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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

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**ROUND-TABLE DISCUSSIONS**

**STRENGTHENING RURAL INSTITUTIONS FOR THE POOR:  
OPPORTUNITIES AND CONSTRAINTS**

The present note provides background information on the relevance of institutions for the rural poor, approaches for institutional transformation and implications for IFAD, posing several questions that could lead to constructive discussion. It expands on the Round Table on Transforming Rural Institutions in Order to Achieve the Millennium Development Goals, held in February 2003 on the occasion of IFAD's Twenty-fifth Anniversary Session of the Governing Council. Participants at the round table made a number of recommendations, including the need for IFAD to help in mobilizing the poor to join the transformation-of-institutions process, and to invest in their capacity to do so. The note expands the discussion by outlining key issues in institutional transformation and describing recent cross-regional experiences in this field.

### A. What Institutions Are and Why They Matter

1. The importance of institutions for effective poverty reduction interventions has been widely recognized, as reflected in the recommendations of the 2004 Shanghai Conference on Scaling Up Poverty Reduction: A Global Learning Process, and other forums. Considerable interest has also been shown in this subject by economists who have done extensive analytical work demonstrating that institutions have a crucial role to play in the economic development of countries around the world. The relevance of institutions has also brought to the table the need to perfect a new paradigm on the capacity of the rural poor and their organizations to influence decisions that determine their livelihoods. This is not only a change in the approach to development assistance, but a paradigm-shift in which the poor become actors of their own development. Investments in institutional capacity-building create room for the voices of the poor to be heard effectively and, more radically, empowers them to influence public policies and service delivery.

2. Institutions have been traditionally defined as organizational entities with procedural devices and regulatory frameworks. For the purpose of this round table, institutions are referred to as the 'rules of the game', following North's definition (1990), that include: (a) mandate; constitutional and environmental factors; boundaries within which actors and organizations operate; (b) the relationships between actors and organizations within a number of fields of interaction; and (c) the motivations, incentives and rewards for actors and organizations to engage and participate in a given activity. Institutions are also the formal and informal constraints on political, economic and social interactions. Given that the majority of the poor live in rural areas, the institutional context of rural institutions is pivotal to reducing poverty and fostering development. This is particularly true for countries where diverse institutions and organizations mediate the access of the poor to assets, technologies and markets. They also usually regulate customary practices and administrative processes that determine whether the poor benefit from such access or would be affected by it. Additionally, there is overall agreement on the fact that the chance the poor have to influence rules and to help control organizations depends on their power and informed participation (IFAD, 2001).

3. Why do institutions matter that much? Both formal and informal rules of the game and organizational entities can exclude or include different members of society from any given right, service, assistance and, ultimately, benefit. Institutions also promote social cohesion and stability, reducing civil conflict and muting the adverse consequences of economic dislocation and change.

4. For the rural poor, good institutions and organizational entities are twice as important, as isolation and weak performing institutions impact considerably on their well-being. Additionally, the rural poor suffer from extremely limited provision of public goods, which further acts against actions aimed at reducing their poverty.

5. Finding ways to change existing institutional situations and behaviours is not obvious; finding sustainable solutions will probably require fostering higher political development and awareness to overcome political and institutional incentives that lead to inefficiencies and exclusion.

### B. Issues in Institutional Transformation

6. Having recognized the primacy of institutions, it is necessary to consider how the institutions for and of the poor can be strengthened. In this context, a number of issues need to be considered.

7. **First.** Experience has shown that the poor have their own institutions anchored on culture and tradition. Consequently a two-pronged approach is paramount as it is imperative to make institutions in rural areas work better for the poor and, at the same time, enable the poor to improve their own institutions. Informal institutions such as conventions and social norms have received scarce attention. Few studies have been conducted on how formal and informal institutions interact and, above all, the

institutional mix necessary to advance in achieving the well-being of the rural poor while taking account of these two sets of rules. Institutions serving the poor should ensure that they have equal rights and access to opportunities and should operate under adequate transparency and accountability frameworks. It is also important for society at large that rent-seeking and corruption be eradicated. In this struggle, the institutions themselves – and civil society as a whole – have a role to play. Addressing the institutions of the poor is essentially a question of building up social capital. But social capital cannot be easily created or shaped by public policy as it requires building up trust, the creation of networks and above all a capacity to concert. Most researchers and development practitioners conclude that a refreshed trust in the public institution of government may be the single most significant effect of a vibrant civil life.

8. **Second.** Existing policies have an impact on institutional development (and vice versa). A review of the growth literature available indicates that there is substantial evidence suggesting that growth-enhancing policies, including in the area of human capital accumulation and trade openness, are less likely to arise or be effective where political and other institutions are weak. There is also conclusive evidence that sound policies need to be supported and sustained by strong institutions, while weak institutions may reduce the chance of good policies being adopted or may undermine their effectiveness.

9. **Third.** The transformation of institutions cannot be pursued based on a one-size-fits-all approach. Research indicates that institutional arrangements and reform strategies that appear to have worked well in one country are unlikely to perform as effectively if transplanted to another without adaptation and innovation to suit local circumstances. The growth literature also underlines that a country's institutions reflect the power and accountability of political leaders. The degree of its economic freedom may be deeply rooted in its history and culture, making institutional change difficult and slow because those with vested interest in current arrangements may be disinclined to introduce or support sweeping institutional reforms.

10. **Fourth.** Decentralization may contribute to the process of transforming rural institutions but it cannot achieve expected results by itself. The decentralization approach has many and sometimes conflicting definitions and cannot be addressed without considering the specificities of the process in different country contexts. It is recognized that decentralization makes access to local information easier, furthers sensitivity to local needs and strengthens accountability to the local community. When conscious and informed, the rural poor are more likely to be able to influence decisions at the local level than in distant metropolitan centres (IFAD, 2001). However, specific interests at the regional and local levels can often capture sub-national governments and they end up distributing rents among powerful regional and local groups.

### C. Approaches and Entry Points for Institutional Transformation

11. In its *Rural Poverty Report, 2001* IFAD recognized the importance of sustaining the management of change towards pro-poor institutions and programmes through support from below. The report discussed three institutional approaches to empowering the rural poor: (i) devolution and collective action for natural resources management; (ii) delivery of financial services to the poor; and (iii) developing linkages with the non-government and private sector as partners for services delivery. However, additional approaches are being developed and implemented in the context of IFAD operations in the Africa, Asia and the Pacific, and Latin America and the Caribbean regions.

12. **Managing common property regimes and involving indigenous groups.** In Bangladesh and Nepal, common property resources (lakes and degraded forests) are leased to the poorest people in surrounding villages. In Morocco, IFAD has organized kinship groups into cooperatives responsible for the regulation of grazing on rangelands. This approach takes account of existing informal 'rules of the game' while introducing new, more formal rules. The changes introduced are complex and cannot

be achieved without the participation of the poor in local self-governing institutions that help to build a sense of collective identity and social capital. Indigenous peoples remain the most socially and politically marginalized populations in all regions. IFAD has considered the relevance of institutions of indigenous groups in the implementation of projects in countries such as Bolivia, Mongolia and the Philippines among others. In Bolivia, it has supported indigenous territorial registration and is assisting in the overall development of indigenous groups in the Amazon River Basin. In Mongolia, herder committees are being set up based on traditional herder groups that undertake important tasks such as the development and supervision of land use, and maintenance and use of water points, thus recognizing the institutional settings of indigenous groups. In the Philippines, it has assisted in enabling indigenous peoples to obtain legal title to their ancestral domains.

13. **Building coalitions of the poor and development of grass-roots institutions.** This approach is paramount to IFAD's involvement with the rural poor and is clearly reflected in the *Strategic Framework for IFAD 2002-2006*, which includes: (a) strengthening the capacity of the rural poor and their organizations; (b) improving equitable access to productive natural resources and technology; and (c) increasing access to financial assets and markets. In India, Venezuela and elsewhere, group-based microfinance methodologies have been introduced and are being scaled up. In Sri Lanka, small groups of beneficiary families joined together into active village organizations and then grouped into division federations. These structures are registered legally and plan and carry out a number of joint development efforts. The social mobilization and participatory planning processes thus instituted help to build up social capital and achieve results in individual, as well as collective, empowerment of the community. In Peru, IFAD has funded projects that recognize the existence of traditional peasant communities, giving them decision-making powers to plan and implement their own investment priorities.

14. **Furthering Community-Driven Development (CDD).** In West and Central Africa, IFAD is actively pursuing CDD, which is seen as an instrument for putting IFAD's strategic framework into practice by improving access to physical, human and social capital. This approach considers development at the community level as working on a partnership model between the public administration and one or many communities operating as a consortium of neighbouring communities. While government agencies should be concerned only with the supply of public goods, income-generating activities, rural financial services and water supply and irrigation are community affairs. Experience gained to date indicates that a rational schedule of effective demand emerges from communities that are left free to determine their development agenda. This is very similar to, and confirms, what IFAD has learned in Latin America both with demand-driven approaches and with the transference of responsibilities and financial resources to communities in pursuit of their own development.

15. **Scaling up demand-driven interventions and empowerment through transferring responsibilities and financial resources to communities.** In Latin America, especially the Andean region, IFAD has met the demand for investments and services identified by project participants themselves, transferring responsibilities for managing the investment and controlling the provision of services and thus contributing to strengthening the formal and informal institutions of the rural poor. Transferring decision-making power and authority for resources to communities and households has increased their incomes and assets and bolstered the legitimacy of communities responsible for planning and administering collective resources. It has enabled them to become active economic and social stakeholders who exercise their rights as citizens, thereby boosting their self-esteem. It is the exercise of rights as citizens that has had an impact in achieving economic results in the projects undertaken. Citizenry-building actions, such as the signing of legally-binding contracts among communities and providers of goods and services, opening bank accounts in commercial banks and helping project beneficiaries to make the judicial system address their demands for contract enforcement, has contributed significantly to successful project implementation. Different projects that are being scaled up to cover a whole region of the Peruvian highlands have also further enabled

citizens to participate in economic development by providing assistance in the acquiring of identity cards, registering beneficiary organizations as legal entities and securing land tenure, which strengthens community and family capacity to operate in the existing commercial and business environment. It is worth mentioning that the case of Peru is not unique to IFAD in the area of demand-driven interventions and empowerment (e.g. see also Cape Verde).

16. **Rebuilding institutions in post-conflict situations.** Post-conflict institutional issues are of critical importance in many regions. In rural areas that are hardest hit by conflict, institutions and infrastructure are destroyed. The challenge facing international donors is to rebuild institutional capacity, particularly at the community level, in order to move on from emergency interventions to development. IFAD has recognized that post-conflict situations present particular and delicate circumstances as the institutional manifestation of conflict is the polarization of society into factions maintained by the threat or use of physical and psychological violence. For the rural poor, conflict situations deprive them of the materials to subsist and the opportunity to rectify the situation, thereby rendering them dependent and passive (IFAD, 2004). In Burundi, IFAD's strategy has recognized that in a post-conflict context of disbanded, discredited or conflict-generated institutions, there is a need for fresh structures that are oriented to the specific tasks of reconstruction and transition to development. The approach pursued includes establishing operational community development committees, making legal support available to the rural poor and educating members of rural communities with regard to their rights and duties as citizens.

#### D. The Way Forward

17. The significant shift in the development paradigm has gone from supply-side to demand-driven interventions or top-down to bottom-up approaches. The experience gained by IFAD in the process of empowering communities, helping them to acquire citizen rights and transferring financial resources for them to further their own initiatives augurs well for pushing for institutional reform. New approaches such as CDD, briefly described earlier, are well placed to engage the power of the poor in their own development because they give control over decisions and resources to community groups. If the rural poor are provided with clear rules of the game, access to information, appropriate capacity and financial support, they can effectively organize themselves, identify community priorities and address local problems.

18. Another significant development is passing from a **community-needs focus** to an **asset-based approach**. The community-needs focus resulted in an endless list of problems, inevitably deepening a cycle of dependency. The asset-based approach, on the contrary, starts with what is present in the community and concentrates on building up the problem-solving capacities of individuals and the community, focusing attention on the productive, social and other assets of households, with the understanding that it is the quantity, quality and productivity of their portfolio of assets that determine the potential for long-term growth and poverty reduction.

19. In terms of opportunities and constraints for institutional change, certain opportunities exist for the near future to assist the poor in making institutions serve them better. At the same time, these opportunities are also challenges, which both the poor and donors alike will need to confront. In recent years, there has been significant movement towards decentralization and the strengthening of local governments, bringing institutions and organizational entities closer to the poor. This poses a challenge to the poor in terms of their participation in the local governance framework and the need to support them in the process. Growing economies will put pressure on natural resources, especially by the extractive industries in areas inhabited by the rural poor in isolated regions. Weak institutions and organizational entities in rural areas are not well equipped to deal with the pressure that extractive industries may place on the livelihoods of the poor in localities where they operate. New trade policies and the formation of regional trading blocks will also have an impact on the poor because, in agriculture, there will be winners and losers. The possibility of renewed conflicts in many parts of the

world may also demand that international donors assist the poor in improving the institutional framework in a post-conflict situation. Lastly, if state modernization projects and programmes continue to have high priority, the poor must not be left out and should be consulted on changes that may affect their livelihoods. If these challenges are taken up, it should be recognized that the process of institutional change to benefit the poor will be slow and that it will be immersed in the politics of vested interests.

20. In order to further institutional strengthening, IFAD has developed instruments that (i) assist in understanding rural institutions and the way they operate, such as carrying out institutional analysis, preparing country opportunity strategies and instituting policy dialogues with governments and other stakeholders; (ii) enhance the resilience of community-based organizations and individuals, e.g. through the development of community-level savings and loans associations; (iii) support small farmer's organizations so that they can participate effectively in policy-making and institutional change, as in the case of the Commission on Family Farming of the Southern Cone Common Market; and (iv) deepen IFAD's understanding of the perceptions and interests of small-scale farmers through the Farmers' Forum Initiative.

21. Through IFAD operations and other supporting mechanisms, the rural poor may acquire the means to facilitate both their **access** and their **participation**, which can be turned into political and social empowerment, as well as improved economic well-being.

#### **E. Suggested Questions for Discussion**

22. Rural development implies empowering and providing opportunities for the poor and their organizations. How is this possible through fostering institutional change, and at what level?

23. Does increasing the stock of social capital, trust, transparency and accountability help in shaping institutions for the rural poor? How can this be achieved in a volatile rural context?

24. Is civic development a prerequisite for improving the effectiveness of rural institutions? Do demand-driven approaches contribute to strengthening rural institutions and, if so, how?

25. How do government policies impact on changing and/or adapting rural institutions in favour of the poor (e.g. how does decentralization influence emerging community-based organizations)?

26. What role can IFAD and other international financial institutions play in furthering institutional change for the poor?

27. What lessons learned by IFAD and other organizations may be replicated or scaled up in your country or region? Why should they be? How can this be achieved?

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