia) and bureaucratic self-interest to surmount within rural organizations. This creates a formidable challenge and opportunity, and highlights the importance of continuous motivation and innovating, all the time being attentive and responsive to the needs of the rural poor. The goal of empowering the rural poor and their organizations is greater ability to exercise access rights. The goal of opening more space for dialogue among stakeholders (rural organizations, civil society organizations, government agencies, and business) is greater coherence in providing the resources to the poor. The greater wellbeing this generates will further stimulate a positive interaction—a virtuous circle—among strong institutions, good policies and respectable rural growth and development.