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Rural Non-Farm Employment Project

**Literature Survey:
Rural Non-Farm Economy (RNFE)
and Local Governance**

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LITERATURE SURVEY: RNFE AND LOCAL GOVERNANCE

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RURAL NON-FARM ECONOMY (RNFE) AND LOCAL GOVERNANCE

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1. Introduction

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BACKGROUND

This literature survey is part of a policy research project on Rural Non-Farm Economy (RNFE) in developing and transition economies. It is being conducted by the Natural Resources Institute (NRI) and associates on behalf of the UK Department for International Development (DFID), as part of DFID collaboration with the World Bank's Rural Development Department. The project is intended to assist the formulation of pro-poor policies relating to the RNFE and livelihoods, initially in the case study countries. It has three components: one has a regional focus on transition economies of Eastern and Central Europe; the other two are concerned with developing economies and are focused on the RNFE in relation to peoples' access and barriers to entry (the Access component), and in relation to local governance (the Local Governance component). These last two components are closely related, and are working in the same case study countries (Uganda, and two states in India).

Much of the work in developing countries is concerned with fieldwork in these case study countries, but in addition some more generic studies have been produced. These include a paper on 'Policy and Research on the Rural Non-Farm Economy: a review of conceptual, methodological and practical issues' (Marsland et al, NRI, November 2000), and this literature survey, which reviews existing knowledge of the RNFE in relation to governance issues.

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Local governance and the RNFE

Governance, as defined by the World Bank in its 1992 report, *Governance and Development*, is: “the manner in which power is exercised in the management of a country’s economic and social resources for development.” It involves much more than government alone, as suggested by Czempiel: “Government is the capacity to get things done with authority; governance is the capacity to get them done”. (1992, p.250, cited in Hawthorne 1993, *IDS Bulletin*, p.24). This means that governance includes not only the operation of formally-constituted government, but also other forms of power which are exercised through the private sector, non-government organisations, civil society generally, and by political actors in combination with these entities. These can be referred to as non-constituted forms of power. In the organisation of work for this project a pragmatic separation has been made between on one hand formally-constituted power, and on the other, structures and processes involving non-constituted power. The first involves formal government action and policy, and the relationship of government at national and local level (including decentralisation) to the RNFE. The latter involves all other potential sources of influences on the RNFE through the impact of other power systems.

The *relationship between governance and the RNFE*, including the *potential for benefits in the RNFE of decentralisation* was one of the areas of knowledge that it was considered needs improvement at a meeting at the Bank in June 1999 (www.worldbank.org/research/rural/workshop.htm). This component of the project is designed to produce a significant enhancement of knowledge of the relationship between the RNFE and local governance, and the types of policy interventions (including, where relevant, decentralisation) that can have positive impacts on non-farm employment and other livelihoods. In many parts of the world, the agricultural sector is unable to absorb more rural labour, and migration to towns and cities may have undesirable effects.

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So an understanding of the optimum form of local governance for a rapid expansion of sustainable rural (especially non-agricultural) livelihoods is crucial to the reduction of poverty among the rural population. The research aims to identify policy interventions that will enable the promotion of good local governance, such that the RNFE is enhanced for the benefit of the rural poor and without detriment to farming-based livelihoods, or negative impacts on other sections of poor people, or on gender relations, or on the environment.

The Local Governance component is focused on the district level, and on small towns in rural areas. It operates at the meso-level, and complements the Access component, which is focused on the micro-level (including enterprises and firms) and households. The case study research is focused on two themes: the general relationship between local governance and the RNFE, and the significance of decentralisation for the RNFE. Each of these involves the following research questions and work plan:

The Relationship between Local Governance and the RNFE

This involves identifying and evaluating direct and specific linkages between existing RNFE activities and institutions of local governance. The balance between the involvement of constituted authority and other types of governance needs to be understood, and their significance for RNFE assessed. An evaluation of the possible lack of significance of linkages between RNFE and governance is also needed, in order to assess the degree of autonomy of economic activities and their relationship to governance. The significance of small towns as potential 'promoters' of the RNFE needs evaluating, so as to evaluate if success is related to scale and spatial-economic functions rather than governance.

The principal research activities are:

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- a) To evaluate the constraints on the emergence and growth of Micro, small and medium enterprises (MSMEs).
- b) To evaluate the impact and effectiveness of local government services, including infrastructure, and those measures introduced to promote enterprise activity and job creation;
- c) To assess whether the policy and institutional environment is an enabling one for employment creation and enterprise growth
- d) To assess the effectiveness of government services;
- e) To analyse the location of enterprise activity, to shed light on the significance of small towns, and the potential of industry clusters
- f) To evaluate the possible lack of significance of linkages between RNFE and governance, to assess the level of autonomy of economic activities and whether they are related to governance.

From this general analysis, the case studies examine the individual functions undertaken by the public sector in a district or locality in support of the RNFE. They identify and assess the functions provided by local government, including:

- Planning and Development - providing retail and business locations, local markets and industrial sites, and local co-ordination and facilitation of provision of services.
- Public service support and infrastructure provision. Local government is usually of key importance in support of public services of health and education, again of critical importance in the RNFE. Infrastructure provision, such as the maintenance of local roads to allow access to and from the rural areas for marketing goods and services, has been demonstrated to be of mixed significance, linked to both positive and negative outcomes for RNFE.
- Ways in which local government supports civil society initiatives, including NGOs, in promoting the development of the RNFE and

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community participation at the local level. Also co-ordination of local economic development programmes involving both public and private sectors, promoting partnerships between local government, the public and private sectors.

- The funding of local government and revenue generation is a determining function of local government. It involves sourcing of funding for development from government, the private sector and from donors. It also involves the local taxation and revenue generation that will have a key influence on the services provided and determine which sectors benefit from services.

Effects of decentralisation policies on the RNFE

Key issues influencing the success or failure of government decentralisation initiatives and policies with reference to the RNFE need to be identified. Many studies have shown significant problems in realising the benefits of decentralisation in general. Better understanding is needed of the conditions which enable the benefits of decentralisation for the RNFE to be realised in particular.

Decentralisation on its own may not increase democracy or improve conditions for poor people, but rather the reverse if decentralised power is captured by local elites. This capture effect may also cause the distributional impact of decentralisation to be uneven, with commercial agro-interests, large-scale farmers, or urban-based interests being able to exert disproportionate influence over local government. The impact of such influence or capture on the overall welfare of the rural poor (in terms of income distribution, the development of additional livelihoods) needs to be understood.

Effective government decentralisation may need to be accompanied by a transfer of certain taxation and revenue-generating powers to local government, although there are significant resource mobilisation and

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allocation issues arising from this. Greater regional and inter-district inequalities can result from fiscal decentralisation, and fraud and control issues at the local level also become more significant. Capacity-building of local government, in terms of both structures and personnel, is a necessary component of decentralisation processes. The issue of how 'public entrepreneurship' and leadership skills can be promoted within local government and civil society must be analysed.

Key questions for research include:

- What mechanisms can be introduced that ensure both transparency and accountability in the context of a strengthened and expanded local government?
- Which types of decentralisation processes, and associated systems of checks and controls, help ensure that the RNFE (and in particular the participation of the poor in the RNFE) benefits, and that local elites or the commercial agriculture sector do not capture the resulting benefits?
- What is the revised role of the private sector and of civil society in the provision of services to the RNFE in partnership with local government?
- What is the revised role of central government in the context of decentralisation, with particular reference to regional inequalities in public expenditure/revenue needs?

These background issues have been described in some depth because we consider it significant that very little of the literature on RNFE is directly concerned with many of these issues. As will be seen below, there is a reasonable literature on decentralisation, but this is not specific to issues of the RNFE. Furthermore, the literature on governance, including that specifically on local governance, is also rarely concerned with economic issues. It is rather more focused on problems of participation, representation, efficiency of administration, and democracy. It rarely seems to consider what

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the connections are or might be between improved governance and enhanced economic conditions. Rather, much of the literature seems to make a fairly simplistic assumption that good governance will enable proper participation and representation by previously under-represented groups, so that for example poverty will be better addressed. We hope that this literature survey is of value for highlighting this deficiency and that this project may be able to highlight key linkages for policy design in regard to the RNFE.

2. LOCAL GOVERNANCE AND THE RURAL NON-FARM ECONOMY

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INTRODUCTION

It is widely acknowledged that increased food security and sustainable natural resources management are not sufficient conditions for reducing rural poverty. Diversification of livelihoods and non-farm income are important to poor households. Most donor agencies accept the role of the RNFE in poverty reduction. Among these, the World Bank and the UK government's Department for International Development (DFID) have also embraced 'good governance' as a principle mechanism for empowering the poor and reducing poverty, but without any clear analysis of the mechanisms through which good governance (including decentralisation) might relate to economic development.

The **aim of this review** is to synthesise existing knowledge and inform research priorities and the design of country studies, and to assist in policy design in relation to governance issues relevant for RNFE. Unlike the Access component of the project, which can build on a wide-range of existing research on 'access' issues that are relevant to the RNFE, most of the existing literature on the RNFE or on Governance does not make the link between role of local governance and the RNFE. The objectives here in the first section are:

- (a) To review knowledge on decentralisation, local government and civil society institutions, and their implications for improved local governance;
- (b) To examine the extent local governance has contributed to local development and poverty alleviation;

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- (c) To draw out the implications for policy development which targets the RNFE;
- (d) To analyse thinking on both distress diversification and positive diversification and the implications for local governance issues;
- (e) To examine factors that affect incentives and capacity for non-farm activities, including public services and infrastructure provision, and any positive or negative outcomes for the RNFE;
- (f) To examine issues of linkages between the RNFE and agriculture and rural development in the broader sense, and reflect on the implications for local governance;
- (g) To consider the significance of non-constituted governance and institutions in regard to non-farm rural livelihoods.

Before reviewing the wider issues of governance, local development and poverty alleviation, it is useful to define the underlying notions of participation, power and empowerment, particularly in the context of the RNFE. Section 1 (Dasgupta) will discuss these concepts and distinguish between 'governance' and 'government'. Decentralisation is often thought to contribute to improved local governance, and the form of local government depends on the decentralisation policy of the central government. This largely influences the remit of functions of local government and its ability to deliver services and to implement development projects, including those that may assist the poor. Section 1 briefly examines issues of decentralization, though as will be seen, this literature hardly relates to the RNFE at all. Good local governance means participation by the weaker community groups to help identify and to articulate their needs. This, together with accountability, is a necessary ingredient for pro-poor development, and is discussed in Section 1. Section 1 examines the role civil society institutions have played in rural development in general, and in the RNFE in particular. Section 1 examines the role of local governance in stimulating economic growth, employment and poverty reduction.

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Concepts and categories of analysis

In this section, we examine some of the conceptual frameworks and categories used by various authors that are of relevance to our understanding of local governance and the RNFE. Some are of wider use in relation to development studies, some are specific to governance and some to the RNFE. The need to understand the link between development and governance is relatively recent. Until the 1980s, notions of powerful, centralised government dominated much of development thinking. Pursuit of Keynesian principles in managing some Western economies resulted in impressive gains (in both growth and welfare) in the 1950s and 1960s. Centralisation and creation of welfare states proved popular in the communist countries. In their own way, both models influenced many post-independence Third World governments in their form of government and the assumed connection with the need to provide state direction to the economy. The call for strong central government also received support from political scientists who argued that a strong state was needed to push through development in the face of perceived 'traditional' and 'feudal' obstacles (Webster, 1996). If economic development could be achieved then empowerment and democratic governance would follow.

By the 1980s it had become increasingly clear that the top-down approach had failed to reduce poverty and promote development because (i) centralised decision-making at the macro-level (national) had failed to reach the micro-level of villages and hamlets, and had left poor and weaker sections unrepresented (Aziz & Arnold: 1996); and (ii) in these localities, people had little sense of ownership of projects initiated and designed by central government representatives, and were unwilling or unable to sustain them (Ayers: 2000; Aziz & Arnold:1996). There was an increasing realisation that local governance and empowerment of people at lower levels of society was needed to promote development.

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The 1980s thus saw support among aid-recipients and donor agencies for stronger local governance that would be more responsive to the needs and priorities of the local population, and provide more effective service-delivery. Even so, it has taken time for this to be incorporated into project and programme activities. In the early 1990s only 2% of World Bank education projects included decentralisation strategies in their design, although by 2000, over 50% of projects did so.

The underlying rationale for promoting local governance is that it would increase local participation and accountability, which in turn would target resources and services to meet needs of the poor and reduce rural poverty. This is based on the understanding that (i) local people know far more than the central government what problems they face, and how best to solve them, and, (ii) local institutions would be better able to identify and articulate local needs into development strategies.

The success of decentralization therefore largely depends on the level of participation by poor and disadvantaged groups in, and their empowerment by, the local political and developmental process. The core concepts here are participation, power and empowerment, and alongside this the argument that changes in formally-constituted government can bring parallel positive changes in local governance. Ideally, decentralization would provide the basic level of public sector developmental policy, of devolution and decentralisation, and of collective action and involvement by civil society institutions. It is therefore pertinent briefly to look at some of these concepts as they might relate to the RNFE.

Participation:

This has several accumulated meanings.

- (i) *Participation as political co-option.* This can be illustrated by the British experience of the 1960s, when town centres and housing in

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Britain were being modernised. Participation by local people in new plans was made statutory. Councils invited comments, and usually asked the public which of the pre-determined options they would prefer (Lumb: 1980). In effect local councils determined the basis on which people participated, and carried out the exercise only to meet the statutory regulations (Wright 1990).

(ii) *Participation by people as objects of development.* In the developing economies, the early post-war growth models under the modernisation paradigm sought to transform 'backward' subsistence peasantry into participants of a 'modern' economy and nation state. As objects of development they were expected to participate in projects through their contribution of labour, cash or kind (Nelson & Wright 1995).

(iii) *Participation as 'inclusion'!* The failure of top-down growth and developmental models was in part traced to the alienation of beneficiaries. One example is that of projects addressing declining food production in Africa (Bryson, 1981). Much research and policy ignored women's farming practices, disregarding their role as the main managers of local natural resources. The failure to reach the poor led to ideas about greater inclusion of the supposed beneficiaries of development policies in their research and design.

(iv) *Participation for self-sufficiency.* At the 1990 Arusha Conference on participation in development some NGOs (having been disillusioned by government projects) argued that people should design their own income-generating projects and look after their own welfare. Participation here meant self-sufficiency as opposed to dependence on the state. The World Bank used these arguments to push for reduced

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state involvement in the provision of services in its structural adjustment policies (Nelson and Wright 1995).

(v) *Participation and transformation*: The shortcomings of development at the end of 1980s led to arguments that people should be made central to development through economic growth, good governance, equity and popular participation. Here, participation implies that the poor are a necessary part of national growth and development, essential to local decision-making; and that altering power relations (gender and equity) should be to their advantage.

The shift in emphasis towards various forms of participation gave rise to new analyses of development policies and techniques of qualitative evaluation. One of the more influential analyses was by the World Bank (1994). It introduced the idea of stakeholders, and defined participation as transformative (getting communities to decide their own priorities). Participation was 'a process through which stakeholders influence and share control over development initiatives, decisions and resources which affect them' (*Ibid*).

Chambers (1995) argues that along with recognition of many failures of development, and the preoccupation with sustainability, there has been a 'deeper and pervasive shift in development thinking'. He notes that the big shift of the last two decades has been from a professional paradigm centred on things, to one centred on people. In theory, this shift entails much change: Top-down becomes bottom-up. The uniform becomes diverse, the simple complex, the static dynamic and the controllable uncontrollable. The future becomes less predictable. The transfer of packages of technology is replaced by the presentation of basket of choice... (T)his paradigm implies participation as an empowering process, with a shift of power to those who are local and poor (*Ibid*: 33).

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However, the difficulties in practice arise from the fact that top-down reality has changed little. Among bureaucrats the paradigm still remain strong, not least because things (bridges, roads) are still needed. Furthermore, Chambers notes that 'normal professionalism' seeks to centralise, standardise and control - tendencies that are contrary to people-centred development. Most importantly, participation as an empowering process is threatening to some stakeholders, and can led to loss of power and greater diversity. This implies that new tensions will emerge which also need managing as part of the development process.

It is in this context of a people-centred paradigm that much analysis of the RNFE is located. Participatory development is seen as a process where the poor and marginalised are the primary stakeholders, needing to have better control over their resources and a greater role in the decision-making that affects them. This requires very different power relationships between the poor and the state and its institutions, and some civil society organisations that tend to adopt patronising attitudes need to change. We therefore need to gain some appreciation of how power can be conceptualised, to inform the analysis of concepts such as participation and governance.

Power and empowerment

The concept of power is widely debated. Here it is relevant briefly to examine the different ways that power is analysed and then look at power relations as they exist in relation to the RNFE. Power is experienced in encounters in everyday life as part of systems. These include households (gender relations), work and livelihoods (production relations, property rights, class and caste, impact of the state and/or elites), access to resources and information (class and caste systems, welfare and service provision by the state) and wider economic relations. How people stand in relation to each other in a system is described as 'power' (Nelson & Wright 1995). It is a means of representing a

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relationship and not a thing.

There are different models of power used to analyse different aspects of participation and empowerment. The *first* model is often referred to as the 'power to'. This suggests that, like human abilities, power can grow if you work at it. The 'growth' of one person does not necessarily have a negative impact on another. Harstock (1984) describes this as an 'energy' definition of power that is ever-expanding. Ferguson (1990) developed a very different model of power. He argues that power is subjectless and is an apparatus consisting of discourse, institutions, actors and flow of events. They interact invisibly, with a logic that is only apparent afterwards, to draw in more relations within the ambit of the state. Ferguson elaborates on this in the context of Lesotho, where despite the fact that many projects failed, the power of the state expanded to include previously distant communities. This of course raises wider questions of how participatory development is being managed and the effect on the realities of the poor and marginalised.

Probably the most widespread conceptualisation of power is the model described as 'power over'. This involves gaining access to 'political' decision-making. Power in this model is conceptualised as something finite within a closed system, a fixed quantum which is capable of being redistributed between groups through struggle, development or project interventions. Rowlands (1992) argues that a hitherto marginalised group of people with an expanding sense of its ability to influence their lives will soon encounter relations where control has been institutionalised. The challenge is then to gain equal status within that framework through the process of development so that they have long-term control over resources that affects their lives.

Different power relations can be identified within this model. Dahl (1961) and Polsby (1963) note that 'A has power over B' when A prevails over B and makes B do what he/she would not have otherwise done. Bachrach and

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Baratz (1971) add a second dimension. They note that often one party creates barriers and prevents others from voicing their interests. The conflict is not visible and leads to non decision-making. This is described as 'A affects B in a manner contrary to B's interests'. Lukes (1974) adds a third dimension. The interests of the dominant party are taken to be natural, so that there is no alternative to the status quo (e.g. caste system). 'A exercises power over B' by influencing and shaping his wants. The powerful are able to influence and shape the perceptions of the powerless for their own benefit. This dimension of power is largely exerted through the process of myth-making, information control and manipulation of ideology.

Mahajan (1991) and Fisher et al (1997) use this model to delineate the power relations in the rural non-farm sector in India:

Dimension 1 – A has power over B:

The weavers in the handloom sub-sector are well organised, having received support from NGOs for collective action and support from the government to form co-operatives. Their competitor, the powerloom sub-sector, is also well-organised. However, the handloom weavers have generally been able to influence policy to their advantage, with a resulting loss to the powerloom sub-sector.

Dimension 2 – A affects B. A prevails on issues raised by B, but also decides what issues B may raise or whether B may participate at all. The authors put sub-sectors such as handicraft making, carpet weaving, gems and jewellery and leather in this category. The representative bodies of these sub-sectors are essentially in the hands of large producer-entrepreneurs and traders, who account for a major part of the turnover, especially in exports. 'They form a nexus with the politicians and bureaucrats, and the vast number of artisans and workers are not involved in any decision making forums.' (Fisher *et al*: 200). An extreme example is welfare schemes for workers being designed in

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consultation with owners rather than workers.

Dimension 3 – A exercises power over B.

Making *bidi* (local cigarettes), stone quarrying and gathering and processing of forest produce are encompassed by the third dimension. These sub-sectors employ a large number of people, but are essentially controlled by few big operators, such as the *bidi* king and the quarrying and forest contractors. In most cases workers in these sub-sectors are among the poorest and are highly marginalised. They do not even see a role for themselves in the decision-making process and are resigned to their fate. As noted earlier, such power relations have been embodied in the caste system, which has ensured that the vast majority of workers-producers see themselves as inferior. The hold of the caste system is weakening, but similar power relations are being manifested in newly formed economic relations such as the contractor-worker.

Understanding from Dimension 3 would imply that to empower these workers, the first step would be raising awareness to undo the established psychological domination. Many NGOs have been active in these sectors, essentially involved in awareness raising and organising collective action. This could lead to a shift to Dimension 2, where the workers and producers would be heard and their issues and concern included in the local political agenda. Changing power relations would be the next stage. This analysis indicates that most workers and small producers in the non-farm economy are tied into very unequal relations. The power relations found in the non-farm economy could be a microcosm of the circumstances and status of rural poor in general.

Governance and government

The concept of governance is widely contested. The World Bank defines governance as ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ (World Bank

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1992). This definition is based on the Bank's concern with sustainable development of projects it helps to finance. It identified three distinct aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's resources for development; and (iii) the capacity of governments to design, formulate and implement policies and discharge functions. The first aspect is deemed outside the Bank's mandate.¹ Thus, its focus has been on the second and third aspects, with an emphasis on improved public sector management, capacity-building and increasing institutional accountability and transparency. This focus has a 'supply-side' bias (Grindle 1997). However, the World Bank has made considerable efforts to explore and mainstream participatory approaches to the design and implementations of Bank-financed projects.

The OECD's Development Assistance Committee uses the World Bank's definition of governance and links it with participatory development, human rights and democratisation. This means governance is correlated with legitimacy of government (degree of democratisation); accountability of political and official elements of government (freedom of media, transparent decision-making); competence of government to formulate policies and deliver services; respect for human rights and rule of law which provides a framework for economic and social activity and freedom of participation by civil society institutions and the private sector. Good governance by this definition implies continuous interactions between state, civil society and the economy to enhance local governance and to facilitate development. This broader understanding of governance highlights the importance of participation by the poor in the planning and development of resources that affect their lives. However, by definition the state is still a very important and influential actor, as it sets the wider parameters within which the civil society and the private sector can or cannot function. It is also a principal provider of hard and soft infrastructure.

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Development practitioners and policy makers have increasingly realised that there are limits to what the state might achieve. The role of other institutions in local development is being increasingly recognised. As the role of the state is rethought, the scope of market-driven activities is increasing. It is increasing with deregulation and privatisation and with the growing recognition that the state cannot manage the broad range of functions as was thought previously.

The state and market institutions are different from what they were even ten years ago. Privatisation and deregulation have opened new areas of service delivery previously the ambit of the state. There is also recognition of the opportunities of private-public partnership. An interesting development is that today governments at all levels are competing for private sector investment. Critically this investment is often tied to improved service delivery by the state.

The importance and the role of NGOs have been redefined over the last 15 years and they are now considered to add to the overall institutional capabilities. Uphoff (1993) argues that the strengths and weaknesses of these three sets of institutions are complementary and interrelated. Their scope and operations have evolved and changed. Perhaps the real challenge to improving local governance lies in creating positive synergies among the state, market and civil institutions to stimulate growth and alleviate poverty.

Government can be considered as a sub-set of governance that consists of formally-constituted power (or, where imposed by force, the *de facto* authority of a territory or country). Grindle (1997) notes that good government is about the quality of human resources, organisations and institutions in the public sector. Achieving good government means efforts to develop human resources, strengthening organisation and reforms and/or creation of new institutions. These three dimensions are interrelated and efforts to improve governance means enhancing the efficiency, effectiveness and responsiveness of all three aspects. Capacity-building aims to improve,

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among other things, the efficiency and effectiveness of government. Decentralisation and creation of local government institutions are seen as means to increase government's effectiveness and responsiveness to local needs and demands.

Strengthening local government is seen as one of the means of improving local development. It is essentially an instrument for social and economic progress. While development can take place without local government institutions, they should help to develop local solutions to local problems. Presence of such institutions can facilitate the interaction between the state and the primary stakeholders and NGOs and help define local demands and resources available. Local resources for social and economic development are more easily mobilised if such projects are decided and implemented at the local level (Kälin, 2000), and local involvement makes a project more sustainable.

Typology of institutions

Civil society institutions are independent of the state and government. Figure 1 lists the different types of institutions covered by these two categories (from an Indian context).

Figure 1 – Typology of Institutions

State and Government Institutions	Civil Society Institutions
Macro	
National Government Judiciary	NGOs Religious and ethnic associations Trade Unions Caste Associations
Micro	
Local Government Local Police Health Clinics Schools Extension Workers Traditional Authority	NGOs Community-based organisations/ Peoples Organisation Producer Groups Neighbourhoods Kinship networks Traditional Leaders Sacred Sites

Based on Narayan (2000)

Given the context of the study, this review will concentrate on decentralisation and local government institutions. A later section looks at micro-level civil society institutions and their contributions to rural development in general and the RNFE in particular.

Strategies for local development and poverty reduction

Determining the criteria to assess the contribution of local governance to local development and poverty reduction is difficult since little of the literature discusses it in such a framework. The literature on poverty reduction suggests that three types of strategy are necessary to alleviate poverty. It is also

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important to achieve a balance between such strategies. The three strategies are described as those:

- (i) for economic growth that generates increased labour demand, increases productivity and strengthen local economic base;
- (ii) to increase human capital-education and health- among the poor; and
- (iii) to put in place social safety nets to protect the vulnerable from destitution.

A review of the literature on governance and government shows that these form the stated basis of government plans and programmes in many developing countries. These can be categorised as production-oriented strategies, and welfare strategies (which subsume (ii) and (iii)). It is important to separate the two. Welfare strategies aim to provide amenities and undertake public work-oriented projects and emergency aid. Such projects tend to focus on health, education and local and community infrastructure. These targeted programmes should benefit weaker sections and improve the quality of their lives, and may also help overcome barriers to entry to income-activities. Production-oriented strategies aim to create employment and other income generating opportunities and to strengthen the local economic base. Such projects can lead to increased production and productivity in farm and non-farm sectors. There is potential for income and employment generation through the backward and forward linkages of these activities.

The challenge to local governance lies in getting the right policy mix of welfare and production strategies. For example, in Sri Lanka the emphasis has been on improving the welfare of the poor. Today it scores reasonably well on the UN's Human Development Index, but neglect of production strategies have resulted in long-term structural unemployment, low productivity and low economic growth rate. Most research of local government performance on poverty alleviation (discussed in the section on p.53) is focused on issues of balance between welfare and production strategies at the local level.

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Decentralisation

This section looks at issues relating to types of decentralisation; then examines the scope of disadvantaged groups to participate in influencing local policy making; and discusses the difficulties of incorporating accountability in local governance

Although decentralisation policies are used in a number of different countries, the concept is rather confused and it is used in a number of different ways in different contexts (Conyers: 1985, 1986). Samoff (1990) noted that most authors tend to be preoccupied with administrative decentralisation. The concern in the development debate and in donor policy is improvement of local government performance and implementation of development programmes. It is in this context that decentralisation is reviewed.

Rondinelli (1981) distinguished between four different categories of decentralisation, which have become widely used:

- (i) *deconcentration* is defined as transfer of power to local administrative offices of the central government. It is also referred to as 'administrative decentralisation' (Manor: 1999);
- (ii) *delegation* is the transfer of power to sub-national governments and/or parastatals, or other government entities;
- (iii) *devolution* is the transfer of power to sub-national political entities; and
- (iv) *privatisation* is the transfer of power to the private sector.

Parker (1995) provides further analytical refinement by distinguishing between *political*, *fiscal* and *institutional* decentralisation. Like Parker, Manor (1999) excludes privatisation as a form of decentralisation. He argues that privatisation often involves a shift of power and resources from one major, centralised power to another. However, privatisation and market liberalisation implies freeing up small and local businesses to participate in rural

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development programmes and in service delivery. This is recognition of the role that can be played by local actors and that they should be included in the decision-making process. Hence, for this review decentralisation has four components:

1. Deconcentration or administrative decentralisation
2. Devolution or democratic decentralisation
3. Fiscal decentralisation
4. Privatisation or economic/market liberalisation.

All these can occur simultaneously or in isolation, and power can be bestowed on one or more intermediate levels. Whatever the mix, decision to decentralise is political (Parker: 1995; Manor: 1999; World Bank 2000). For example, in Latin America, decentralisation has been an essential part of the democratisation process after discredited autocratic regimes have been replaced by elected governments with new constitutions. In Africa, the spread of multi-party political systems is creating demand for more local voice in decision-making. The transition economies have undergone decentralisation as the old central apparatus crumbled. In East Asia decentralisation appears to be motivated by the need to improve service delivery to large populations and the recognition of the limitation of central administration (World Bank, 2000).

Deconcentration is a form of administrative decentralisation where decision-making remains at the centre, with the other levels of government being limited to transmitting orders and implementing decisions. There is limited scope for involving local citizens in decision-making. It is considered the weakest form of decentralisation and is used most frequently in unitary states. The FAO (2000) notes that a majority of countries have not gone beyond this point. Deconcentration is given preference as it gives a sense of decentralisation without giving away any central powers. Bangladesh is a case in point where the emphasis is on administrative decentralisation, with

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very little political and fiscal devolution (Westergaard, 1995; Khan, 1996). Thus, deconcentration by itself contributes little to developing local institutions or enhancing local governance.

Devolution is 'the transfer of resources and power to local authorities which are largely or wholly independent of higher levels of government and which are democratic in some way and to some degree.' (Manor, 1999: 6).

Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions. It is expected to contribute to the development of capacity at the local level (World Bank, 1995). Under a devolved system, local governments would have clear and legally defined geographical boundaries over which they exercise authority and within which they would perform public functions (World Bank, 2000). Basta (2000) summarises the values driving the case for political decentralisation. These are an increase in democracy; protection of freedom and human rights; increase in efficiency through delegation of responsibility; higher quality of services; and enhancement of social and economic development.

Political decentralisation is a reversible process. In India, the post-independence constitution encouraged the establishment of local, self-governing bodies from villages to the district (*panchayat raj*) and permitted states to support this process. The states of Maharashtra and Gujarat implemented *panchayat raj* in the 1960s, but the experiment was so successful that they felt threatened by the emergence of new local centres of power and terminated the programme (Webster, 1990). The vigour with which decentralisation is taken up may depend on the centre-state relations. The state governments of West Bengal and Karnataka, governed by parties in opposition to central government, wanted to demonstrate that they were more imaginative and democratic, and implemented the reforms vigorously. These

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experiences indicate that scope for local government must be analysed in the context of the relationship with the central government.

Fiscal decentralisation: Financial responsibility is a core component of decentralisation. If local governments are to carry out their functions they must have adequate levels of revenue. Fiscal decentralisation refers to downward fiscal transfer, by which higher levels cede influence over budgets and financial decisions to lower levels (Manor, 1999). However, Mawhood (1993) in reference to the experience in tropical Africa, notes that if fiscal responsibility is passed on to deconcentrated bureaucrats who are accountable to superiors at higher levels, it can hardly reflect the local needs. Furthermore, fiscal decentralisation without political devolution rarely increases the influence of organised interests at lower levels.

Fiscal decentralisation can take many forms, including (a) self-financing; (b) co-financing or co-production arrangements through which the user participates in providing services and infrastructure through monetary or labour contributions; (c) expansion of local revenue base and improved collection; (d) intergovernmental transfers of revenue from central to local governments for specific use; and (e) authorisation of municipal borrowing and mobilisation of either national and local governments through loan guarantees (World Bank, 2000).

Fiscal decentralisation does not detract from the importance of central government distribution policies. Concerns about equity between levels of government are central to the discussion of fiscal decentralisation. Some jurisdictions may be better endowed with resources than others, perhaps due to size or location. Intergovernmental fiscal programmes which transfers resources to disadvantaged areas are crucial to reducing regional disparities (World Bank, 2000). Central government also has an important role in improving interpersonal equity. Local governments are instrumental in

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implementing central distributional policies and addressing intra-locality issues (*ibid*).

Fiscal decentralisation often allows local governments to mobilise local resources through expansion of the tax base. But this instrument is rarely used as politicians are disinclined to impose new taxes. According to Manor (1995: 84) politicians are 'specially concerned about taxing prosperous groups - those from whom most mobilisable resources would need to be raised - since most elected councillors come from such groups and often depend on them for re-election'.

Privatisation and economic decentralisation shift responsibilities for functions from the public to the private sector. They allow functions that had been primarily or exclusively the responsibility of government to be carried out by businesses, community groups, co-operatives, NGOs and other voluntary organisations. Conceptually, there is a logical connection between privatisation and decentralisation, if the primary objective is to reduce the control of central state structures over economic decision-making (Aziz & Arnold, 1996). Privatisation can include (a) allowing private enterprises to perform functions that had been previously carried out by government; (b) contracting out management of public services through public-private partnerships; (c) financing public sector through capital markets; (d) divesting state owned enterprises to the private sector (World Bank, 2000).

Deregulation reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services that in the past had been provided by the government or by regulated monopolies. Privatisation and deregulation are now attractive alternatives to governments in developing countries. Local government are also privatising by contracting out service provision or administration (*ibid*).

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Decentralisation is essentially a political process and it is pertinent to emphasise here that an analysis of local governance has to be informed by the political economy of the relevant country. This includes knowledge of social structures, established systems of patronage, inherited government structures, and regional and ethnic groups' differential access to power and resources attributed to their marginal status in 'mainstream' culture. The establishment of local government is a political process and one that is initiated by the central government. An understanding of the relationships between different tiers of local government and the central government is essential to understanding these institutions.

Implications for local governance:

1. Decentralisation, governance and poverty reduction:

The mix of decentralisation varies nationally and it does not always mean improved democracy or poverty reduction. Malaysia has a long history (since 1971) for governance geared to reduction of poverty and inequity. This has been achieved through increasing the efficiency of public agencies rather than through democratic decentralisation and participation (Schneider, 1998). On the other hand, in Bolivia, the Popular Participation Law promulgated in 1994 provides municipalities with resources and decision-making powers to strengthen social development. However, so far there has been little impact on rural poverty as functioning of the system is hampered by, among others, illiteracy, difficult transport, absence of transparency and a weak democratic culture (Gonzales, 1997).

In the Philippines, the Agrarian Reform Law introduced participatory bodies at national, provincial and village levels. In reality, only the council at the national level is fully functional. There are no direct links between peasant representatives and other levels and capacity building at the local level is still a problem (Martinez, 1997). Khan (1996) notes that in Bangladesh it is more a case of administrative deconcentration, rather than true devolution of power

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and autonomy, with little impact on the rural poor.

Further complications arise because decentralisation can 'entail transfers of power to different levels in the political system.' (Manor, 1999). For example, power can be bestowed on a region rather than to the local level. It is important to recognise that there is a difference between systems that empower intermediate levels and those that empower local levels (ibid). Sri Lanka, has a four-tier democratic system with power devolved to Provincial, District, Local and grassroots levels. However, more power rests with the Provincial councils than with Local and District councils. Thus, project identification and decisions for resource allocation are taken at the Provincial level. Abeyawardana (1996) concludes that present distribution of power has failed to initiate local level planning and grassroots involvement. The World Bank (2000) notes that in practice 'all services do not need to be decentralised in the same way or to the same degree'. In other words, selective decentralisation of services could address the issue of different economies of scale for different types of services.

As stated earlier, governance depends on the type of local government institutions, attitude of bureaucrats, and the roles that can be played by the voluntary sector, semi-government agencies and the private sector. The part that can be played by these organisations are linked to the type and level of decentralisation. For example, the extent of privatisation and market deregulation determines the role that the private sector can play in service delivery and the scope for partnership building. The level of political and fiscal decentralisation affects the influence the local government has on the political system, and hence on local development activities and poverty alleviation.

2. Local willingness to translate decentralisation into effective governance:

While there has been some positive experience in Bolivia, Schneider (1998) is sceptical of the beneficial effects of decentralisation for the poor. He argues

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that where local power structure is biased against the poor and/or where the local capacities are weak, the quality of service provision from the local decentralised level is poorer than from the central level. To change power structures takes time and resources. Decentralisation should therefore not be considered a quick and cheap way for poverty reduction.

To enable relevant mechanisms to play their role in participatory governance the decentralised bureaucrats must be open, facilitating, listening and empowering the poor. Chambers (1997) speaks of necessary 'reversals' in the attitude and behaviours of the 'uppers'. The normal tendencies of the civil servants are to be dominating, lecturing and extracting. To achieve such reversal requires innovations in training, formal operational rules and incentives related to behaviour and performance.

Participation and accountability in local governance

Participation and accountability are considered the two cornerstones for successful or good local governance. If these are present at the local level there will be more effective service delivery for the poor. The review of secondary material and country experience indicates that the reality is more complex.

Participation:

In the poverty context, local democratic governance is expected to identify and follow ways in which the poor themselves could contribute to the move out of poverty and to enable them to do so. This is to be achieved through participation by the poor and greater accountability in the system. Participation is expected to increase representation of the targeted constituencies, which in turn would empower these groups to influence development activities and consequently benefit these groups and alleviate poverty. Blair (2000) in a six-country² study (funded by USAID) shows that increase in participation by the weaker and disadvantaged groups does not always lead to their needs being

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articulated into local programmes. Therefore, participation does not automatically lead to subsequent reduction in poverty. It is pertinent to look at this study in some detail.

The central idea of participation is to give citizens a meaningful role in local government decisions that affect them (Blair: *ibid*). Manor (1995: 82) elaborates on the wider meaning of the term. Participation at one level refers to electoral participation – both voting and taking part in election campaigns. At the second level it refers to participation and involvement in politics between elections, such as joining voluntary associations, signing petitions, contacting politicians and bureaucrats, taking part in protests. The depth of this type of participation tend to vary with the length of a country's democratic experience. In countries with a history of repressive rulers and in former and current Leninist regimes, such participation is seriously underdeveloped. But in Ghana, Uganda, the Philippines, India and Sri Lanka levels are quite high by international standards (*ibid*).

Blair conceptualises the argument that establishment of local democratic governance will ultimately lead to reduction in poverty as a five-stage process. With the introduction of local democratic governance, the expectations are that:

- Increase in participation leads to
 - > increase in representation
 - > increase in empowerment
 - > increase in benefits for all
 - > decrease in poverty.

He examines each of these stages to see if experience substantiates this argument. The act of launching a democratic local government initiative ensures a certain degree of *participation*. Citizens are likely to vote in the local elections and would have increased interest in local politics and the political

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process. Democratic decentralisation means that new constituencies will gain *representation*. This may include the disadvantaged. But it is more likely that businessmen (e.g. Ukraine), local notables, large farmers and labour leaders will find a place on council. Even if these elite groups have conflicting interests, “they are likely to collude in their own material interests than compete. If only the elite gain representation then it is unlikely that the wider public will be served”. More positive experiences are found in Bolivia and the Philippines. In the former, the Quecha and Aymara communities have found representation, and the Kalingas and Gaddangs in the latter. In both instances the communities are geographically concentrated. In Karnataka, India, it is mandatory for a third of the elective representatives to be women. This has increased their presence in the local councils.

Blair notes that local governance has delivered only partially on *empowerment*. The ethnic communities in Bolivia have been empowered and are now able to invest in local primary schooling and road building. On the other hand, in Karnataka, the women have not fared so well. Here the women are a ‘front’ for the male members of their households and communities. The scheduled castes, widely dispersed disadvantaged communities, either do not participate in the local councils or do so only at the behest of their patrons. For example, there are still instances where they have been unable to demand more equitable siting of water supplies and electricity lines. This is supported by Aziz *et al* (1996: 162). They observe that the “same dominant community-oriented power structure that obtains in rural Karnataka seem to prevail in the *mandal* governments too”.

Crook & Manor (1998: 10) in an in-depth analysis ‘of impact of democratic participation on the performance of decentralised institutions’ in Karnataka note that though decentralisation galvanised associational activities among the scheduled castes and tribes, they have been unsuccessful in generating any substantial benefits for their communities. It would appear that

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participation and representation are easier to achieve, particularly where mandated, but empowerment is significantly difficult to attain.

The degree of empowerment has an impact on *distribution of benefits*. Blair notes that local elite still controls elected councils and have steered benefits to themselves. In Ukraine, local businessmen have captured the privatising state enterprises through their influence as council members and through bribes. In Bolivia, though the ethnic groups have gained, the local council is diverting funds to build an automobile racetrack in one of the poorest regions of the country. Outside regions where specific communities dominate, the evidence is mixed.

Blair concludes that “there is little evidence so far that local governance can do much directly to reduce poverty, at least in the short term. The main reason for this pessimism is that when governance is decentralised, local elites get most of the power and steer benefits to themselves, or at least maintain the existing distribution pattern”.

This is supported by wider evidence. In the Philippines, the Local Government Code of 1991 devolved significant powers and responsibility to the municipality. The Code made it mandatory for the elected council to include representatives from poor and disadvantaged groups. Carino (1996: 236) following an evaluation of the impact of decentralised governance in the Itogon Municipality concludes, “peoples’ empowerment has not been realised through the Local Government Code” because “the fundamental structures of local politics in Itogon, with its patronage, elite-domination and personality-orientated elections, has not changed at all”. On the role of NGOs, Carino notes NGOs are not effective representatives in local government. Participation in governance is not their expertise, and distracts them from their primary mission.

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In Bangladesh, each change in central government has been accompanied by changes to the previous system of local government and initiating a new one. Westergaard and Alam (1995) observe that while the various governments have introduced reforms using the traditional normative arguments of democracy and participation, the implicit purpose has been to serve political ends. The required level of autonomy has not been built into the process of decentralisation. Khan (1996) assesses the extent of popular participation in local governance and its impact on the local development. She concludes that the structure and functions of the local government neither represent nor serve the interests of the poor. The elected members, chairman and government functionaries play a dominant role in planning, resource mobilisation and allocation.

In Sri Lanka, the lowest level of local government, the *Gramodaya Mandalaya* (GM) is said to have some achievements with respect to the physical development of the local area. However, as the Chairpeople of GMs are appointed, there are considerable partisan affiliations among member. Abeyawardana's (1996) survey indicates that if the chairperson was elected, the council could reflect the needs and aspirations of the villagers.

The experience of these countries raises important questions about social capital and participation. Putnam (1993) argued that communities with high levels of social capital would organise to demand better government. His definition of social capital – as the associational ties built on *horizontal* cultural norms of identity, trust and reciprocity – is widely accepted by donor agencies (Bryceson: 1999). This definition implies that family ties and vertical patronage networks of trust and reciprocity do not count. Social networks of reciprocity (with vertical linkages) are also very strong in rural areas and they generate considerable benefits for its members. Though they tend to be more exclusive than inclusive, the importance of these networks should not be underestimated (Putzel: 1997).

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The low levels of social capital in rural communities highlights the importance of welfare strategies in rural development. It also raises the larger issue of the nature of policies that need to be framed for empowering people who are prevented from participating in decentralised governance. Reservation of seats and mandatory regulations for weaker section provides them with access. Kothari (1996: 39) argues that if these persons are not trained in the art of governance through the creation of awareness and information dissemination, they are no better off than before.

The major challenge to rural development projects would be to understand the nature of social capital and to ascertain the level of social capital. This would help design training modules for education, skills development, empowering, awareness building, and for information dissemination. Improved social capital not only enhances participation in the local political processes, equally important, it improves access to opportunities for income generation and diversification.

Accountability:

The other most powerful element of good governance in the poverty context is accountability (Schneider: 1998). Both Blair (2000) and Manor (1995) note that accountability has to be achieved at two levels: first is between the bureaucrats and the elected members, and second is between the politicians and the public. Neither type is easy to achieve nor is there a blueprint for success. Some of the difficulties to achieve accountability at the two levels are discussed here.

With respect to the first, bureaucratic accountability to elected officials, Manor (*ibid*) notes that bureaucrats have little regard for the 'small fry' elected in a decentralised system. Even if they overcome their disinclination to work with local politicians, they lack the skills to work productively with the politicians.

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Additionally, accountability is incomplete when employees are decentralised but the authority to discipline them still rests with the central authority. For example in Bolivia, with decentralisation, local authority has the power to supervise health officers, but it cannot discipline them as the central authority still controlled their posting, tenure and salary. Mali is the only example where significant control over civil servants was transferred to local elected bodies (Blair: *ibid*).

Further difficulties arise, as central government employees often do not wish to be decentralised. They believe that this negatively affects their chances of promotion, their children's' education and their lifestyle through loss of urban amenities. In the event that they are moved to lower levels, their desire is to please the superior bureaucrats to ensure career progression rather than the locally elected politician. In Karnataka after several decades of *Panchayat Raj*, a compromise has been reached: "...elected officials direct civil servants in their jurisdiction, while the line ministries write the annual evaluation reports that determine promotions and postings" (Blair: *ibid*). Although imperfect, the arrangement works.

Difficulties also arise from the fact that official notions of performance and accountability vary with dominant culture within the public sector. For example, if performance refers to meeting targets in terms of numbers, it fails to assess the quality of service delivered. Additionally, accountability is to the upper tiers in the bureaucracy rather than to the people.

In the second type, it is hard to ensure that politicians remain accountable to the voters. National politicians from the same region very often use the heads of elected councils as backers. This again raises the question of whether their allegiance would be to the voter or to upper tiers. Most decentralised democratic systems use a combination of arrangements to incorporate accountability. These include regular elections; multi-party political system; a

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strong and lively civil society to ensure social accountability; an open and free press with responsibility for making political news public; public meetings to insert civic opinion into local governance; and formal grievance procedures.

This review indicates that no two countries have used the same combination of mechanism and none have instituted all. Furthermore, no one mechanism by itself has proven sufficient to realise genuine accountability. Regular elections have the most potential, but there are serious constraints to free and fair elections.

The implication of these difficulties and experience is that there is no single solution. The combination of mechanisms and the potential for success depends on the area- and situation- specific conditions. For example in Venezuela, the World Bank has assisted the government in establishing decentralised public agricultural extension service. A major objective was to empower farmers to hold extension agents accountable for results. This was achieved by decentralising management responsibilities to the local level and by allowing public agricultural systems to contract private firms and NGOs to deliver extension services. The package of services was offered to farmers on a cost-sharing basis (Ayres: 2000).

The success of this project, and the fact that (a) the empowerment of the target group remains limited despite political decentralisation; and (b) establishing accountability in the system is a long term proposition; indicate that rural development projects need to incorporate accountability in project design so that service supplier is directly accountable to the recipient. Fox (1995) in an analysis of governance and rural development in Mexico concludes that policy-specific accountability mechanisms are needed. However, in the long term their effectiveness is likely to remain limited without system-wide accountability mechanisms.

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The review so far has indicated that there may have been some increase in participation by the local people largely through the election process and the mandatory reservation of seats on local councils for women and other disadvantaged groups. This however has not always led to empowerment, as it has been difficult to dislodge the traditional power structures that continue to dominate local councils. As a result, the needs of the poor have not always been reflected in the portfolio of resource allocation nor in projects undertaken. Also lack of accountability remains a major problem.

CIVIL SOCIETY INSTITUTIONS AND PROVISION OF SUPPORT AND SERVICES TO RNFE

Civil society

Civil society comprises institutions that are not state affiliated. They occupy the space between households and the state (Hyden: 1997). The political space available for civil society institutions depends on the national political environment. This implies that the evolution of such institutions and their links with the state and grassroots has to be understood in the historical, political and economic context. Its development is constrained under repressive national government. Often the state is not antagonistic to such institutions, but bureaucratic government agencies create non-democratic conditions, as in Bangladesh (Farrington *et al*: 1993). Civil institutions have a greater scope to develop under conditions of relative democracy. Here the tasks of the civil society are to build greater accountability, articulate local demand, increase responsiveness of development projects, and address local capacity and/or underlying power and justice issues.

Civil society refers to groups, networks and relationships not organised or managed by the state. It includes formal and informal links and networks (Narayan: 2000). As shown in Figure 1, these include non-governmental organisations, community based organisations, neighbourhood networks,

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trade unions and producer groups and associations. Narayan notes that social capital is a useful concept in understanding the role that civil institutions play in the lives of the poor. Social capital has been variously defined. As noted in the section on p.36, Putnam (1993) defined social capital as associational ties built on *horizontal* cultural norms of identity, trust and reciprocity. To him vertical links were not important. Narayan defines it as the norms and networks that enable people to co-ordinate collective action. This is a wider delineation of the concept. It accepts that sometimes the poor could establish vertical ties.

Social capital is more important to the poor than the better off. Given their limited access to resources like land, capital and skill, the links and network they develop become an important part of their coping strategy. Putnam (1993) had argued that communities with high levels of social capital would organise to demand better government. This is borne out by subsequent studies. Grootaert and Narayan (2000) show that households with higher social capital also have higher income and that social capital has a disproportionate impact on low-income groups, small landholders than on large landholders. Narayan and Cassidy (1999) established associations between social capital and social cohesion in Uganda and Ghana. In India, Krishna and Uphoff (1999) noted links between watershed management and social capital.

A review of civil institutions and their functioning appears to indicate that, although links and networks that the poor develop are a major resource, they are not sufficient to lift the communities out of poverty. This section discusses each of the civil institutions (listed in Figure 1) in the wider context of rural development and more specifically the RNFE, to understand the role they play under conditions of relative democracy.

NGOs in rural development

Voluntary organisations have been involved with development work long before official aid agencies were established (Clark 1991). In South Asia, the emergence of rural NGOs in their present form is largely attributed to the poor performance of public sector programmes in the 1960s and 70s. Two decades of developmental efforts in agriculture and rural development had very limited success. Additionally, much of this effort gave priority to more socially-homogenous areas with well-resourced farmers (e.g. Punjab). Complex, diverse and risk prone areas that required different technology and approach were allocated low priority. NGOs moved into 'niche' areas and sectors at the margins of government's efforts (Farrington *et al* 1993). However, reasons for their emergence vary. For example, in Bangladesh, NGOs emerged following the War of Independence in 1972, to support devastated rural communities.

In 1993, Farrington *et al* undertook a comprehensive study to examine the role that NGOs could play in sustainable rural development. The study covered Asia, Africa and Latin America. They note that there are three broad perceptions of NGOs, all of which view the emergence of NGOs as a positive force:

1. *NGOs as a force for democracy*: Their involvement at grassroots level and activities to mobilise collective action is seen as development with democracy (Lehman 1990). They are also seen as providing checks and balances and as helping the poor to voice their needs.
2. *NGOs as poverty alleviators and sustainable developers*: NGOs strong presence in the rural areas is seen as their commitment to poverty alleviation. Their support for establishing mechanisms for grassroots action, their small scale and flexibility to respond quickly to the needs are all seen as contributing to sustainable development (Clark 1991).
3. *NGOs as efficiency enhancers*: The third perspective has been concerned with the potential that NGOs offer for enhancing the efficiency of service delivery. Broadly, the arguments are (a) the strong presence in

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rural areas and the detailed knowledge of the needs of the poor allow NGOs to deliver more appropriate services more cost effectively than the public sector could (World Bank 1991a; 1991b). This view has led to substantial increase in funding allocations to NGOs. (b) Innovations developed by the NGOs – methodological or institutional – reflect local needs and conditions. This led to a call that these should be adopted and applied by the public sector on a wider scale. (c) Abed (1991) and Carroll (1992) argue that NGOs can influence the public sector agenda through formal and informal links. Furthermore, the ‘demand-pull’ can be sustained by the gradual take-over of NGO responsibility by the grassroots members of the organisation.

These arguments imply high level of expectation from these organisations. Indeed they were expected to become the vanguard of civil society and take a leading role in ensuring more equitable socio-economic development (Korten 1990). Tandler (1982) in a study of US NGOs operating in developing countries concluded that beneficiaries were often in the middle and upper ranges of income distribution. This questioned the rhetoric of working with the ‘poorest of the poor’.

There were also concerns about the high level of generalisation in pro-NGO literature (Farrington 1993). As stated earlier, NGOs can be constrained or encouraged by the wider political environment. They operate in widely diverse bio-physical and socio-economic conditions with very different prospects for success. Their strategies vary. Some focus on building self-help organisations, others on income-generating activities. Some are active in a single sub-sector others NGOs may work across sub-sectors. NGOs in different countries develop widely differing characteristics according to the history of the state, amount of development assistance received and gaps perceived in public service provision. This gives rise to a wide range of

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typologies. Robinson (1991) categorises the NGOs operating in Asia as follows:

1. Large national NGOs working in several states in different parts of the country and sometimes acting as intermediaries channelling funds from donors to smaller local NGOs.
2. Large national NGOs working in most districts of one state.
3. Medium-sized NGOs working in a large number of villages in one or two districts on one state.
4. Large international NGOs with in-country representation providing funding and support to national NGOs.
5. Small national NGOs working in a group of villages in one locality.
6. Small International NGOs working directly in one or two localities.

The implication for this study are (a) field analyses in selected districts need to carefully distinguish the different NGOs operating in those districts; (b) it is important to identify those working in the non-farm sector and those relevant to the sub-sectors that could be targeted for intervention; and (c) the need to understand the extent and nature of State-NGO and NGO-NGO links.

Strengths and limitations of NGOs:

Assessment of NGOs by the poor show that their achievements are limited. They have a mixed record and that the reality is complex. Narayan (2000) draws together the information from Participatory Poverty Assessments (PPA) carried out in 50 different countries, covering 60,000 poor people. These assessments record the experiences of poverty and the quality of poor peoples' interaction with a range of institutions. This report draws on this study, among others, to understand the strengths and limitations of NGOs.

NGOs as resources:

1. Respond better to local priorities: The very nature of these organisations makes it easier for them to understand and react to local needs. Its physical

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base is usually close to concentrations of poverty (Clark 1991) giving them considerable local knowledge. They are also more likely to be trusted than government officials. In Ghana, PPA (1995) showed that the poor valued the NGOs over governments for being more responsive in the field of health care and education.

2. Provide access to additional resources: PPAs reveal that one of the central strength of NGOs is their ability to access additional financial, technical and often political resources. When the state is weak, NGOs can be critical to helping poor people meet everyday needs. This kind of support from NGOs is an important component of poor peoples' coping strategies. They are involved in providing food during seasonal shortage, in health care, sponsorships of poor school children; running eye camps, veterinary camps. In India they are associated with distributing seeds; offering watershed management; organising women's group; and developing income-generating activities.

3. NGOs with religious affiliations provide important safety nets for the poor: The importance of support by church was noted in Benin, Panama, Georgia and Vietnam. In Pakistan, mosques and shrines were considered valued sites for charity. The poor in India mentioned *ashrams* as a place of refuge.

4. NGOs bring special expertise and contribute to economic opportunities: NGOs are perceived to bring expertise that can strengthen livelihood opportunities and contribute to overall well being. In Komaka, Ghana, the community believed that the assistance of NGOs was more valuable than that of the government in establishing a grain bank, to reduce vulnerability to droughts. In Togo the NGO expenditure in 1994 exceeded the government budget for rural development. In Rajasthan, the village of Bhaonta-Kolyala was declared a famine-prone area by the government. Lack of water and loss of agricultural income increased migration and social unrest. Since then, an NGO (Tarun Bharat Sangh) has helped villagers improve watershed

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management by organising tree planting and rain water harvesting based on traditional practices learned from village elders. This has ensured water availability even during the lean season (CSE: 2000).

5. NGOs are more compassionate than government officials: government officials are perceived to be rude and unsympathetic to the poor. They would rather the poor were not there. In comparison, the NGOs are considered more understanding and kind. Hence, they are more positive towards NGOs.

6. NGOs and RNFE: The role of the NGOs in the rural non-farm economy is valuable though patchy. Small-scale and poor producers/workers in particular have low social capital, and NGOs have been instrumental in organising them and promoting their interests. NGOs working in remote areas with tribal communities, women and scheduled castes have helped develop income-generating activities and organised new associations and co-operatives.

Fisher *et al* identifies three types of NGOs operating in this sector in India. *One*, the Gandhian NGOs tend to focus on traditional artisan crafts and are often highly dependent on Khadi and Village Industries Commission for their marketing and finance. *Two*, activist NGOs concentrating on specific issues within the RNFE, like child labour. SEWA is well known for its activities to promote the income-generating capacity of poor women and for organising rural producers' co-operatives outside Ahmedabad. The *third* group is constituted of new NGOs founded by professionally educated persons moving to the non-governmental sector. PRADHAN is one such organisation. It has been prominent in working with carcass flayers, leather tanners and fishermen in Uttar Pradesh. The URMAUL trust in Rajasthan work with wool weavers and wood carvers. These NGOs have sought to create or sustain employment among poor producers and in some cases have done work in technology intermediation.

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Limitations:

1. Size, coverage and outreach: Narayan notes that though NGOs have played a key role in making development more participatory they have only limited outreach. PPAs show that in Panama only 10% of the community received support from NGOs. In Indonesia the estimate is 7%. In India, communities rank the contribution of NGOs to their development as secondary to the government's effort. In Bangladesh, the high awareness of NGOs is primarily associated with microcredit. Their limited focus and geographical coverage explain the limited outreach.
2. NGOs tend to focus on limited number of issues. Some concentrate on organising the rural poor into self-help organisations (*Nijera Kori*). Others channel their efforts to enhance income-generating activities (SEWA; Pradhan). The Grameen Bank (Bangladesh) focuses on the provision of microcredit. However, large NGOs like BRAC and Proshika combine all three approaches.
3. Coverage and size of NGOs is also an important factor. Local NGOs tend to be centred upon a small number of districts in the country. Though national NGOs are seen to operate in greater number of districts, none have the outreach of government agencies.
4. Dependence for finance on government and donors. An increasing share of development funds is being channelled through NGOs. They are now largely dependent on funding from donor agency and governments. This requires NGOs to meet project targets set down by the funding agency, making them into 'contractors rather than community catalysts'. Additionally, target-led reporting is often at the cost of quality-led output (India 1998). Senegal PPA (1995) shows that in Senegal some NGOs have put achieving financial independence as their highest priority.

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5. Tarmac bias: As with government, NGOs are accused of the tendency to reach people who live close to passable roads and miss the really poor who live in remote areas.

6. Lack of fit between programme design and local conditions: NGO programmes are sometimes designed with limited knowledge of what is available on the ground. PPA in Armenia showed the NGOs lacked familiarity with local traditions and conditions. It led to programme designs that did not work, such as the supply of milk to schoolchildren, which failed as powdered milk was supplied without the provision for running water supply.

7. Limited management capacity hinders effectiveness. The PPAs suggest that uncertain funding and limited management capacities hinder effectiveness and independence of NGOs. This includes difficulties with leadership and effective systems of financial management, planning, monitoring and evaluation (Fox 1993). Many lack full-time or permanent staff. Others operate on a voluntary basis funded by member contribution. Thus their capacity to make good use of new resources is limited (Narayan 2000).

8. Insulting behaviour and corruption. The NGOs were also accused of being rude and insulting. An in-depth study of the Grameen Bank (1999) showed that field staff terrorise, insult and lock up defaulters. PPAs also indicate that most poor believe there is little altruism in NGOs. Relief funds were often diverted. Setting up an NGO was seen as an easy way to earn money and provide employment to family members.

9. Have not affected power relations. Summarising the finding of all 50 PPAs, Narayan concludes that NGOs are making important contributions to the coping strategies of the poor. They have however, made no difference to the local power relations. There is no evidence that NGOs have helped in the inclusion of the poor in local councils. Further, their biggest weakness is that

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they generally do not tend to support long-term capacity development for local self-governance.

Government – NGO links:

The interaction between government and NGO can take various forms. This depends on the economic and socio-political context, the diverse origins of NGOs, structures and objectives of the state and of the NGOs.

Both the state and the voluntary sector have their respective advantages. The NGOs provide a link between the civil society, the state and the market. The Government has the advantage of coverage, outreach, trained and skilled human resources and the scope to design multi-dimensional development projects. The interactions can range from close partnership at one extreme, to attempting to influence the agenda at another. India (1997) shows that programmes undertaken by quasi-government institutions in collaboration with NGOs seemed to be more effective than the programmes that were undertaken by government alone. On the other hand, partnership in education in El Salvador is facing difficulties. The NGOs find the government 'authoritarian and inefficient' and 'erratic and unaccountable'. In Uganda, a study was undertaken to ensure more effective distribution and use of equalisation grants aimed at micro and small enterprises. The study identified a role for NGOs and the private sector in marketing, advertising and product development.

In India, the practice of government-NGO partnerships is becoming increasingly common, particularly in the management of water resources and in watershed management. In Bangladesh, BRAC, Proshika and the Grameen Bank have become a force that the government has to take into account. However, most NGOs are not involved in watch-dog activities to hold governments accountable.

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Community based organisations: (CBOs)

CBOs are grassroots organisations managed by members on behalf of members (Edwards and Hulme: 1992). Their activities range from mobilising communities for infrastructure development projects, cultural festivals, conflict resolution within the community, to management of relations with outsiders and emergency relief. They are often the only organisation that the poor people feel their own and trust. CBOs acting alone have generally not been a force for change in local power structures nor in significant development gains (Narayan 2000: 151). She further notes that “associations of the poor are much more effective to meet the short-term security needs than at fostering change in the underlying rules of exclusion”. Uphoff (1986) notes that while isolated instances of local institutional development can be impressive, their cumulative effect is negligible.

Neighbourhood and kinship networks are generally in the first line of defence in times of difficulty or crisis. Reciprocal obligations are strong. However, there are limitations and costs. Narayan concludes with a rather negative assessment of CBOs. She notes that networks have few outside resources to draw on, and that generally most members of the network are in the same plight. This increases the vulnerability of the entire community at times of crisis. However, there is evidence to the contrary which shows that this vulnerability can be harnessed by outside agencies to benefit communities. Additionally, the common vulnerability can give impetus to the community to take charge of their own natural resources. Two examples highlight this:

1. Harnessing the strengths of the community to improve natural resources management (CSE: 1999a).

Banni is located in Gujarat's dry grassland area. The local grass, grown for fodder was the main source of income for most of the community. By 1992, much of this grassland had disappeared due to invasion by other species of grass, increasing soil salinity and overgrazing. In 1995, the Gujarat Institute of

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Desert Ecology (GUIDE) stepped in to try and regenerate the grasslands and the degraded land. Their strategy was to build long mounds of soil (height 0.5m and width 3m), leaving narrow ditches between the mounds. The rain was expected to leach the mounds of salt and deposit it in the ditches. When the soil was sufficiently leached grass would be grown. The project has been very successful and in 1997 biomass production was estimated to be 7.8 times higher than in unprotected grasslands. This was achieved through a participatory approach. The Director of GUIDE directly contacted the village elders. Once the elders realised the potential of the project, all the villagers were drawn in. Led by GUIDE, a village level committee was set up to manage the implementation of the project and the distribution of the grass among villagers.

2. Villages protecting their forests in Orissa (CSE: 1999b).

Forests are a major source of income for many rural communities in the state. Depletion of these resources, for various reasons, was threatening the livelihood opportunities of the poor. Villagers have essentially organised themselves to protect their own forests. The structure for monitoring the forest activities varies with the village. In some it is through voluntary participation by villagers; others recruit guards whom the villagers pay an honorarium. Today almost every village has a structure to protect its forests.

Representation of Small Producers

The representation of small producers and workers in small units is very limited. If producers' associations do exist they fail to look after the interests of small and tiny producer/workers. In India, the primary stakeholders who derive their livelihoods from non-farm activities are millions of entrepreneurs, producers and workers. Fisher *et al* (1997) note that there are no effective mechanisms in the rural non-farm sector to ensure representation of producers and workers in policy-making processes and public agencies. The representatives of entrepreneurs and their associations are generally

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nominated to various consultative committees. Such nominations are based on political affiliations or social status. As a result these nominees tend to represent larger entrepreneurs. Often there is collusion and co-option leading to non-representation of interests of small producers. This mirrors the power relations in the sector.

There is a low level of collective action in the sector. Fisher et al note that there are numerous associations and groups formed by producers, traders and workers. There are also caste-based organisations, guilds, self-help organisations supported by NGOs. Yet few are strong and active and have little impact, even though in most instances the sector would gain from being better organised. Furthermore, conflict of interests of different groups (i.e., producer groups and workers' associations) leads to competition for concessions and patronage.

Trade Unions

Trade Unions are not common in non-farm sector. In India, unions are found only among workers in large sub-sectors like tea, making *bidi* (indigenous cigarettes), matches, and garments. The sheer size of these sub-sectors attracts political activists. Some changes have been achieved, like reduction in child labour use, but working conditions remain poor.

Small industries associations

An extensive network of associations with several tiers of organisation is well established in India. The associations are a powerful lobbying force on behalf of their members. However, most associations cater for urban small-scale industries and have not been effective in representing the interests of tiny units. These associations do not serve the majority of small industries in the rural non-farm sector.

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Summing up

1. Civil society institutions like NGOs and CBOs provide valuable support to the poor. Their collective action and links and network are a major resource for the poor. However, they are not sufficient to lift the communities out of poverty.
2. Most NGOs tend to focus on single-issue problems and/or tend to concentrate on a sub-sector, and restrict their activities to a limited area. This has problems of outreach and coverage. But on the other hand they develop expertise and have in-depth knowledge related to their area/sector of work.
3. Their close links with the community give the NGOs a better understanding of community needs. Hence they tend to be more responsive and effective in meeting welfare needs, like providing health care and education.
4. Experience shows that programmes undertaken by quasi-government institutions in collaboration with NGOs seemed to be more effective than programmes undertaken by government.
5. The small and tiny producer/worker units in the RNFE remain largely unrepresented by the producer associations and trade unions, reflecting the power relations in the sub-sectors.

Local governance and poverty reduction

The system of decentralised governance is an instrument for social and economic growth. A review of the local government programmes and projects show that the emphasis is on welfare-oriented strategies. There are few examples of local governments pursuing policies to enhance the production base through diversification and increase in productivity, which would strengthen the local economy, initiate growth and create income-generating opportunities. In the case of India, Kothari (1996) notes that this is a general weakness of the Indian planning process. Employment generation has low priority. This has affected the social development of the weaker sections.

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The purpose of development policy at all levels and of country programmes is to strike a balance between interventions that promote growth and welfare, and those that prevent destitution, particularly with reference to food security. Targeting government expenditure to simply reduce poverty is not sufficient. Government expenditure is also needed to stimulate economic growth. This imbalance in spending is another reason why decentralised governments have had little impact on poverty alleviation. An insight into the decision-making process in local government shows why it is difficult to strike a balance at this level.

Karnataka has a long experience with decentralised governance. It is a three-tier system consisting of *zilla parishad*, *taluk samiti*, and *mandal panchayat* (MP). The MP is the first elected tier of the *panchayat* system comprising a cluster of villages with population between 8,000 to 12,000. Aziz, Nelson & Babu (1996) analyse the performance of the MP to provide an understanding into how these councils choose projects and allocate funds.

1. The final choice of projects reflects the suggestions from the *gram sabha* (village councils). Not surprisingly, the focus is on amenities like house sites, electricity, community facilities like health centres, clean drinking water, drainage, road construction.
2. Projects are selected on the basis of urgency. Additionally, to avoid conflict the MP compromises and ensures that each village has a project.
3. The list of projects examined by the authors show an overwhelming bias towards projects such as drainage, water supply, street lighting, bus shelters and school buildings.

They conclude that *Mandal Panchayats* have “concentrated on amenities and public-works oriented projects and neglected production-oriented projects such as those in respect of agriculture, animal husbandry and fisheries” (page 156). Except for one MP that had made a small investment in developing fish

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seedlings, there was no expenditure on activities that are the mainstay of the local economy.

It appears that in a bottom-up decision-making process it is difficult to take a perspective of the development needs of the area as a whole. It makes strategic thinking difficult. However, the example also highlights the important role that local governments can play in identifying and implementing local welfare projects. World Bank projects already recognise this. Ayers (2000) notes that projects in sectors such as primary health care, education, rural water and sanitation and agricultural extension are now more likely to consider roles for lower level governments, communities, non-governmental organisations and the private sector than in the past. Nepal and Sri Lanka have tried to address this difficulty of formulating development strategies at the lowest level of government by locating developmental planning slightly higher up in the decentralised system. However, this strategy is not without problems.

In Nepal, village and district level development committees together formulate plans for areas under their jurisdiction and give priority to programmes that increase income, employment and agricultural production, utilise local resources and skills and protect the environment. An interesting feature of decentralisation in Nepal is that NGOs and user groups are also brought into the planning process and in project implementation. However, the village committees work with a low financial base. Both village and district committees lack a reliable data base, suffer from delays in receiving budget ceilings and even delays in disbursement (Amatya: 1996).

In Sri Lanka, a four-tier system (National, Provincial, district, local and grassroots) was established by the Development Councils Act in 1988. The Act also sets out functions for each level. At the grassroots level, the main functions of the *Gramodaya Mandalaya* are to attend to civic requirements

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and to link the grassroots to the administration. The development functions rests with the local level *pradeshhiya sabhas* (PS). These functions include village works, experiments in agriculture and experimental farms, preparation of programmes for educational facilities, employment generation programmes, rural women's developmental activities, integrated development of selected villages and commercial development projects to serve other local authorities and the public (Abeyawardana: 1996).

The PS is also empowered to generate its own revenue by way of taxes, licence duties and to receive grants on the basis of a nationally accepted formula. Furthermore, the central government has provided guidelines for 'balanced development'. To prevent duplication and overlapping among locally identified projects, a 'basket of projects' is proposed by the council at the provincial level from which the PS can choose. This policy, however, has not been successful, as projects did not always reflect priorities at the grassroots level.

The World Bank's policy of Demand-driven investment funds (DRIF) have tried to address this problem. It includes a co-financing matrix, which provides incentives to communities to undertake projects in line with national policies, but which also allows communities to pursue their own preferences (Ayres: 2000). This instrument has been used with considerable success in Mexico and Brazil.

To sum up:

Decentralisation and enhanced local governance has had little impact on poverty alleviation. This is partly due to lack of balance between production and welfare strategies. Within welfare strategies, the focus has been on improving the physical infrastructure. There is an under-representation of programmes addressing issues of human and social development. Balance at project level is essential to achieve any change.

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KEY POINTS:

1. Decentralisation is being pursued in different countries for different political reasons. It thus takes various forms and affects the contours of local governance. Though one of the main motives for decentralisation is to stimulate local development, it is essentially a political process. All studies of governance need to be informed by the political economy of the country.

Decentralised government should be perceived as part of a continuum, where relations between different tiers of government impact on their respective ability to function effectively.

2. Participation and accountability are two cornerstones for good governance. Though participation has increased with devolution, it has not empowered the weaker groups. Their interests are not always identified nor articulated into local policy. Lack of accountability remains a problem.

3. There are serious limitations to what local governance can achieve. It is not a panacea for achieving equitable development. Decentralisation can result in loss of economies of scale and loss of control over scarce financial resources by central government. Local administrative and technical capacity is often weaker than at higher levels. Partial fiscal decentralisation may leave the local government with inadequate financial resources.

4. Project and programme planners need to assess strength and weakness of public and private sector organisations in performing different types of function. There is the need to identify the level of government at which the project/programme functions can be carried out efficiently and effectively.

5. Poverty interventions are generally categorised as growth and welfare strategies. Each of these meets different developmental needs. Thus there is

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a need to strike a balance. Local governance emphasis is on welfare programmes, with growth strategies often neglected. However, there are difficulties in initiating growth programmes at the lowest level of governance. Local government policies have had little impact on either poverty or growth.

6. Funding structure and central government distributional policies. Fiscal decentralisation does not always match political decentralisation. This can leave the local government with inadequate funds. Even when expenditure is sanctioned, disbursement of funds is delayed. Politicians are often hesitant to expand their tax base as it conflicts with their longer-term political ambitions. Fiscal decentralisation should detract from the importance of central government distribution policies. It is essential to address inter-jurisdictional equity issues.

7. There is no reference to diversification of rural activities in the literature. This reflects the emphasis on providing local amenities and public works.

8. Role of civil society institutions. One of the principle reasons why democratic local governance is expected to be better able to reflect local needs and aspirations is that it encourages and relies on civil organisations to assist in local problem identification and project development. The NGOs and CBOs have organised collective action and played central roles in self-help programmes (see Uphoff: 1993 for details). They are also important channels for dissemination of information. However, they tend to focus on issues or sectors and choice of such organisations in project implementation has to be critically assessed.

9. Policy and influence of specificity of a given local context – methodological implications. The above discussion clearly indicates the importance of understanding the local context for institutional change. It implies a need to determine whether and to what extent central government agencies have in

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fact relinquished power to the local level. This will involve review of relevant legislation governing decentralisation and the structure and form of local government. The ability of the local government to act and carry out functions to benefit the poor must be contextualised (a) upwards – in terms of its relations to national polity and to national level leaders from that particular region; and (b) downwards – in terms its relations with local NGOs, CBOs, the private sector and the main target groups. The nature of these links will determine the synergy that can be generated and co-management that could be envisaged in a rural development project relying on improved governance for service delivery.

10. The level of engagement of the poor in affect government intervention is important. Understanding levels of social capital, power relations and the nature of social networks and their membership will be central to informing policy design.

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3. THE GROWTH AND TRANSFORMATION OF THE RURAL NON-FARM ECONOMY: A REVIEW OF THE ISSUES WITH SPECIAL REFERENCE TO LOCAL GOVERNMENT

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Introduction

This section of the review attempts to provide answers to key questions by drawing on a few select sources (cited as “key references” in the bibliography). The bibliography has been extended to include a list of other relevant material which may be useful for research in progress. The goals of this section are to examine current thinking on the RNFE; and identify examples of the successful and unsuccessful transformation of the RNFE in developing countries. More specifically, this review will:

1. analyse the current thinking on, and evidence of, distress diversification and positive diversification, and identify the implications for local governance;
2. examine the factors conditioning incentives and capacity for non-farm activities;
3. examine issues of linkages between non-farm activities and agriculture and overall rural development, and reflect on the implications for local governance;
4. consider – in the context of formally-constituted government activities – how “soft” (public services support) and “hard” (infrastructure) provision are linked to positive and negative outcomes for RNFE; and

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5. consider – in the context of non-constituted governance and institutions – the impact non-government organisations and other institutions have had on rural non-farm activities.

Thus the first part of this review focused more on the significance of decentralisation and participation in contributing (or not) to positive outcomes for the RNFE (in other words it examined the relations between central and local government, and between people – especially poor people – and local government. This section, by contrast, is more concerned with how formally constituted local government provides the basis for local economic development, and how non-formal governance institutions are related to this process. In the first section we found that decentralisation policies have little relevance or even intention to promote local economic development.

The Significance of the RNFE

In recent years increasing emphasis has been placed on the significance of the non-farm sector for economic growth and poverty elimination in rural areas (e.g. Lanjouw and Lanjouw, 1997; Islam, 1998; and Gordon, 1999). The recent flurry of interest in the RNFE reflects the growing realisation that the successful transformation of this sector could hold the key to resolving some of the most fundamental development problems typically encountered in poor countries:

“In most developing countries, the rural labour force is growing rapidly, but employment opportunities are not keeping pace. As land available for the expansion of agriculture becomes increasingly scarce, non-farm employment must expand if deepening rural poverty is to be avoided. Policy makers and analysts alike look to the non-farm sector to increase rural employment, contribute to economic growth, improve income distribution, and alleviate poverty. Expanding opportunities in rural areas outside of agriculture also may help stem the migration of rural dwellers to the cities and slow the spread of

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urban congestion and pollution. At any feasible pace of growth of large-scale industrialisation, urban countries are unlikely to absorb the rapidly increasing labour force. Therefore, it is up to the more labour-intensive rural non-farm sector to absorb excess labour, promote economic growth, and diversify income sources” (Islam 1998: p.1).

Livelihood Diversification: concept, theory and evidence

We begin with a brief review of the literature on livelihood diversification.³ Ellis (1997, p.5) defines livelihood diversification “as the process by which rural families construct a diverse portfolio of activities and social support capabilities in their struggle for survival and in order to improve their standard of living”. In stark contrast to traditional wisdom, diversification is not merely a transient phenomenon (e.g. Saith, 1992) or one associated with a desperate struggle for survival in poor countries. Instead, livelihood diversification is widespread and enduring (Ellis, 1998, p.2), and “may be associated with achieving livelihood security under improving economic conditions as well as with livelihood distress in deteriorating conditions.” (Ellis, 1997, p.2; see also Collier, 1988; and Preston, 1989).

There are large variations in the share of non-farm income in poor countries (see Ellis, 1997, section III; Reardon, 1997; Haggblade, Hazell and Brown, 1989; and Sahn, 1994). In regional terms, average non-farm income shares in rural areas are higher in Africa (42%) and Latin America (40%) than Asia (32%) (Reardon, 1998, p.290).⁴ There is also some evidence to suggest that income diversification may have increased in recent years. For example, Bryceson (1996; and 1997) has found that rural sub-Saharan Africa is becoming steadily less agrarian and increasingly more reliant on non-farm sources of income. Various other case studies point to the rapid expansion of growth and employment in the RNFE (Reardon, 1998, pp.291-292). Thus, employment in the non-farm economy is a crucial source of rural income in many poor countries that seems to be of increasing importance.

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The economic rationale for diversification into non-farm activity is described in the farm-household model (see Hymer and Resnick, 1969; Nakajima, 1970; 1986; Singh et. al. 1986; and Ellis, 1993), which “predicts diversification as a function of on-farm returns to labour time compared to off-farm earning opportunities” (Ellis, 1998, p.3). It is common to distinguish between two broad motives for diversification in the literature (e.g. Hart, 1994; Davies, 1996; and Ellis, 1998). On the one hand, diversification may be driven by economic necessity and desperation in a bid to survive (“distress” diversification). On the other hand, diversification may take place through choice in an effort to take advantage of new opportunities (“positive” diversification). Several studies seem to suggest that diversification is driven by necessity rather than choice (e.g. Swift, 1998; and RIO, 1998); however, other evidence indicates “that opportunity and favourable macro-economic policy are very important” (Gordon, 1999, p.12).

Different forms of diversification have different policy implications. There is a strong case for the state to encourage and support positive forms of livelihood diversification in order to reduce rural poverty and enhance livelihoods. One option is to identify and target the most promising sub-sectors in the RNFE - an approach favoured by Reardon (1998) and Dasgupta (1998). Much broader forms of intervention are required to deal with cases of distress diversification. Here the goal is not so much to encourage or support diversification, but to tackle the economic and social factors forcing households into the non-farm economy. Depending on the circumstances, appropriate interventions may include measures to promote agriculture.

The Determinants of Diversification

For policy purposes, it is vital to identify the factors that motivate households that are primarily farm-based to participate in the RNFE. (We should also note that there may be some households which already specialise entirely in ‘non-

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farm' activities in rural areas, and that much of our discussion has relevance for further direct conversion to non-farm activities as well as diversification by those who continue to farm). Ellis (1997; 1998) and Reardon (1998) both provide reviews of the factors that motivate diversification. Key determinants of household diversification include:

- *Seasonal factors.* Participation in the RNFE takes place to supplement household income during periods of low agricultural activity. In some cases seasonal migration may also occur not so much to augment income, but to remove a hungry mouth from the household (Davies, 1996). In periods of high agriculture activity, farming can impose a squeeze on the RNFE.
- *Labour Markets.* In general, diversification will take place when the marginal returns from working in the RNFE are greater than the agricultural wage rate. However, this kind of diversification is hampered by the problem of missing markets in Africa and market imperfections in Asia (see Ellis, 1998, pp.5-6).
- *Risk strategies.* Avoiding or reducing risk is often advanced as the primary motive behind livelihood diversification (e.g. Bryceson, 1996). The basic idea is that households select a portfolio of activities in an attempt to anticipate and mitigate against threats to family welfare from failure in individual activities (see Alderman and Paxson, 1992). Poorer households and those located in unfavourable agricultural zones are more likely to be "pushed" into less risky non-farm activities (Reardon, 1998, p.286).
- *Credit Markets.* The failure of credit markets provides another motive for livelihood diversification (Binswanger, 1983; Reardon, 1997; 1998). In the absence of credit, farmers often participate in non-farm activities to raise money for agriculture inputs or to purchase farm equipment.
- *Asset Strategies.* Diversification may occur in order to acquire or enhance household assets (stocks of capital). This process helps to achieve greater livelihood security in the future (see Ellis, 1998, pp.9-10).

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- *Coping Behaviour*. Diversification that occurs as an involuntary response to a disaster or unanticipated livelihood failure.

This list indicates that diversification can take place for positive as well as negative reasons. In the following pages we will consider some of the other factors that condition the incentive and capacity for non-farm activity.

The Links Between Non-Farm Activity and Agriculture

The relationships between farm and non-farm activity is described in the *rural growth linkage model* which originated in the 1970s (Johnston and Kilby, 1975; and Mellor, 1976) and has governed policy discussions for several years. The basic idea is that agricultural growth stimulates the development of the RNFE in poor countries through production, expenditure and investment linkages (Haggblade and Hazell, 1989; Hazell and Haggblade, 1993; and Reardon, 1998). Production linkages occur when increments in farm income induce investment in non-farm activity in order to supply goods and services to agriculture (“backward” or “upstream” linkages) or provide processing and distribution services related to farm outputs (“forward” or “downstream” linkages). Expenditure linkages, on the other hand, take place when agricultural incomes are spent on products produced in the local non-farm economy, such as consumer goods and services. Investment linkages occur if profit from agriculture is invested in the RNFE.⁵

The significance and magnitude of these linkages have been investigated in a series of papers (e.g. Ranis and Stewart, 1987; Ranis, 1990; Hazell and Haggblade, 1993; and Bagachwa and Stewart, 1992). Empirical studies utilising the growth linkage model suggest that agricultural growth leads to large multiplier effects in the rural economy. Studies in Asia have found that \$1 extra value added in agriculture generates a \$0.80 additional non-farm income (Bell, Hazell and Slade, 1982; and Hazell and Ramasamy, 1991), while a study of sub-Saharan Africa implies a lower multiplier of \$0.50 growth

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in non-farm income for extra \$1 of agricultural income (Haggblade, et. al., 1989). On the whole, the RNFE “grows fastest and most equitably where agriculture is dynamic” (Reardon, 1998, p.284). These considerations suggest that governments in poor countries can promote the RNFE simply by supporting the development of agriculture.

The crux of the problem with the growth linkage approach is that it presumes the direction of causality is always from farm growth to non-farm growth, and not vice versa.⁶ This suggests that the RNFE “has little dynamic of its own and would be unlikely to take a leading role in employment and income growth in the rural economy” (Ellis, 1997, p.28). In Saith’s (1992, p.114) words, “the tail cannot wag the dog”. In reality however, there are many different links between the development of agriculture and the RNFE; and the performance of either one of these sectors can affect the other in a variety of ways (see below). Some investigations even suggest that stagnation in the agricultural sector may be behind the development of the RNFE (Chandrasekhar, 1993); while other studies indicate a weak link between agriculture and the RNFE (Valentine, 1993; and Tschirley and Weber, 1994). Together, these considerations underline the need for an integrated development strategy in rural areas which includes the non-farm sector.

Reardon (1998) has explored the ways in which agriculture and the RNFE interact with each other. On the one hand, the nature and performance of agriculture can affect the RNFE by:

- influencing the price of agricultural products (which affects the cost of inputs and wage levels in the RNFE);
- regulating the supply of labour to the RNFE;
- determining agro-processing opportunities (through the composition and volume of agricultural output); and

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- affecting the incentives and capacity of households to participate in rural non-farm activities (ibid., pp.301-303).

On the other hand, the RNFE can affect agriculture by:

- increasing the value of land (as in horticultural areas of Chile, Peru and Bolivia) and/or the profitability of products entering the agro-industrial system;
- affecting the availability of cash to invest in agriculture and adopt more appropriate technologies;
- influencing the factor and product prices facing farmers, and thus farm profitability and product mix;
- reducing the overall income risk for farmers, thus increasing the incentive to invest in more risky but profitable agricultural technologies;
- competing for farm resources, which affects the factor bias of farm technology; and
- reducing pressure on land in fragile areas (ibid., pp.312-314).

To this could be added the creation of demand for agricultural outputs for processing and as industrial raw materials.

One challenge for future research is to find ways of strengthening existing links between agriculture and the RNFE in poor countries. Once this is achieved, the growth and development of these two sectors should become mutually reinforcing. Numerous constraints have been identified however. These barriers are discussed elsewhere in this paper.

The Role of Government and other Institutions

This brings us to the question of how government and other institutions are linked to the growth and transformation of the RNFE. The RNFE is affected by formally constituted government activity (such as the provision of public services and infrastructure), and the presence of non-constituted governance

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and institutions (most notably, private sector enterprise and non-governmental organisations). Most of the literature reviewed here says little of substance about the impact of government and non-governmental institutions on the RNFE.⁷ In addition, the available literature fails to draw a clear distinction between the activities of “local” and “national” government, which makes it particularly difficult, though not impossible, to consider the role of local government vis-à-vis the RNFE. Despite these difficulties however, it is possible to highlight some of the key issues and relevant questions for future research.

Macro-Economic Policy

First of all, it is worth emphasising that the development of the RNFE is affected by the same factors that facilitate “broad-based” economic growth (Gordon, 1999, p.20 & Box 1). In particular, it is frequently argued that well-designed macro-economic policies are necessary for the development of the RNFE because they help to achieve an efficient allocation of resources throughout the economy (e.g. Reardon, 1998, p.325; Islam, 1998, p.3; and Gordon, 1999, p.9). Economic reforms in poor countries typically include devaluation of overvalued exchange rates, liberalisation of trade (including the reduction of tariff and non-tariff barriers), privatisation, cuts in subsidies, and the reduction of fiscal deficits. The positive effects of these policies in terms of improved resource allocation should extend to rural areas, particularly to the extent that they eliminate the urban bias that characterises economic policy in many poor countries. Insofar as economic liberalisation reduces urban bias we can expect to see an improvement in the terms of trade for rural products, which is significant for the RNFE as well as agriculture.

By itself however, macro-economic reform is not sufficient to promote the development of the RNFE. There is “significant ambiguity” concerning the impact of economic reforms on rural areas, especially in the short term (Reardon, 1998, p.325). While liberalisation may improve the terms of trade

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and create opportunities for rural non-farm activity, it can also expose the rural economy to competition from urban enterprises and imports. In many cases, capacity constraints also make it difficult for those working in the RNFE to respond to the incentives generated by economic reform or prevent new opportunities from being allocated in an equitable way that includes the asset-poor. The challenge then, is to design policies and investments that help local economies to adjust and take advantage of their new situation, rather than erecting barriers to the location of small and medium non-farm industry. One way forward involves helping the poor to participate, through rural non-farm enterprise start-ups, contract farming and wage employment (ibid, p.337). Such initiatives will be discussed presently, and highlight a key role for local government and NGOs to play in the development of the RNFE.

Soft and Hard Infrastructure

Investment in infrastructure has been identified as one of the most crucial factors behind rural non-farm activity (e.g. Ellis, 1997; Islam, 1998; and Reardon, 1998). It is important to improve both “hard” infrastructure (such as roads, electrification and telecommunications) and “soft” infrastructure (such as banking systems, market information, education and training) in order to reduce transaction costs for rural industry and raise the productivity of the RNFE. Several studies place a strong emphasis on education, which has been identified as a critical constraint on household participation in the RNFE (Evans and Ngau, 1991; and Dercon and Krishnan, 1996). In particular, there is a need to train rural people in the skills that permit them to gain access to skilled labour markets (Reardon, 1998, p.326).

According to Reardon (1998, p.305), the density of infrastructure, rural town services and population is positively associated with earnings in the rural non-farm sector (although of course the direction of causality needs to be established). Improvements in the quantity and quality of infrastructure not only reduce transaction costs for marketable products and make additional

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inputs (electricity, transportation etc.) available at lower costs, but also increase the scope for farm and non-farm business investment.⁸ One possible entry point for future research relates to the importance of rural towns as focal points for the development of the RNFE. In many countries local authorities have not played a prominent role “in determining the sites, incentives and infrastructure for non-farm investment” (Ellis, 1997, p.37). Yet several researchers have pointed towards the significance of rural towns for generating non-farm income (Haggblade, et. al., 1989; Evans and Ngau, 1991; and Ellis, 1997).

It is worth noting that spending on infrastructure can increase inequalities in rural areas and the non-farm economy if such investments are concentrated in growth areas and avoid the bulk of poorer households which are usually located in the “hinterland” of rural areas (Reardon, 1998, p.305).⁹ The development of roads and hard infrastructure can also bring the RNFE closer to cities and urban centres, which may increase competition for local products and create labour shortages by reducing the cost of migration to urban cities (ibid., pp.305-308). In some cases, local authorities will undoubtedly need to take steps to ensure that there are sufficient incentives for people to work in the RNFE rather than migrate using the roads that were intended to promote local rural activities.

Agriculture and the RNFE

A key objective for future research is to consider how to create links between agricultural policy and the development of the RNFE. The government and local authorities can play a useful role in terms of identifying and promoting the development of promising sub-sectors.¹⁰ Here “[t]he specific goal should be to provide the incentives and capacity for rural households and RNF [rural non-farm] enterprises to overcome entry barriers, and to create ‘linkage friendly’ agriculture and RNF activities” (Reardon, 1998, p.327).

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More attention also needs to be paid to the design of agricultural technology and product priority strategies. Research needs to consider the weight farmers attach to the returns on new farm technologies compared with the returns on resources employed in the non-farm sector. In some cases farmers may want to release labour from agricultural activities to take advantage of income opportunities in the RNFE. Thus, it is by no means certain that agricultural research should “be searching exclusively for labour-using technologies, even in labour abundant areas” (ibid.).

More knowledge is also needed to understand farm and non-farm linkage through agro-industry and agricultural diversification involving small-scale firms. One possibility is the development of “scale neutral” agricultural technologies which benefit both small and large scale farmers, combined with agro-processing technologies that can be handled by small and medium scale agro-industrial firms (ibid, p.328). Such technologies help to maximise rural employment, since small-scale firms tend to have relatively high employment-output ratios. Small farms and agro-processing firms are also more likely to invest profits locally or make use of goods and services supplied by local firms, “leading to further ripple effects in the local economy” (ibid, p.329).

As incomes rise in poor countries, potential areas for developing farm and non-farm linkages are likely to include “processed cereals, tubers and roots and pulses, processed and fresh fruit, vegetables and dairy and other livestock products” (ibid.). The development of these sectors will require vast improvements in the co-ordination of rural policy. In particular, there is a pressing need for close co-operation in the formulation and implementation of policy in the farm and non-farm sectors. One policy challenge is to increase the reach of employment spill-over effects of agro-industrialisation, which requires more small and medium scale farmers to become involved in the production process. Unfortunately, their participation is frequently constrained by insufficient access to credit and other inputs.

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Another policy challenge is “to facilitate co-ordination between farms and companies so that scale economies can be created and exploited” (ibid, p.331). The crux of the problem is that agro-industrial firms and other spin-off businesses will be reluctant to invest optimally, unless they can be reasonably certain that farmers will supply sufficient inputs of the appropriate type. By the same token, farmers will be reluctant to shift towards new crops and invest in physical or human capital in the absence of a profitable market among agro-processors and distributors. These considerations imply an important role for local government in terms of co-ordinating various institutions in the public and private sector. Reardon observes that:

“The role of the public sector is crucial in facilitating communication, lowering transaction costs and providing technical knowledge that could lead to mutually advantageous solutions generating the requisite investment in both sectors. This would involve legal reform to sanction contracts, technical training, and market information and business linkage information systems” (ibid.).

Private Enterprise and Market Structure

As we have seen, economic reform and investment in infrastructure can threaten the survival and development of small and medium-scale enterprise in the RNFE. In countries such as Chile, Mexico, the Philippines and South Africa, reductions in economic and ‘natural’ forms of protection have exposed small and medium scale rural enterprises to intense competition from large-scale manufacturing (Reardon, 1998, p.333). In a liberal economic policy environment, the challenge is to help smaller firms identify gaps in markets, exploit their competitive advantages, and promote various arrangements based on their mutual interest with larger urban enterprises. More traditional forms of support for the RNFE include tax breaks, the installation of infrastructure (discussed above), and packages that provide financial

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assistance, credit and technical services (ibid, p.333; and Gordon, 1999, p.20).

It is also worth investigating the growth in “business linkage” between large urban companies and small rural firms contracted in franchising arrangements. Subcontracting is growing rapidly in East Asia and can also be found in Latin America and some parts of Africa, such as South Africa and Zimbabwe. Such arrangements are promising and can transfer skills to small firms, provide access to dynamic markets and even provide credit. The viability of these arrangements however, may require investment in infrastructure to reduce costs (see Reardon, 1998, p.334).

At least one study has identified rural non-farm enterprise as a key source of income generation, employment and growth (Fisher, et. al. 1997), although some doubts have been expressed about the long term potential of the sector (Saith, 1992). More research is required to investigate the relationship between the growth and development of the RNFE (the so called “forgotten sector”) and the institutional environment.

Enabling the Poor to Participate in the RNFE

There is also an emphasis on interventions that enable the poor to take advantage of rural non-farm employment opportunities in some of the literature (e.g. Reardon, 1998; and Ellis, 1997). An important role for government and other organisations is to strengthen the asset base of the poor – particularly in the areas of finance, education, access to credit and land-holdings.¹¹ In some countries, lack of access to land represents a crucial factor inhibiting the development of the RNFE, since the growth of farm income is crucial for diversification into other activities.

Local Government and other Agents

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The preceding discussion highlights some of the areas in which various levels of government (and other organisations) can intervene in order to promote rural non-farm development. Following Nurul Islam, it is reasonable to presume that as long as "...local government institutions have decision-making powers and adequate financial resources, they can promote the growth and vitality of the non-farm sector" (Islam. 1998, p.3). Many examples of successful interventions by local governments in the RNFE can be found in the literature. For instance, in some parts of East Asia local authorities have provided seed capital and managerial expertise, thus shouldering the risks of new ventures and stimulating the growth of private enterprise (ibid.).¹²

One possibility is that the decentralisation of power to local government may promote the development of the RNFE. But empirical studies have failed to find evidence of a clear link between decentralisation and economic growth (e.g. Goldman, 1998) (see also the first section of this review). In principal, decentralisation can affect economic growth in at least three ways:¹³

1. By increasing economic efficiency in public spending, which can enhance growth;
2. By causing macro-economic instability, which can hinder growth;
3. Poor countries have fundamentally different institutions and economic environments than rich countries and will not reap the benefits or suffer the consequences of decentralisation in the same way.

A more recent study undertaken on behalf of NRI has concluded "that there is no clear or automatic linkage between decentralisation and growth and that the design is critical in determining whether it leads to improved efficiency and higher growth, exacerbates the deficits and instability connected to lower growth, or simply becomes mirrored in institutional constraints" (KHANYA, 2000, p.6). Thus future research needs to:

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- investigate the overall relationship between local government and the development of the RNFE, taking into account the economic and institutional factors that affect that relationship;
- consider the various functions of local government and the factors that determine their effect on the RNFE; and
- consider how different forms of decentralisation can affect the activities local government undertakes in support of the RNFE.¹⁴

Other agents can also play important roles in terms of promoting the RNFE. For example, in Uganda decentralisation has involved the private sector and NGOs as contractors, which might have boosted the local economy (KHANYA, 2000, p.16), although initial NRI fieldwork results suggest there is little explicit benefit in two districts.

We have touched briefly on private sector enterprise, but have said little about NGOs. These have the potential to make an important contribution to rural development. Like government, these organisations can initiate worthwhile projects in many of the areas described above (though generally on a much smaller scale). It is not possible to review the relevant literature on NGOs here (but see also the first section of this review).¹⁵ However, it is worth emphasising that in many poor countries NGOs and the private sector have not been able to fill the gap left by government.

The Growth and Transformation of the RNFE: Two Examples

The final part of this paper tries to put the above into context by drawing attention to some more concrete examples of the successful and unsuccessful transformation of the RNFE in two developing countries, India and Ghana.¹⁶ The section on India here is short and intended only as an introduction; there is a much more substantial literature review specific to India available from this project on the RNFE (Coppard, 2001).

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India

In India increasing numbers of people are employed in the RNFE, which can account for between 35% and 65% of rural household income (Dasgupta, 1998, p.5). It is possible to identify both positive and negative factors behind the growth in rural non-farm activities in India, which “implies that two very different groups of people are entering the labour market for such employment” (ibid., p.6). In Punjab, western UP and Tamil Nadu, there is evidence of positive diversification among households which have benefited from agricultural growth. On the other hand, there are also strong indications of distress diversification in certain parts of India. For example, in Rajasthan and Gujarat low levels of agricultural development have pushed rural workers into the construction and mining sectors, which are characterised by low wages and poor working conditions.¹⁷

The growth and transformation of the RNFE in India varies between states (see Chandrasekhar, 1993; Fisher, et. al. 1997; and Dasgupta, 1998). India is a diverse country that provides a range of useful case studies to inform research. It is possible to identify examples of

- strong links between agriculture and the development of the RNFE (as in Punjab);
- successful RNFE development due to government policies rather than agricultural (as in Gujarat); and
- successful agricultural growth without any commensurate increase in non-farm activity (as in West Bengal).

Several factors have affected the growth and transformation of the RNFE in India. These factors include macro-economic reform, agricultural and industrial policy, regulation and poverty reduction programmes (c.f. Dasgupta, 1998, pp.14-18). It is worth noting that the Indian case underlines the

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importance of good infrastructure for the RNFE. There is evidence of a strong positive correlation between rural non-farm employment and the presence of railways, good roads, electrification and goods vehicles across different states (though once again careful understanding of the causal connections and their direction is needed to inform policy) (ibid, p.17 & table 6). India also highlights the need for technological change in certain sectors of the RNFE. In many cases, reliance on traditional skills and techniques is no longer appropriate and has held back the growth of household manufacturing (Fisher, et. al. 1997). But there are signs that the government can encourage the private sector to invest in new technologies by relaxing regulatory restrictions.

Low levels of education and skills emerge as a critical constraint on the ability of households to undertake rural non-farm employment in India. There is also strong evidence that households are pushed into the RNFE by insufficient access to land.¹⁸ Of particular significance in the Indian context, however, is the caste system, which restricts low caste households to certain occupations and prohibits them from taking part in others. Depending on religion, social status and location, similar restrictions also apply to women. Such practices reduce the survival options and increase the vulnerability of these groups of people.

The Indian experience illustrates the importance of non-farm employment for large numbers of poor people residing in rural areas. Given the sheer diversity, it is essential to avoid generalisations. Different regions require different policies to support the development of the RNFE and alleviate poverty. In regions with stagnating agriculture and high levels of distress diversification, policy measures that bring maximum benefits to the poor are required. In areas with dynamic rural economies, consideration could be given to developing sectors with the highest growth potential.

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Ghana

In Ghana growth in the industrial sector has outpaced agricultural growth. Rural employment is mostly informal and takes place in small family enterprises. Moreover, rural unemployment is not high compared to the situation in urban areas, though most rural non-farm employment relies on links with towns and urban markets. The seasonal nature of farming allows households to participate in the RNFE during the slack periods of the farming year (ILO, 1989). Each of Ghana's three agricultural zones is able to produce a varying set of rural products. This has created opportunities for specialisation and trade, thus stimulating the RNFE. The RNFE appears to be expanding in Ghana, although the evidence is sketchy making it difficult to draw firm conclusions. It is likely that remuneration and working conditions are exceptionally poor in much of the RNFE and the incidence of child labour is high.

According to Collinson (1998) factors affecting the RNFE in Ghana include:

- *Education.* At least one study points towards a small but positive relationship between education and business success in the RNFE (Vijverberg, 1995). Education appears to help businessmen select the most profitable portfolio of business activities; while illiteracy and innumeracy place constraints on record keeping, thus restricting the expansion of business.
- *Infrastructure.* It is recognised that: "Decrepit roads and transport, poor access to potable water, and the limited extent of rural electrification add to the costs of running rural enterprises" in Ghana (Collinson, 1998, p.7).
- *Credit.* Lack of access to credit has often been identified as a crucial constraint on rural development in Ghana. While the credit climate in Ghana does not seem to be completely unfavourable to business, there are problems. Government policy has forced many rural banks to reduce

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operating costs (Atkintade, 1997a), which has effectively made it more difficult for small businesses to access credit.

- *Government policies.* In particular, the maintenance of a large public sector and the transfer of many officials from urban headquarters to rural areas may have boosted the rural economy. Economic reform in the mid 1980s and a more recent efficiency drive may also have improved the overall performance of the economy.
- *Information flows and appropriate technology.* There are indications that the RNFE is constrained by a general lack of information regarding suitable technologies in Ghana (e.g. Akintade, 1997b).
- *Cultural constraints.* “Business requirements and cultural obligations are often incompatible in Ghana” (Collinson, 1998, p.9). For example, the requirement to share income with extended family and kin can hamper re-investment in family enterprises (Vyakarnam, et. al. 1991). The subservient position of women entrepreneurs and a more general lack of “true entrepreneurial spirit” also undermine the development of the RNFE in Ghana.
- *NGO activities.* Local and international NGOs have supported rural non-farm activities in Ghana for some time. Most of these groups have formed to help resolve credit problems or to facilitate access to processing technologies and business skills. There is a pressing need for NGOs to focus on all aspects of small enterprise development in Ghana. For example, business failure is virtually guaranteed by only providing technical expertise to a firm with no managerial competence.

No research exists to indicate which factors are the most constraining (or enabling) for the RNFE (Collinson, 1998, p.11).

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Summing up

The development of the RNFE has the potential to stimulate economic growth and employment in rural areas, which is fundamental for tackling poverty and inequality. It may also help to curb migration from the countryside to overcrowded cities. Thus, the growth of the RNFE has increasingly been regarded as a good thing. We have seen that governments, local and national, and NGOs can intervene in a variety of ways to create the incentive and capacity for rural non-farm development. In particular, it would be useful to explore ways of creating and strengthening existing linkages between farm and non-farm development in rural areas.

The literature suggests there is a clear and unequivocal case for supporting positive forms of diversification into non-farm activity which enhance rural livelihoods. In cases where the poor are “pushed” into the RNFE in desperate bids to survive a more pragmatic approach may be required. The literature is less clear on the broad policy instruments (such as large-scale welfare payments) that might have to be employed in both the farm and non-farm sectors to deal with rural poverty in the absence of local rural economic growth. The literature says virtually nothing on how government (national or local) assess the relative merits of promoting farm and non-farm activities in order to forge a coherent rural development strategy.

Finally, it is worth bearing in mind that the promotion of *equitable* development in the RNFE will require governments to address two common “paradoxes” identified by Reardon (1998). They are:

1. *The Household Paradox* - reflecting the fact that the poorest households typically have the greatest incentive or need for non-farm employment to raise income, but are the most constrained due to lack of assets (skills and capital etc.) and opportunities (determined by proximity to RNFE labour and product markets). This paradox underlines the importance of removing

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entry barriers into the RNFE and enhancing the poorest households' capacity to take advantage of non-farm employment opportunities.

2. *The Inter-Zone Paradox* - reflecting the fact that rural zones with relatively poor agriculture and infrastructure typically have the greatest need for remunerative non-farm employment (to compensate for a poor farm sector), but are the most constrained by a lack of assets for non-farm market development (e.g. good roads, skilled labour and economic sources of raw materials). The main challenge associated with this paradox is the promotion of investment in infrastructure and skills in resource-poor zones.

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Notes

¹ However, the widespread policy of the World Bank in promoting government decentralisation and local government as one of the means of improving accountability is having a significant affect in political change which in many respects is changing the form of political regime.

² These include Bolivia and Honduras in Latin America, India and Philippines in Asia; Ukraine in Eastern Europe and Mali in Africa.

³ There is a vast literature on livelihood diversification. For the appropriate references see Ellis (1997, p.2) and the extended bibliography below.

⁴ However, evidence seems to point towards a greater reliance on non-farm income in rural Asia than rural Africa, due to differences in the root causes of poverty (Ellis, 1997, p.13).

⁵ Reardon (1998, p.289) argues that in the absence of credit, investment linkages may be crucial for the development of rural non-farm activity.

⁶ It is also possible to challenge the assumptions of the rural growth linkage model (c.f. Hariss, 1987; and Hart 1989; 1993).

⁷ One possible exception is Reardon (1998), esp. pp.325-334.

⁸ Several studies have identified infrastructure as a key determinant of farm and non-farm investment (c.f. Reardon, 1998, Box, 16, p.306).

⁹ Reardon contrasts the case of Taiwan Province of China with the Republic of Korea.

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¹⁰ Sector specific policies and agricultural policy tends to be “severely neglected” in rural non-farm development debates (Reardon, 1998, p.327).

¹¹ Several initiatives have been launched to improve the assets of the poor and provide access to rural non-farm activities in the context of the green revolution (c.f. Reardon, 1998, p.332).

¹² For other examples of successful interventions by local governments in the RNFE see KHANYA (2000).

¹³ On this see the World Bank’s paper on “Decentralisation and Economic Growth” cited in the bibliography.

¹⁴ These are the key objectives of the “local government” component of this project.

¹⁵ See Stringfellow et. al. (1996), Fisher et. al. (1997) and section 7.2 below on NGOs in Africa and India.

¹⁶ This section draws largely on the work of Dasgupta (1998) and Collinson (1998), who investigate most of the issues raised here in greater depth.

¹⁷ Chanda (1993) reports that 50 per cent of Indian households that depend on non-farm income belong to the lowest income category.

¹⁸ Chanda (1993) found that the incidence of rural households seeking employment in the RNFE declines with the increase in farm size.



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