

# Innovation challenges for the rural poor

Issues paper



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**IFAD**

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**INNOVATION CHALLENGES FOR THE RURAL POOR**

**ISSUES PAPER<sup>1</sup>**

The present paper, prepared as background material for the panel discussion on innovation challenges for the rural poor, is not intended to provide an exhaustive analysis of the subject but rather to stimulate discussion on the key issues involved.

The paper reflects on the definition of pro-poor innovation processes, the emergence of pro-poor innovations and on what governments and development agencies such as IFAD can do to facilitate the empowerment of and initiatives for poor people in ways that respond to their broader livelihood needs. It also lists a number of questions that will set the stage for the discussion.

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## INNOVATION CHALLENGES FOR THE RURAL POOR

### ISSUES PAPER

#### Challenges Facing the Rural Poor and the Need for More Pro-poor Innovation

1. The challenges facing the rural poor have changed enormously over the last few decades. Societies and economies around the world are changing, and changing fast. While globalization and trade/economic integration have gone forward at an unprecedented pace<sup>2</sup> in the past 20 years, the rural poor are the least able to participate in and benefit from such processes. Retrenchment of the state from direct provision of services has increasingly exposed smallholder farmers to asymmetric market-based relations. Within imperfect markets characterized by uncertainty, weakly emerging private sectors are not providing the services required by the rural poor. National and international food markets are shifting from broad commodity markets to differentiated and more concentrated “product” markets, with large transnational corporations in the food processing and modern food retail industry exerting a powerful, asymmetric role in the marketplace.

2. The acceleration in economic integration is accompanied by other challenges that further weaken the social and economic position of the rural poor. In different parts of the world, especially in sub-Saharan Africa, rural areas are particularly hard hit by the HIV/AIDS pandemic, which is disrupting the transfer of essential knowledge from one generation to the next, destroying traditional land allocation and conflict resolution systems, and causing a radical change in the demographic composition of many rural communities whose work forces are diminishing drastically. Climate change linked to growing population density is causing a rapid depletion of the natural resource base – through desertification, deforestation and soil degradation – that is the mainstay of rural livelihoods. Conflict and post-conflict conditions, many of which result from or are provoked by poverty, are further eroding the livelihood systems and resilience of rural poor women and men.

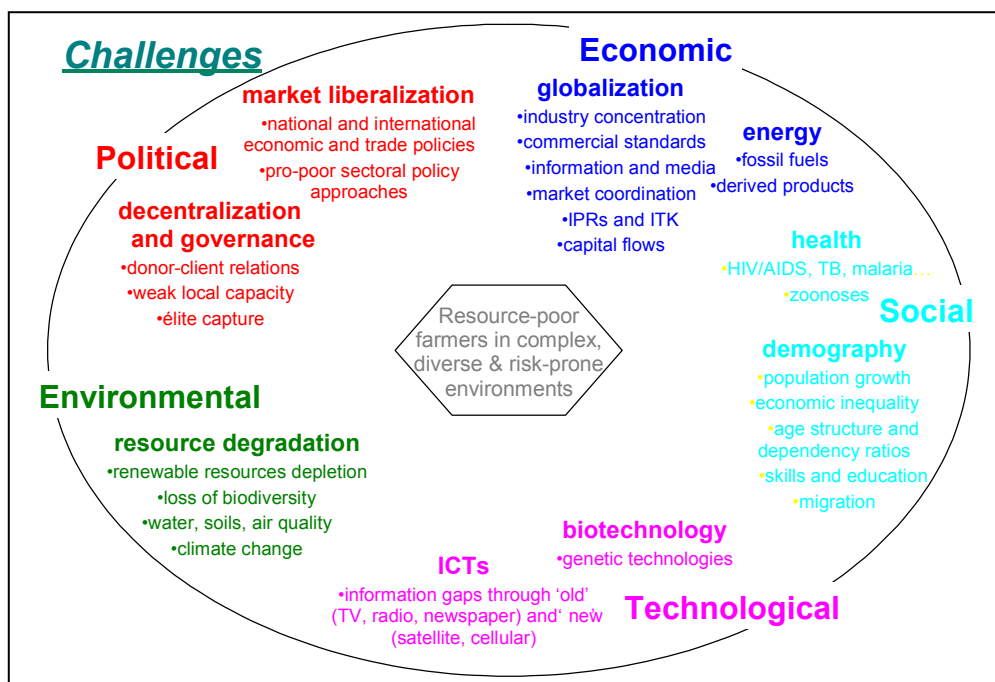
3. In a world of rapid change constant innovation is essential in order to cope. Rural poor people are innovating every day. Their very survival depends on it. However, without the necessary skills, assets and access – to markets, information, networks and knowledge – they are the least able to innovate in ways that will lift them out of their poverty. At the same time, because commercial innovations are targeted at those who represent a commercial market, the rural poor are the most likely to be excluded from those processes.

4. Pro-poor innovations are thus needed in the areas of private and public institutions and technological changes in support of the rural poor. Institutions are needed to enable the rural poor to build up their social capital and seize opportunities presented by new market-based relationships in the rural and agricultural milieu. Technological changes are needed to enable the rural poor to develop and adopt new knowledge and technological options so that they can participate fully in changes brought about by globalization. And all these are needed to help rural poor women and men to prevent or mitigate the effects of HIV/AIDS, climate change and conflict.

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<sup>2</sup> World trade, as a percentage of gross domestic product, has almost doubled over the last three decades, increasing from 10.5% in 1973 to 17.2% in 1998, and is continuing its upward trend (Maddison, A. (2001), *The World Economy*, Organisation for Economic Co-operation and Development (OECD), Development Centre Studies).

## Challenges and the Rural Poor



Source: Poole, N. (2006), Innovation Challenges, Constraints and Opportunities for the Rural Poor. Background paper for the Twenty-ninth Session of the Governing Council.

### A New Perspective on Innovation Processes

5. Innovation in agriculture is no longer considered uniquely as a “product” or narrowly defined as a linear, hierarchical process that begins with agricultural research, moves on to the development of technology, and ends with the farmers’ adoption of technology. This concept of innovation as a purely technological change did not understand the source, nature and dynamics of most innovation processes. Nor did it pay adequate attention to the distributional or equity issues related to innovation, which are particularly relevant for innovation in a development context.<sup>3</sup>

6. The linear input-output relationship has evolved into a concept of innovation as a system made up of different interacting elements within a dynamic process. This new way of viewing innovation conveys the notion of innovations as social constructs – as a system – that reflect and result from the interplay of different actors who often have conflicting interests and objectives, and certainly have different degrees of economic, social and political power. The balance of interaction is a delicate one. For example, 15 years ago, tomatoes were seen as a winter crop in Bangladesh and would never have been found in the markets in summer. But they are now grown throughout the year. It was very difficult for farmers to embrace this change and their first attempts to grow them in summer resulted in damaged crops. However, several organizations, including some NGOs have continued to support the farmers in this innovation, and tomatoes are now grown year-round and yield a profit.<sup>4</sup>

<sup>3</sup> Berdegue, J. A. (2005), Pro-Poor Innovation Systems. Background paper for the Twenty-ninth Session of the Governing Council.

<sup>4</sup> IFAD (2005), What Are the Innovation Challenges for the Rural Poor? Initiative for Mainstreaming Innovation, draft summary report of November 2005 workshop.

7. This focus on interaction and interplay requires that new ways of dealing with social and economic practices be sought – including practices that are not narrowly agricultural, but which have a profound impact on poor people’s livelihoods. Agricultural research is sometimes important but is not always central to these innovation processes. Innovation might result from the recombination or accumulation of existing knowledge within different economic and social contexts that are characterized by different sets of institutions. This in turn leads to innovation systems, and the perspective opens the “black box” of innovation to analyse and understand the role both of the different agents that promote new activities and relations, and of the formal and informal institutions that structure the innovation process.

8. The basic message of this broader understanding of “intentional change” (which is what innovation basically consists of) is that institutions, incentives, policies and power shape innovation processes. In a context of asymmetric competition, innovation can be pro-poor or it can further threaten the livelihoods of the rural poor. More often than not, innovations and innovation processes of greater interest to the poor are neglected, or even undermined and repressed, if they are perceived as a threat to the status quo of power relationships at the local, national or global levels. Formal and informal “rules of the game” are protected, strengthened and reproduced by those who gain from the status quo – or changed by powerful interests – even if the overall result is suboptimal from the point of view of the common interest, and in particular of the interests of poorer and more marginalized people.<sup>5</sup>

9. The effectiveness of an innovation system is, in great part, shaped by the quality of agents’ interactions, in particular the social learning that takes place during the course of innovation. The emphasis is on **process** rather than product (knowledge): it is the social process of learning, discovery and utilization that is mainly responsible for expanding the capabilities and opportunities of the stakeholders involved in/benefiting from the innovation process. Social learning processes are essential to promote change within deeply embedded institutions and to prevent or respond to institutional failures.

### **How Pro-poor Innovations Emerge and the Role of the State**

10. Three combined dimensions are required in order for pro-poor innovation systems to emerge: the **institutional dimension**, the **partnership dimension** and the **empowerment/organizational dimension**. Without institutions that can address social and economic imbalances, risk and vulnerability and high transaction costs, rural poor people will have extremely poor prospects for participating in innovation systems. Without effective platforms that bring together stakeholders with different assets, knowledge and experience innovations cannot be developed. Innovation systems are rarely the result of isolated processes of poor people acting without reference to or engagement with others – if only because so much of what affects the lives of poor people is controlled by the non-poor. Without empowering processes to strengthen the organizations of the rural poor so that they can develop more equal relationships with the better-off and better-endowed, innovation systems will always be managed by, and have the greatest benefit for, the non-poor.

11. **Institutional dimension.** The challenges facing the rural poor are many: insecurity of land tenure; high risk of, and vulnerability to, market failure; growing transaction costs to access larger and more remunerative markets; and unfair or unregulated competition. All these challenges are creating asymmetric power relationships in the marketplace, and adding risk and uncertainty to the livelihood needs of the poorer rural strata. The public sector has the critical role of promoting an enabling environment through a mix of policies and investments to favour innovation systems for rural poor households. The public sector must support the rural poor to enable them to participate in innovation systems promoted by, and/or beneficial to, them.

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<sup>5</sup> Berdegúe, op. cit.

12. Innovations are strongly influenced by the interaction of formal and informal political, social and cultural institutions<sup>6</sup> with economic institutions. These institutions matter in terms of determining the speed, magnitude and quality of innovation processes. Their role in promoting innovations includes “managing uncertainty, providing information, managing conflicts and promoting trust among groups”.<sup>7</sup> Innovation involves risk and uncertainty. However, risk and uncertainty can be minimized and innovation spurred when the agents involved have a reasonable assurance that they will be able to benefit from their efforts, and that various forms of opportunistic behaviour will be contained. Institutions that provide such assurances and safety nets or regulate the behaviour of agents and facilitate the enforcement of obligations are therefore key to innovation processes. In rural microfinance, a typical example of this is the Grameen Bank. To prevent individual repayment defaults, repayment from credit schemes is facilitated by the institutional development of self-help groups and credit and saving associations.

13. There are three key strategic areas of focus for the innovating role of institutions: (i) devising new approaches to securing the asset position of the rural poor; (ii) strengthening the capacity of the rural poor to have access to innovation and reducing the costs of doing so; and (iii) reshaping and strengthening the role of public research for agriculture and rural development with a focus on the issues confronting poor people and the resources they can mobilize to respond.

**(i) Devising new approaches to securing the asset position of the rural poor.** The asset position of the rural poor is characterized by a gross imbalance vis-à-vis other segments of the population. These imbalances are to be found across the whole spectrum of assets, including education, health care, information and technology, markets and natural resources, and need to be redressed. With respect to natural resources, for example, new forms of secure land tenure systems are essential for on-farm investment and as an incentive for both women and men farmers to engage in sustainable natural resource management. The general global trend has been one of weakened land rights for the rural poor in a context of growing population levels and increased trade and urbanization. This is particularly true for the land rights of women and female-headed households. Outsiders are often in a better position to profit from market development and manipulate the legal system in order to gain title to land previously controlled under traditional usufruct systems. Failure to ensure security of tenure for the poorest, in a situation of increasing competition for land and water assets, is likely to lead to a displacement of the most vulnerable by the better connected and more affluent.

**(ii) Strengthening the capacity of the rural poor to have access to innovations and reducing the cost of doing so.** High priority should be accorded to universal education and physical infrastructure. Improved communications through the development of information and communication technology (ICT) and the construction/maintenance of rural roads are critical to reducing transaction costs, which are among the most powerful disincentives to poor people participating in innovation processes; as transaction costs are fixed, they hit the poor hardest.<sup>8</sup> ICT-based collective price and market information systems can partially substitute for underdeveloped roads. If active public policies for the provision of public goods are articulated with a pro-poor perspective, transaction costs will be reduced. In relation to roads, for instance, a larger share of public transport budgets

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<sup>6</sup> As used here, “institutions” is understood as the set of formal and informal rules that shape social behaviour (laws and regulations, norms, values and morals) and the mechanisms (including certain organizations) for their enforcement.

<sup>7</sup> Oyelaran-Oyeyinka, B. (2005), Systems of innovation and underdevelopment: an institutional perspective. United Nations University – Institute for New Technologies (UNU-INTECH). Discussion Paper No. 2005-1. Maastricht.

<sup>8</sup> Kjöllnerström, M. (2005), Physical Infrastructure and the Rural Poor (mimeo).

should be allocated to the construction/maintenance of secondary and farm-to-market roads. Both types of roads generally show much more favourable cost-benefit ratios when compared with large-scale infrastructure projects that in many cases receive the lion's share of public funds.

- (iii) **Public support to research and development systems.** Investments must be made in research and development that is strategically oriented to the needs of small farmers and small rural enterprises. In many developing countries, agricultural research institutions are becoming more market-oriented and demand-driven. New relationships are emerging between researchers, development actors and the rural poor based on mutual learning and shared management of research programmes. However, these new opportunities for developing pro-poor innovation cannot take root and flourish without much higher levels of public funding, within rigorous accountability frameworks.

14. **Partnership dimension.** Effective innovation networks are generally made up of multi-stakeholder platforms composed of partners capable of providing resources and capabilities that are valuable to all and promote sustainable pro-poor innovation. Such partners include: innovation agents (individuals or organizations), mainly in the private domain, with ability to effect change; clients and target groups (and their organizations) of the innovation process that must participate fully in the innovative systems in order to encourage processes that respond to their needs; and other social and economic agents whose capacities and perspectives are necessary for many substantive innovation processes to take place. At the centre of each of these partnerships are the rural poor. If rural poor women and men – through their organizations – are not part of larger platforms composed of a variety of social groups, they will not learn from other agents pushing for innovative processes and they will not shape the innovation system to respond to the critical issues they face.

15. One example of an innovation system based on partnerships and a regional multi-stakeholder platform is PhytoTrade Africa, a membership-based trade association that seeks to stimulate the development of a natural products industry in which rural poor communities in Southern Africa can actively participate. Its membership comprises not only representatives of poor harvesters but also local processors, traders and exporters, as well as development agencies and researchers. All its members are bound by a commitment to the principles of fair trade and environmental sustainability. Active in seven countries in Southern Africa, PhytoTrade Africa is building value chains between rural poor communities and the USD 50 billion global market for natural product-based cosmetics, herbal remedies, dietary supplements and nutraceuticals. Acting as a catalyst rather than engaging in business itself, the association has already forged partnerships with a range of international buyers. These partnerships have enabled its members to deliver products to over 40 countries and have brought real income gains to poor harvesters of the products, most of whom are rural women.

16. **Empowerment/organizational dimension.** Enabling public policies are doomed to failure unless they are supported by the overarching thrust for pro-poor innovation systems: the promotion of effective and sustainable organizations for collective actions in the economic, social and political spheres. The empowerment of the rural poor – that is, of enabling rural poor women and men by assisting them in the development of their skills, capacity and organization – is needed not only for them to compete in markets, bargain with the private sector and influence the public sector, but also to access information, evaluate and understand technologies and their relevance for their farming systems, and manage collective economic enterprises (irrigation, savings, etc.). The empowerment of rural communities, of specific common-interest groups within communities and of federations of such groups should be the starting point of any support to any innovation system.

17. Pro-poor innovation processes do not differ substantially from other development processes: they are decision-making processes resulting from power, knowledge and information relationships. State and public institutions should recognize organizations of the rural poor as interlocutors and

provide incentives for the formation of partnerships and multi-stakeholder platforms capable of pulling together the resources for the development of pro-poor innovation systems. Governments have a critical role to play in creating the institutional conditions – on a demand-driven basis – that support (also financially) smallholders or rural communities to establish their own institutions. Support is needed to develop new forms of associations capable of facing the new demands and challenges posed by accelerated and unequal market relations and by new threats to livelihoods, such as the HIV/AIDS pandemic and advancing desertification and soil erosion. Such associations include farmers' field schools to access and evaluate new agricultural technologies; village banks and rotating savings and credit associations to access financial services and build up informal sector microenterprises; water users' associations to manage irrigation infrastructure; and farmer enterprise groups or associations to negotiate with market intermediaries. Empowerment must be central to all initiatives that seek to harness science and technology in the effort to reduce poverty.

18. Overall, once innovations are seen as processes and systems and not just as products, the issue of promoting pro-poor innovation systems is not separate from the broad poverty problematic and the underlying issues of power relations and asset distribution. This does not mean that there are not questions that are specific to innovations. It does mean, however, that the responses to such questions (and positive outcomes) are linked to other poverty processes and issues.

#### **How Can IFAD Better Contribute to the Emergence of Pro-poor Innovation Processes?**

19. For IFAD, the most important innovations are those that bring about a positive change in the way smallholders and other rural poor people invest in, produce and market their products; manage their assets; organize themselves; communicate and interact with their partners; and influence policies and institutions. Thus, the innovations that IFAD promotes on the ground may take many forms (financial, technological, procedural, methodological, administrative and legal) and occur within many contexts (social, political, cultural). Innovations are also needed in the way that agencies – governments, non-governmental organizations, research and finance institutions, and private enterprises – support rural development by lifting barriers and creating new platforms for pro-poor action. In most cases, innovations are the result of a process of interplay among actors within a specific institutional setting. Thus, IFAD also has an important role to play in identifying the seeds of these innovation processes and understanding their dynamics, in order to manage the knowledge generated and promote scaling up and replication at higher levels.

20. Finally, IFAD recognizes that reducing poverty is not simply a question of quick technological fixes, not simply a question of increased productivity, but also a question of changing power relations. Thus, all IFAD's efforts converge on the empowerment (economic, social and political) of rural poor people so that they can, themselves, deal with the big issues they face and avert the negative consequences for their lives. In this regard, the role of IFAD in the short term is to facilitate partnerships and linkages – to help bridge gaps among different power structures and actors, and between the global, national and local levels. Its longer-term role is to contribute to building up institutions that are pro-poor and provide for empowerment. That is why strengthening the capacity of organizations representing the interests and serving the needs of rural poor people is a central part of IFAD's strategy and operations. Over the past several years, IFAD has focused on building up and institutionalizing its collaboration with farmers' and other rural producers' organizations, both in its operations and in its policy engagements. As it moves forward, IFAD intends to promote its catalytic role as an "incubator" to develop and test innovative projects with the rural poor.



### Suggested Areas for Discussion

- **Examples of pro-poor innovation.** What are the best examples of pro-poor innovation that have occurred in a particular country? What were the conditions that facilitated the emergence of the innovation process? Can this innovation be replicated and scaled up, and, if so, how? What are the roles of the state and other stakeholders in supporting the scaling-up process?
- **Public policies.** Which public policies are essential for facilitating the emergence of innovation? How can the state support the formation of public-private partnerships and platforms for pro-poor innovation processes? What kind of public policies can promote participation by rural poor women and men – through their organizations – in innovation processes and support the formation of the necessary platforms and partnerships?
- **Institutions for the rural poor and pro-poor innovation.** What are the basic requirements for the rural poor to participate in innovation processes? How can small farmers and rural producers' organizations more effectively promote and disseminate pro-poor innovations?
- **The role of IFAD and other international development institutions.** How can international development institutions such as IFAD more effectively support pro-poor innovation systems? How can development agencies identify areas that require and are ready for innovation and subsequently support these innovation processes? Is the partnership dimension critical to the identification of and support for innovation processes? Who would be the key partners?
- **Aid harmonization and flexibility.** How can trends towards harmonization, coordination and standardization (e.g. alignment with national poverty reduction strategies, harmonization through sector-wide and programme-based approaches, and more centralized aid instruments such as general budget support) in the international development system be reconciled with the context specificity, flexibility and diversity inherent in innovation and risk-taking?



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