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TOWARD SUSTAINABLE PRODUCTION SYSTEMS AND RURAL POVERTY REDUCTION

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Decentralization: A New Strategy for Rural Development

The widespread failure of integrated rural development to bring about a sustained improvement in the living standards of rural people has left unanswered the question of how best to ensure effective rural development programs. Attempts to decentralize decision-making authority to lower-level governments and other non-government institutions provide some positive experiences for improving the design, implementation and sustainability of rural development interventions.

Rural Poverty-Reduction Strategies

In the 1970s, the World Bank (WB) made poverty reduction a high priority. Since the vast majority of poor people live in rural areas, WB financed a variety of rural projects. In the 1960s, it had lent for large irrigation projects and large-scale farming of export crops. In the 1970s its emphasis shifted towards increasing the agricultural productivity of smallholders.

Initially, WB supported various rural development projects without any attempt to integrate them to realize potential synergies. This project-by-project approach produced indifferent results in many countries, so WB decided to implement integrated programs for rural development. These programs typically contained integrated packages of synergistic interventions in agricultural extension, research, marketing, credit, rural roads, water supply, rural electricity, minor irrigation and sometimes education and health. These were seen as essential parts of a "green revolution" strategy to harness the productivity of smallholders that had already paid dividends in East Asian countries.

However, integrated rural development (IRD) often failed to live up to expectations, one major reason being the anti-agriculture bias of policies in borrowing countries. So WB switched its emphasis in the 1980s to agricultural policy reform, and reverted

back to project-by-project lending. This left the question of how best to ensure effective rural development unanswered.

New initiatives are now being attempted in several countries as well as by WB and other lenders, based on decentralizing decision-making and financing, and improving beneficiary participation in rural programs. The initial results of such experiments have been encouraging in several countries, and have uncovered substantial organizational capacity in local bodies (Brazil, Colombia, India, Mexico). However, major problems have also been encountered, and decentralization has failed in other countries, such as Côte d'Ivoire and Ghana. WB research now aims to extract lessons from the experience of decentralization, and evolve guidelines for the future.

World Bank's Experience with Integrated Rural Development

WB lending for IRD rose more sharply than for other rural projects, and a total of 208 IRD projects were financed between 1974 and 1986. A review by the Operations Evaluation Department of WB in 1987 showed that the record of IRD was inconsistent. WB regards projects obtaining a real economic rate of return of at least 10 per cent as successful. The average for IRD projects was 10.4 per cent, just above par. However, half the projects failed to achieve

the 10 per cent target mark, and two-thirds of these failures were in Africa. The worst performance came from eastern and southern Africa, where only 20 per cent were judged successful. In other continents the success rate was somewhat higher, but still lower than for other rural and non-poverty projects. All rural projects taken together had a much higher return of 16.7 per cent, showing that the shift to IRD had not produced the expected synergies.

The 1987 WB evaluation concluded that the main reasons for poor performance were:

- **Adverse policy environment.** Where national policies were biased against small-holder agriculture (as in much of Latin America, Africa and Eastern Europe) the failure rate was high. The approach was more successful in Asian countries with better agricultural policies—China, Indonesia, India.
- **Lack of government commitment.** Often governments did not provide counterpart funding, despite assurances given during project loan negotiations.
- **Lack of appropriate technology.** This was important in unirrigated areas, especially in Africa, and highlighted the need for strong national research institutions.
- **Neglect of institutional development.** Project coordination units were often staffed by expatriates, and this “enclave” approach meant that the development of local institutions to plan and implement programs was neglected or even undermined. Indeed, the attempt to maximize economic returns in the short run militated against the development of local human capital, which is time-consuming and yields returns only after a long gestation period.
- **Lack of beneficiary participation.** A top-down approach often prevailed resulting in poor program design. The supposed beneficiaries were generally excluded from decision-making. Sometimes they chose the only decision-making option available—voting with their feet!

- **Complexity of design.** It is ironic that complexity should have become the Achilles’ heel of IRD. Building rural roads and schools should be much simpler than building large dams or ports, yet WB did not encounter coordination problems in the latter. One reason for the paradox is that a fixed blueprint approach implemented by a centralized authority may be suitable for big projects, but is invariably unsuitable for projects spread over large areas with widely differing conditions and weak administrative capacity. In such circumstances centralized IRD can prove a problem rather than a solution.

Thus, centralized IRD failed in most regions, especially in Africa, for want of accountability, the necessary motivation and skills in the bureaucracy, appropriate project design to suit varying local conditions, and beneficiary participation. These issues are now being addressed by new initiatives in decentralization.

Experiments in Decentralization

Decentralization can take many forms. Four widely-recognized varieties are:

- **Deconcentration:** establishing local offices of central government departments;
- **Delegation:** delegating some central government powers to parastatals or sub-national entities;
- **Devolution:** creating formal fiscal mechanisms for sharing taxation powers and revenue with local governments; and
- **Privatization:** permitting agencies provide services earlier delivered by government or parastatals.

These forms of decentralization are all being attempted in varying degrees across all continents. Of 75 transitional and developing countries, 63 have transferred or plan to transfer power to local governments, a revolutionary change encouraged by the collapse of autocracies in former communist and many Latin American countries. This emphasizes the point that decentralization

is highly political in nature, and so must be guided by local history, culture and social conditions. It is impossible to produce a blueprint suitable for all societies.

However, the experience so far has already yielded the following significant lessons:

- Local communities possess significant latent capacity, which was earlier suppressed by centralized rule, for planning and implementing local micro-projects. They are capable of highly productive innovations, and can often deliver services more efficiently than conventional bureaucracies (Colombia, Mexico, Brazil, India, China). However, they lack both the motivation and expertise for complex projects cutting across larger territorial jurisdictions.
- Decentralization is no simple panacea; much depends on how it is put together. It has three critical elements—political, fiscal and institutional. These must be consistent with each other to avoid fiscal imbalances, failure or backlash. Where any of the three elements is missing or mishandled, the whole package is likely to fail.
- Decentralization fails if adequate fiscal powers or transfers from the center are not assured (Côte d'Ivoire, Ghana).
- Decentralization appears to work better if deconcentration and delegation precede or accompany the formal devolution of power to local bodies, so that professional staff are in position to assist local governments.
- Strong political commitment is needed to overcome sabotage by vested interests. A change in the constitution, supplemented by legal changes can help ensure that decentralization is effective (Colombia, India, Mexico).
- The political representation of poor and disadvantaged groups, e.g., women, indigenous groups, should be strengthened in local bodies to prevent local elites from usurping the gains of decentralization. The central government should earmark condi-

tional or matching grants for poverty alleviation schemes.

- Periodic democratic elections to local bodies will help screen out vested interests, provide competition for ideas on development, and make decision-making more responsive to public needs.
- The legal framework must clarify the responsibilities of local government, so that political interference from above is minimized and accountability fixed and clear.

Decentralization can mean different things in different countries, and it is essential to categorize the various forms of decentralization and to measure their impact. WB is now conducting research to see how local bodies have used their new powers in different countries. These studies should shed new light on how best decentralization can promote rural development and help to reduce poverty.

Suggested Reading

- Binswanger, H.P. 1995. "Agricultural and Rural Development: Painful Lessons" *Agrekon* 33 (4): 158-66
- Crook, R. and Manor, J. 1994. *Enhancing Participation and Institutional Performance: Democratic Decentralization in South Asia and West Africa* Report for the Overseas Development Administration.
- Parker, A.N. 1995. *Decentralization: The Way Forward for Rural Development?* Policy Research Working Paper No. 1475 (Washington DC: World Bank)
- World Bank. 1987. *World Bank Experience with Rural Development 1965-87 Operations Evaluation Department* (Washington DC: World Bank)

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