CHAPTER 6
INSTITUTIONS AND THE RURAL POOR: BUILDING COALITIONS FOR RURAL POVERTY REDUCTION

What we need now is to move from a system in which the poor participate in officially-led development programmes towards one in which governments and external donors support people-initiated development. That must be the true objective of all of us: the empowerment of the poor, allowing them to gain greater control over their lives and futures.

Fawzi H. Al-Sultan, President of IFAD Conference on Hunger and Poverty, 1995

INSTITUTIONS AND EMPOWERMENT

The last decade has witnessed rapid change in policies to reduce rural poverty. Greater emphasis is now placed on devolution and local management of common property resources and the extension and strengthening of partnerships with civil societies to nurture and develop human assets. These new approaches emphasize local participation, supporting the construction of social capital and linking the poor to dynamic sectors of the economy. Participation allows the poor a voice, and through a transfer of responsibility gives them the power to discover and determine ways to improve their lives. Empowering the poor is the foundation of rural poverty alleviation.

This policy shift thus involves a new emphasis on institutions: on the organizations (for example, families, banks and trade unions) that mediate the access of the poor to assets, technologies and markets, and on the rules (laws, customs and administrative practices) that determine whether the poor benefit from such access. The poor’s chance to influence rules, and to help control organizations, depends on their power and influence. These, in turn, depend on their knowledge, access and, perhaps above all, whether alternative courses of action are open to them.

This report recognizes the paradox that, while we want institutional change to help the poor, institutions, including the state and NGOs, tend to be controlled by the powerful non-poor. Often, those who control one institution also control others. For instance, even after land redistribution, the large farmer may continue to have better access than the ex-landless labourer to production, credit, information and marketing networks, and the capacity to diffuse and insure against risk. How can the poor and weak use and benefit from those institutions, which were initially controlled by the rich and powerful and run mainly in their interest?

It may be necessary for the poor to seek empowerment at the centre to restrain both the non-poor from arranging things to their own advantage and
the rural elite from wielding 'decentralized' power over rural financial institutions or over natural resources. In some cases, the poor may benefit by uniting with some of the rich in a coalition to raise their income shares at the expense of others. In most developing countries the poor can vote. Many non-poor, for whatever reason, often support forms of insurance or universal coverage amounting to pro-poor redistribution: for example, to provide basic health care or social safety nets. In all these cases, much depends on whether the poor use their resources and power jointly, or are fragmented by distance, caste, ethnic group or gender. It also matters whether the poor can afford the time and cost of political mobilization.

Institutions may often persist, but they are not immutable. Channeling appropriate resources such as land, education, and technology to raise the productivity of assets, and markets to improve sales and purchases for and from asset use, improve the poor's 'exit options' that over time may also help them alter institutions for their sustained benefit. For instance, by changing the political structure in the village, land redistribution gives more voice to the poor and induces them to get involved in local institutions and management of the local commons. In theory, as the decentralized system becomes more attuned to local preferences it becomes more transparent and accountable. But in practice things may not always turn out that way. The result depends on the context of decentralization.

Recent Indian legislation granting rights of ownership and management over categories of natural resources to gram sabhas (village assemblies) of forest villages is a step that can be used by disadvantaged local minorities to assert rights to their share of resources. But whether at local, provincial or even national level (witness East Timor), such devolution of powers and revenues has inevitably been linked with struggles of the concerned minorities.

Devolution of powers to the village has also worked well in making possible high rates of accumulation and elimination of poverty in some Chinese villages where there has been a reasonable level of agreement between the leaders and the village as a whole on the development goal of raising incomes. In the absence of mechanisms of public debate, the ability of these villages to meet crises could be limited.

When conscious and aroused, the rural poor are more likely to be able to influence decisions at the local level than in distant metropolitan centres. Supporters of decentralized targeting claim that information about who is poor is more readily available at the local level than at the centre, and that as local institutions tend to be more accountable to local people, they have an incentive to use information to improve programme performance. That may be so in a few cases (Box 6.1), but, by and large, the claim that local institutions are accountable to the poor is con-
troversial, as decentralized institutions may be controlled by powerful elites that reduce the efficacy of programmes. Viable alternatives are few, however, since non-local institutions have often proved to be even less accountable to the poor.

The case for decentralization depends partially on the extent to which the local programme has been free from capture by the non-poor. This status is also likely to influence the actions the centre may need to take to set the ‘rules of the game’ for efficient and equitable local operation. This was successful for drought-relief operations in Brazil. Again, the relative success of decentralized government in Karnataka, India, is attributed to the effective system of democratic accountability.

Anecdotal evidence exists of local capture of decentralized anti-poverty programmes and development projects. Rich local farmers in Bangladesh captured a World Bank-funded local irrigation facility intended for poor farmers. More recently, the World Bank’s participatory poverty assessment in Bangladesh suggests that the rich in the community tend to dominate the local power structure; they tend to be the first, and possibly only, people consulted when a development programme is undertaken in the community.

Such observations warn against assuming that local communities are homogeneous, whether in terms of class, ethnicity, age, or gender, and point to serious accountability problems with anti-poverty programmes. Differences in the relative power of the poor, and marginal groups particularly, in local decision-making can make a big difference to the distributional outcomes of programmes within villages. Thus, while there are many benefits from decentralization, local institutions will not necessarily be more accountable to the poor than centralized ones. Analogous to the risks of centralized alternatives, the poor face a real threat of capture of decentralized social programmes by local elites unless some safeguarding measures are deliberately introduced (Box 6.2).

It is therefore necessary, in implementing institutional interventions to reduce poverty, to examine the interaction between central government, civil society, and NGOs and popular institutions, and the options for intervention. The issues are whether these institutional arrangements reach,

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**Box 6.1: Increased accountability and performance through decentralization: does nature of polity matter?**

Even in otherwise centralized bureaucracies, the institutional design for the delegation of tasks to local-level agencies is not uniquely related to the nature of the political regime at the centre. The modes of operation of the irrigation bureaucracies in South Korea and in India make an interesting contrast. The Indian canal systems are large, centralized hierarchies in charge of all functions (organization and management as well as design and construction), insensitive to the need for developing and sustaining local social capital. In Korea there are functionally separate organizations in the canal system. The implementation and routine maintenance tasks are delegated to the Farmland Improvement Associations, one per catchment area, which are staffed by local part-time farmers, knowledgeable about changing local conditions, dependent for their salary and operational budget largely on the user fees paid by the farmers, and drawing upon local trust relationships.

In some otherwise democratic countries, if the institutions of local democracy and local accountability are weak (as in large parts of North India), absenteeism of salaried teachers in village public schools and of doctors in rural public health clinics is a serious problem. The villagers lack the institutional means of correcting the problem, as the state-funded teachers and doctors are not answerable to the villagers in the insufficiently decentralized system. On the other hand, in non-democratic China, there is much greater provision of primary education at the local level. There are similar accounts of more effective public pressure in rural basic education and health services in Cuba compared with some of the more democratic regimes in Latin America. There are, of course, many authoritarian countries where local accountability is completely absent; and the situation is much worse than in parts of North India.

Source: Bardhan 1996.
benefit and empower the poor to enhance their capacity to benefit from economic growth; and whether participation in these institutions enables the rural poor to increase their welfare and bargaining capabilities.

The devolution of natural resources management

The daily livelihood of many of the rural poor depends on the success with which common property resources (CPRs) are managed, and on the environmental consequences of their management. The poor depend more on CPRs for income than the rich, but rural income from CPRs is falling sharply as they are privatized or statized.

Recent years have witnessed an increasing trend towards devolution of control (Box 6.3) over natural resources from government agencies to local communities. These resources include farmland, water (especially irrigation), and other common pool resources such as rangelands, forests, fisheries and wildlife.

Experience has shown that centralized and technocratic ‘top-down’ conservation is effective only with large expenditures on enforcement or under undemocratic circumstances. Usually the rich evade top-down conservation laws, e.g. by poaching from national parks in Africa and exploiting reserved forest resources in Latin America, while the poor are effectively excluded from livelihoods without compensation. On the other hand, participation of different types of local stakeholders – an effectively enforced condition prior to IFAD funding of many projects - has proved essential for effective and sustainable management and conservation of natural-resource systems, and, in general, is fostered by a significant degree of decentralization to local communities.

Privatization of CPRs is, however, seldom a sensible alternative if poverty is to be reduced, since this may create problems of access for the poor, as documented in India.11 Moreover, community programmes aimed at protecting forests against over-exploitation by restricting access could be harmful to the rural poor.12 Where the poor are heavily dependent on CPRs for survival, there is little hope for poverty reduction if access by the rural poor to these dwindling resources becomes less certain.

Devolution of management of CPRs to local com-

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**Box 6.2: Decentralization with control: Bangladesh’s Food-for-Education Programme**

Food for Education (FFE) is implemented in two stages. First, the participating Union Parishads (UP) are chosen. It is a local government area and there are 4500 UPs in Bangladesh, each of which belongs to a Thana, of which there are 490. One thousand two hundred UPs were chosen to participate in the programme through a process that assured that all Thanas participated. Initially, one UP from each Thana was selected; 450 councils were added in 1994-95, and another 250 councils in 1995-96. The stated aim is to select UPs that are ‘economically backward’ and with a low literacy rate. The selection is done by the centre in consultation with the Thana Education Committee and the minister in charge of coordination of development activities in that area of the country. The centre clearly controls the UP selection process, though there is scope for local lobbying to attract the programme.

In the second stage, eligible households are identified within the selected UPs. Distressed widows, day-labourers, low-income professionals (defined as fishermen, weavers, cobblers, potters and blacksmiths, and so forth), landless or near-landless farmers, and households with school-aged children not covered by other similar targeted programmes are officially eligible to receive the programme benefits. The FFE relies heavily on community involvement in the selection of the households. The selection is typically done by the School Management Committee (SMC): this is composed of teachers, local representatives, parents, education specialists and donors to the school. The food is distributed by the SMC, or sometimes by the UP or a local NGO. Each participating household is entitled to receive 15 kg per month for each child enrolled in school, up to 20 kg for more than one child.

Source: Galasso and Ravillion 1999.
munities can, however, greatly reduce poverty, both directly through sustaining or enhancing food security, and through empowerment, and increased capacity for local management, which should occur as a result of the institution-building required to manage the resources.

Yet the rationale behind many efforts at devolution of CPR management to local communities continues to be sustainability of resources for use by all, including the non-poor, rather than poverty reduction through securing livelihoods for the poor per se. Poverty reduction is too often a secondary goal: the poor, who are the main users of CPRs, are in the most strategic position to conserve them13 – yet, unless proper incentives are provided, also under most pressure to use them.

In short, it is essential to question two assumptions when decentralizing CPRs, or to take action (or persuade local communities to work out actions) to validate those assumptions. The first assumption is that community CPR management will automatically give the rural poor better control over, or access to, those resources and thus help them become less poor. The second assumption is that it will make sense for the decentralized CPR managers, especially poor ones, to give high priority to conservation, given that this depends largely on affordable techniques for making conservation methods quick income-yielders.

**Benefits**

Devolution of natural-resources management has two sets of advantages. For the users, devolution leads to increased accountability of those responsible for its management. Local users may have a comparative advantage over government agents in managing resources. Being nearer to the resource and having a greater understanding of its importance to users means that more efficient rules can be designed. In addition, the monitoring and enforcement of such rules are easier at the local level. Close scrutiny of resource use by the users themselves leads to greater accountability.

For the government, devolution helps to reduce the cost of delivering these interventions. The active involvement of beneficiaries may lower the informational costs associated with anti-poverty interventions.

Devolution also helps government to overcome lack of knowledge of local conditions. Local participants have the advantage of local knowledge necessary for the conservation of natural resources, and maintenance of resources requires considerable local knowledge and inputs. This is important where the cost of the acquisition of such knowledge by outsiders is high. Irrigation systems are a good example of this. Local factors such as soil conditions, water velocity and shifting water-
courses are important considerations in their design; external planners and engineers often lack detailed information. Community involvement in water and sanitation projects is important in ensuring that these are sited where they are most likely to be used.\textsuperscript{14} In public works projects in South Africa, communities had knowledge about local conditions such as safety hazards and vandalism, with relevance for road design.\textsuperscript{15} Local decisions can take into account the locally valuable functions (like the role of forests in local soil formation, nutrient recycling, water control, and so on) that are usually neglected in decisions by external authorities.

Through devolution, government can get a sense of user preferences. Beneficiary participation offers the potential for the design and implementation of interventions that reflect the preferences of the population they are designed to assist. However, since communities are rarely homogeneous, it is important to examine whose preferences are being voiced.

As we noted above, devolution of natural resource management enables the local community to take account of local costs (external costs) that are ignored in higher-level decisions. These local costs can be balanced against the incomes and overall livelihood impacts to get more balanced natural resource management decisions.

Further, such local management can be designed to link investment with returns: for instance, fish-stocking and infrastructure maintenance with the returns from selling fish. Such a link between investment and returns, secured by assured user rights, is likely to result in higher levels of production, as observed in the Oxbow Lakes Small-Scale Fishermen Project in Bangladesh.\textsuperscript{16} But although there is the potential to lower the costs of implementing interventions, it does not necessarily follow that beneficiaries will always be the lowest-cost providers.

**Conditions for effective devolution: emergence of collective action**

Because their benefits cannot be withheld from anyone, and also because of their size, most irrigation systems, forests, rangelands and fisheries cannot be managed individually or by the household, and require coordinated regulation. Programmes to devolve natural resources management are generally based on the assumption that users will take on the roles formerly assigned to the state. This requires some form of collective action to coordinate individuals' activities, to develop rules for resource use, to monitor compliance with the rules and sanctions against violators, and to mobilize the necessary cash, labour or material resources.

Moreover, natural resources have multiple uses and users. Many of these uses have high economic value or are essential to the livelihood of different households. Several FA\textsuperscript{D}-funded projects of the early 1980s have demonstrated that external approaches which focus on resource management to maximize a single use are not likely to be as appropriate in these situations as rules that are developed locally through negotiation between different users. Local collective action can be instrumental in finding rules and allocation of the resource between different users in a way that is seen as equitable by the users themselves. There are therefore equity as well as productivity arguments for collective action in natural resources management. But under what conditions will collective action emerge? Some key factors that may increase the likelihood of collective resources management are presented in Box 6.4 and are discussed subsequently.

**Size**

Small groups have lower negotiation costs, are better able to recognize illegal users of the CPR, and are less prone to free-riding by members.\textsuperscript{17} On the other hand, because relationships within a small group are highly personalized, there is more
potential for conflict, and as there are fewer people to monitor CPR use, poaching by non-members may go unnoticed. The latter difficulty was experienced in a community forestry programme in Almora District, India. For these reasons, a precise specification of the appropriate group size is difficult. However, several IFAD-funded projects have been successful in reducing conflict between group members through a conscious choice of more marginalized people and areas and with a special focus on ethnic minorities and women. Such groups enjoy a considerable amount of homogeneous and shared sense of both deprivation and expectations.

Group homogeneity and homogeneity of interests

Must groups always be homogeneous or heterogeneous? This may be a more important aspect of community management of CPRs than size, since how a community group of any size actually interrelates through institutional arrangements is more crucial to successful CPR management. In a study of people’s management of upland forests in Orissa, homogeneity along caste lines was felt to be important in the development of successful institutions.

In the Zanera Danum irrigation system in the Philippines, users were given fragmented parcels of land along the irrigation system so that there was homogeneity of interests in management, as all users benefited equally from the resource. A similar experience is cited in South India, where corporate institutions are mainly a feature of downstream villages. Given the scarcity of water in these villages, unrestrained access to canal water is likely to result in frequent conflicts and disruption of the crop production cycle. Corporate institutions with effective enforcement machinery have evolved to regulate access to water. Although there was considerable inequality in the villages, elite support for these institutions was guaranteed by the fact that plots of the large landowners were widely scattered. Since any individual arrangement would not have been workable, it was in everybody’s interest to cooperate.

Conflict of interests can also be reduced, if compensation is provided to overcome differential gains from cooperating.

Poor users may be reliant on a resource for their very survival, but non-poor villagers may make large financial contributions to institutional costs and take up leadership if gains from the CPR are large enough. This applies to irrigation schemes where non-poor farmers may require a larger share of available water to irrigate their larger landholdings. However, even in such cases, the poor could benefit from the management of CPRs by collectives, provided their bargaining skills are enhanced and coalition is fostered among the poor.

Rangeland management is another CPR that induces the non-poor to play an important part in collective action, exemplified in Lesotho and Karnataka, India. Since the non-poor often own more and larger animals, they are likely to take advantage of common land for grazing, while freeing up their own land for other productive uses.

**Box 6.4: Key factors that facilitate collective action**

- Size of the group: large enough to defy capture by a few powerful individuals, but not so large as to pose monitoring problems by the group.
- A history of cooperation and networks among group members (or ‘social capital’).
- Group homogeneity or homogeneity of interest.
- Returns from the resource and its importance for local people’s livelihoods.
- Clearly demarcated property rights.
Here again, homogeneity of interest of the poor and non-poor could be promoted by building on the coalition of the poor.

**Tradition of trust**

In some situations, traditional patron-client relationships are sustained during the development of viable CPR management institutions. For example, in the High Atlas Mountains of Morocco, senior members of society have full rights to any part of the range for a greater length of time than other members who must negotiate with the local council for access.\(^\text{26}\) Indeed, cooperation can develop under unequal conditions in some situations.\(^\text{27}\) Confidence and trust among members of user groups are not ruled out even when there is inequality of endowments. In landlord-initiated and funded irrigation projects in Tokugawa, Japan, collective action was possible because of existing patron-client relations.

IFAD's experience in the Oxbow Lakes Small-Scale Fishermen Project in Bangladesh, however, shows that it is possible to create trust where strong traditions of collective economic action did not previously exist. The preconditions were the granting of secure, long-term user rights to the fishers and cooperation incentives in the form of substantially higher incomes. The fishermen set up systems of equity in income and cost sharing, democratic rotation of leadership, and monitoring by group members, which themselves depended crucially on the acquisition of relevant knowledge by members.\(^\text{28}\)

The costs and tangible benefits of participation have long been at the heart of the collective-action debate. One aspect of participation that is often not recognized is that people often choose to participate in natural resources management because it offers them an opportunity to socialize and form stronger relationships. Such networks contribute to greater livelihood security, especially in situations of poverty and vulnerability, where mutual support among family, neighbours and community becomes vital. In Haiti, even landless households would contribute labour to watershed management activities, in part to strengthen networks with landowners who might later offer employment or other help. Such social capital could be an important survival strategy of a poor household.\(^\text{29}\)

An examination of the effectiveness of community-based water projects in Central Java found that 'in villages with high levels of social capital – in particular with active village groups and associations - household participation is likely to be high and monitoring mechanisms are more likely to be in place'. But, 'Village leaders and outsiders do not necessarily represent the preferences of households: household participation in service design and decision-making led to different - typically more expensive and convenient - water technology choices in Central Java'.\(^\text{30}\)

**Clearly demarcated property rights**

For local users to be willing to take on responsibility for CPR management, the rights and responsibilities must be transferred from the state to users. Property rights play a central role in the management of natural resources, conveying authority and shaping incentives for management. They give necessary authorization and control over the resource; and can enforce collective action. However, privatization of these common resources often implies disenfranchisement of the poor.\(^\text{31}\)

Table 6.1 outlines other important prerequisites for successful devolution of CPR management that have been identified in different contexts. There are no blueprints, only a few guiding principles.

**Problems of equity**

A community institution for natural resources management is not inevitably or necessarily pro-poor.

A study of four watershed development projects in India\(^\text{32}\) that were designed primarily to promote
eco-restoration and improve the natural-resource base, with poverty reduction as a secondary concern, found that their (direct) benefits to the poorest were relatively small. While significant improvements were achieved overall in crop yields, diversification, income from farming, and women’s participation in meetings, the benefits to the poorest (through higher employment) were much lower.

There was also negligible participation by the poor in project design, and no distinction was made between poor and non-poor in the decision-making process. In such projects, designs generally made reference to small and marginal farmers and women, but less emphasis was placed on the landless and to scheduled castes and tribes. No specific indicators were used to monitor periodically how far the benefits of the project interventions were reaching the poor and marginalized groups: it was just assumed they were doing well.

Community management of resources can lead to improvements in productivity and sustainability of the resource. In Nepal, a study of 86 community-managed and 22 government-managed irrigation schemes found that community-managed schemes were more efficient in terms of crop yield, cropping intensity, and so forth.33 Similarly, Oxbow Lakes in Bangladesh managed as CPRs of poor fishermen showed much higher rates of investment and yield per hectare than both privately leased and government-managed lakes.34 A study of Ugandan forests found that state-owned forests were heavily exploited due to lack of incentives to staff to enforce the law. State and private forests which allow villagers to use their traditional rights to access forest resources in return for mon-

### Table 6.1: Successful local CPR management

<table>
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<tr>
<th>Management variable</th>
<th>Important factors</th>
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<tbody>
<tr>
<td>Attribute of the resource</td>
<td>Worth investing in, that is, a feasible improvement</td>
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<tr>
<td></td>
<td>Predictable availability of resource</td>
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<td></td>
<td>Strong resource-base</td>
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<tr>
<td>Attribute of the user group</td>
<td>Small size: fewer than 40 members, but not too few</td>
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<td></td>
<td>Clearly defined boundaries</td>
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<td></td>
<td>Clearly defined rights to use</td>
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<td>Sanctions against rule-breaking designed and enforced</td>
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<td></td>
<td>Consensus about who the users are</td>
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<td></td>
<td>Strong leadership and prior organizational experience</td>
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<td></td>
<td>Localized system of justice</td>
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<td></td>
<td>Autonomy: access and use rules determined without interference by external authorities</td>
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<td></td>
<td>Fair distribution of decision-making rights</td>
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<td></td>
<td>Remoteness of user group reduces the chances of poaching and enhances mutual obligation</td>
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<tr>
<td></td>
<td>All users similarly affected, that is, fairly homogeneous with similar time preferences</td>
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<tr>
<td>Relationship between user group and resources</td>
<td>Location overlap between resource and user</td>
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<td></td>
<td>Demand for resource</td>
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<td></td>
<td>Knowledge about level of yields that is sustainable</td>
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<td></td>
<td>Discount rate low in relation to future benefits</td>
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<td></td>
<td>Equity in sharing of costs, including labour, and benefits</td>
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<tr>
<td>Relationship between users</td>
<td>Recognition of the effect of one's actions on others' use of the resource</td>
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<tr>
<td></td>
<td>Trust</td>
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</tbody>
</table>

Monitoring duties are much less over-exploited. The condition of forests in Nepal varies with the presence of community institutions for monitoring use and restricting harvesting.

In the Philippines, participation in irrigation schemes resulted in greater project sustainability: resources were mobilized, loan repayments were greater, and area under cultivation expanded.

Similarly, the Aga Khan Rural Support Programme’s work with natural resources management institutions in Gujarat, India, found that where programmes were managed by local institutions, farmers were willing to make greater investments in resource conservation, and agricultural productivity increased by up to 100% within three years.

All this makes a strong case for encouraging and strengthening local-level institutions for the management of local commons. But how equitable are these institutions? How well do they serve the interests of the poor? Three distinct but related issues need to be addressed in this context.

1. Can cooperation emerge when vast inequalities and asymmetries of power exist among the potential appropriators of a resource?
2. If institutions do evolve, even under these circumstances, are the weakest members of society likely to be covered at all under the evolved framework?
3. Even when they are covered, are they likely to enjoy equitable access?

Extreme diversity and inequality among the potential appropriators of a resource may inhibit cooperation, whereas equality may promote it. Across a number of countries, greater equality of endowments among the irrigators was associated with a higher degree of rule compliance and good maintenance. The relatively egalitarian structure of the community was an important factor in the farmers’ willingness and ability to organize irrigation projects in Gujarat.

Similarly in the Indian State of Meghalaya, villages with greater equality of ownership of land, including forests, showed a greater propensity to overcome collective problems in regulating both distribution of ownership and methods of harvesting of forests for timber. On the other hand, in villages with greater inequality of landholding, even investments in land improvement were not forthcoming because of problems in combining the interests of large landowners and those of numerous tenants. The absentee landowners suspected that land improvements by tenants would lead to claims over land and blocked such investments.

For example, in South India, inequality of landholding among the irrigators generally reduces cooperation on water allocation and field channel maintenance; but at very low and high levels of inequality, conservation is possible, while for some, at middle range of inequality it is not. An analysis of farmer-managed surface irrigation systems in central Mexico yielded similar results.

In general, however, the relationship between inequality and collective action is complex. There are distinct but opposite effects of inequality. Those who benefit most from collective action are more willing to bear the costs involved and thus to make collective action possible. But those likely to benefit least have little incentive to participate in the collective effort: free riding then may be the more lucrative option for them. Besides, the transaction and enforcement costs for some cooperative arrangements may rise with inequality.

Inclusivity of local institutions

Are the institutions that do emerge under unequal conditions inclusive enough to cover the poorest and socially excluded segments of the society?

Although self-managed irrigation schemes may yield an equitable distribution of water among participating farmers, the criteria for membership in these irrigation groups tend to exclude women. Weaker categories of users are frequently excluded by dominant groups in order to achieve efficient use of resources.
Although a number of forestry and drinking-water projects have been aimed at women as primary users of the resources provided, most CPR institutions exhibit a virtual absence of women. In several IFAD-funded projects it was commonly observed that women are invisible farmers. As a result, women's needs are less likely to be taken into account. The impact is two fold. In addition to the disadvantages faced by women themselves, the overall productivity of the CPR system is often impaired. For example, water users' associations have been particularly dismissive of women's needs due to the misconception that only men require water for irrigation.

Both Joint Forest Management (JFM) and Community Forest Management (CFM) in India have tended to ignore the demands of women and the poor in general. This is demonstrated in case studies of the UP hills (now Uttarakhand) and Orissa. When communities closed their forests for regeneration they prevented poor women from collecting firewood, whether for consumption or for sale.

Cultural taboos such as fear of ritual pollution in Nepal stop women from contributing labour for irrigation system maintenance. In Malolo, Tanzania, women are prohibited from maintaining canals, so that they feel they cannot complain if they do not get their fair share of water. Government policy in the Philippines excludes women from construction work. Not surprisingly, female participation in water user associations in Sri Lanka, Nepal, Pakistan and India is lower than that of men. Women often refuse to provide labour to, or participate in, agricultural development projects because they believe that the benefits will accrue only to male household members.

In India and Nepal, fewer than 10% of community forest group members are women, perhaps because, in almost half of Indian States where the JFM Programme exists, only one member of the household may become a member, which tends to be the man as head of the household. Women may be worse placed than men in their ability to attend meetings. A woman in the Parapegama irrigation system in Sri Lanka is quoted as saying,

I never participate in the FO meetings. If I go there I have to spend about two or three hours, but if I stay at home I can make 200-300 beedis [cigarettes].

In the Ambewelar irrigation system in the hills of Sri Lanka meetings are held at night to accommodate men who work all day, but it is not thought to be suitable for women to go out at night. In Nepal, women gave their illiteracy as a reason for not attending meetings. They thought they would not understand what was being said and would not be able to contribute. Women seldom speak at forest management meetings and their opinions are rarely listened to.

Given that so few women are members of natural resources maintenance groups or attend meetings, it is not surprising that more women are not present on executive decision-making committees. The few women who are involved in forestry committees often participate because it is mandatory for the committee to include one or two women. A result, and as there are few female members to represent, women on such committees tend to have 'nominal rather than effective presence'.

Despite these barriers to women's participation in CPR management, in India and Nepal women are active in protecting the forests as they feel that men's patrolling is not effective; but their inability to take part in decision-making has consequences for equity and efficiency. For example, several times more forest resources can be extracted sustainably than is actually permitted. An important implication is that knowledge about resource levels is lacking, as the most regular and frequent users are excluded and gender differences in preferences for forest species are not taken into account.

To overcome this problem, the IFAD-funded Tamil Nadu Women's Development Project has been encouraging women to take a greater interest...
in watershed management projects. Participating NGOs such as MYRADA and Outreach have now adopted an approach of facilitating the emergence of women’s self-help groups (SHGs). One of the typical discussions is about the management of the natural resources around them. The women group members then try to help men to organize activities for natural resources management. Once this is achieved, women SHGs leave it up to the men, but they do have a representative in the decision-making group.

Sometimes women are fully included in management of irrigation systems. In the Provincial Irrigation Unit, Nyanza Province, Kenya, women’s contribution to rice farming is recognized and, accordingly, a minimum of 50% attendance by women is required at the preparatory meeting of new water users’ associations, where women are organized in order to articulate their needs.59

Similarly, in Dodoma, Tanzania, the Water Supply and Health Project in Marginal Areas encouraged allocation of water rights in quantities sufficient for irrigating one acre to both men and women. As a result, men and women find it is worth hiring agricultural land from landowners. To overcome many of the issues mentioned above, many NGOs now encourage formation of women’s CPR management groups. In Nepal, 3% of community-forest groups consist only of women.60

Women directly bear the cost of poor participation in community institutions designed for natural resources management. Village forest protection committees regulate forest access for its sustainable use. The cost of foregoing forest use is disproportionately borne by the women through a larger amount of time spent in fuelwood collection. Women’s collection time increased from between one and two hours to between four and five hours for a headload of firewood, and journeys of half a kilometre lengthened to eight or nine kilometres soon after the start of protection in the Indian States of Gujarat and West Bengal.61

Wherever possible, women shift to alternative fuels such as twigs, dung cakes and agricultural wastes. While some of these hardships have been alleviated in some areas, they have not been eliminated entirely. ‘The persistent shortages women face in these contexts thus appear to have more to do with their lack of voice and bargaining power in the [village protection committees], than from a lack of aggregate availability’.62

Yet the various JFM and CPM initiatives show that where women and the poor do organize they are able to make some impact on the agendas of the community institutions. In Meghalaya, for instance, the strongly male-dominated village assembly, after continuous pressure from the IFAD project, has begun to include women in its deliberations. Women’s issues of access to fuelwood and fodder have also been included within the forest management programmes.

The inclusion of women and other poor does not come about as a matter of course. Changing age-old traditions is a matter of struggle to change gendered or caste-based norms of behaviour, a struggle involving mainly the local participants but also facilitated by external agencies, including project agencies, NGOs and government legislation and orders. The various laws and rules in different South Asian countries, including most recently Pakistan, mandating a certain proportion of women members in village committees create a strong climate in favour of women’s public and community roles. While such representation of women often starts out as nominal, over time it also tends to become more real and effective; but, of course, not without struggle.

Lessons63

Participation is necessary but insufficient by itself. It needs to be built upon improving the livelihood security of the poor.

The poor who live at the edge of subsistence necessarily place a high value on their time: if conser-
vation of natural resources comes into conflict with meeting the immediate need for survival, then they will disregard the concern for conservation. For instance, in northern and western Senegal, immediate safeguarding of the food supply has become the first priority of ordinary peasants because of the low fertility of land, insufficient rainfall and incidental swarms of locusts. Long-term investment in soil or trees is not undertaken because it would in fact endanger the food supply.64

For the poor to be interested in conservation, a mechanism has to be devised that incorporates it into the livelihood security of the poor. This is especially true in a differentiated society where the poor might be tempted to free ride in the hope that the wealthier section would make the necessary investments for conservation. Of course, the wealthier section may not oblige, especially if increasing links with the external economy allow them alternative opportunities for investing their surplus. In that case, depletion of resources would become inevitable. The solution is to take advantage of links with the external economy in a way that simultaneously promotes conservation and improves the livelihood security of the poor.

Such a solution has been successfully attempted by the Communal Areas Management Programme for Indigenous Resources (CAMPFIRE) Project of Zimbabwe. This project has devolved power over wildlife and other resources to local people and has enabled them actually to gain from conservation (Box 6.5).

Conservation has also been linked with security of livelihood with the JFM programme announced in 1988 in the Indian State of Madhya Pradesh. The policy accepts that the biotic pressure from villagers seeking fuelwood, fodder and timber, both for their household needs and for generating cash income, is the main cause of forest degradation. But, unlike previous policies, which tried to prevent degradation by depriving the villagers of their traditional right to forest produce, the new policy recognizes that the life of tribal people and other poor communities living within and near forests revolves around those forests, and that their domestic requirement of fuelwood, fodder, minor forest produce and construction timber should be the first charge on forest produce.

An integrated village resource development programme is now an important aspect of the JFM pro-

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**Box 6.5: CAMPFIRE, Zimbabwe**

Mahenye is a collection of villages extending over about 600 sq. km on the border of the Gonarezhou National Park in the south-east of Zimbabwe. Most of the people were located there to make room for the national park. At independence in 1980, rural people were desperately poor, poached as often as they dared, and were extremely hostile to the wildlife, particularly elephants, which raided their fields.

To counter this situation, in 1984 the government permitted safari hunting, within Mahenye ward, of elephant and buffalo migrating out of the park. The dividends of this hunting were channelled into the local community, which was given security of tenure and the right to manage its wildlife resources in the long term. Today, the people have their own committees and other internal government structures, and make responsible decisions. Ten years after the scheme was initiated, there is a welcome resident population of over 300 elephants in Mahenye.

At a meeting of the Mahenye community in 1995, attention was drawn to the fact that a successful entrepreneur from the neighbouring community who owned 500 heads of cattle was in the habit of grazing them on Mahenye land that had not been used for anything else. What were they to do? They could charge him a nominal rent, or ask him to take his cattle elsewhere and put that land under wildlife. They decided unanimously to put it under wildlife.

Mahenye is an example of how decision-making by consensus can lead to the sustainable use of wildlife resources to alleviate rural poverty.

Source: Kikula et al. 1999.
gramme, which presumes that if forests support village development, then people will appreciate their forests and help protect them. In other words, if resources outside forest lands become more productive, people will give up gathering from forests. There are some success stories (Box 6.6), but these are still mostly in the nature of pilot experiments, and have yet to be tried on a large scale. A recent study of JFM in India and the Community-Based Natural Resource Management Programme in the Philippines, carried out by the Centre for International Forestry Research (CIFOR) under an IFAD-funded technical assistance grant project, revealed that decision-making in such programmes was still centralized and access by the poor to forest produce was restricted. There will be no improvement in this situation unless high priority is given to coalition-building of the poor.

Institution-building must be just, genuinely participatory and inclusive

If the poor are to benefit from cooperative arrangements for resource management, they must participate fully in setting them up. Such arrangements can be built on the basis of patron-client relationships, but these are unlikely to advance the living standards of the poor much beyond the level of survival. The alienation of the clients from the residual income accruing from their labour makes it difficult and costly, even impossible, to monitor their performance effectively. This alienation within patron-client relations would reduce productivity itself; while a more inclusive situation is likely to enhance productivity.

As traditional hierarchies are being eroded everywhere with the spread of education and democracy, a new basis of cooperation must be created so that the appropriators can themselves devise viable institutions by mutual consent. Even in this case, however, the poor might be excluded. It is essential that the poor are encouraged and welcomed to participate in the decision-making process. Today, this is a fundamental requirement of most IFAD-funded projects. Evidence from Mexico shows that successful management requires vigorous, regular and well-attended community meetings.

Box 6.6: Joint forest management in Madhya Pradesh: transformation of a village society

In recent years, under JFM the government has made considerable progress in involving communities in forest protection and management. Primarily, the benefits have been in building awareness, establishing linkages, and convergence between different government schemes. The example of Karidongri illustrates this.

Karidongri is a forest village in Bilaspur district. Out of 57 families of the village, 15 were landless, while the others had unirrigated land. All families were traditionally dependent on forests for their livelihood. These families, together with officials, formed a village forest committee in 1995 to manage the development of the village and the forest resources. After agreement, they created a diversion channel, a new tar dam, bunding of 20 acres of agricultural land, wells with eight electric pumps, levelling of lands, and a general store with the help of funds from government and other sources. The villagers also started raising fish to generate income. Gradually, all the families came to earn their livelihood from sources other than forests. A SHG of women assisted by the Development of Women and Children in Rural Areas has started manufacturing bricks. A grain bank which provides social security to the village has also been established.

The committee members have protected the forests assigned to them from illicit felling, grazing, fire and encroachment. They have also helped in registering 51 forest offence cases. Besides protection, the village forest committee has taken an active interest in afforestation and has planted 54780 plants on 60 acres of land. It has sown 192 kg of seed in 1996-97 in blank forest area out of which 13300 seedlings have been established. The members have resolved to plant 1000 seedlings in non-forest area and name it ‘Shakti Van’. The sole objective is to raise fuelwood plantation to supplement their fuelwood requirement.

assemblies, and the existence of accounting and reporting practices that provide community members with a healthy flow of accurate information. Outside agencies interested in institution-building for the poor will need to adopt special measures to ensure that participation is genuinely all-encompassing.

The example of the En Nehud Cooperative Credit Project in The Sudan shows that this is possible. In The Sudan, the state-run water supply services are in the process of being privatized. In many villages, water shortages are severe and prices high; families can spend up to half their income on water alone. The IFAD-funded project in the En Nehud district aims to restore the water-supply system and transfer ownership and management of water stations to community groups set up for this purpose. Communities themselves selected individuals for receiving training in system operation and maintenance, while legislation was passed providing for the transfer of ownership to the community groups. The communities now manage most of the water stations. Living conditions in the villages have improved greatly, reducing migration from them: a clear indication that the poor have benefited.

IFAD’s Special Programme for Africa has revealed some difficulties. This programme was launched in 1986 to assist governments in sub-Saharan Africa in responding to the devastating droughts of the 1980s. A sub-programme on Small-Scale Irrigation and Water Control (SSI/WC) was a major component of this programme. Its objective was two fold: (1) to increase the productive capacity of smallholders and improve household food security, and (2) to build the capacity of the farmers to take over operation and maintenance responsibilities of the scheme by involving local communities or beneficiary organizations. A participatory demand-driven approach was considered a prerequisite for ensuring sustainability. Beneficiaries were expected to be key partners involved in selection, design and implementation. The strategy was to construct small-scale irrigation schemes which farmers would own and therefore take responsibility for their subsequent operation and maintenance.

The water users’ associations did reasonably well in operating and maintaining the schemes, especially in view of the complexities involved. But participation at the stage of project design was minimal. The primary reason for this failure was the absence of a recognized local community or beneficiaries’ organization able to deal on equal terms with the government or project representatives. As a result, participation was limited to consultation with village chiefs, local farmers’ leaders and individual farmers. This experience emphasizes the importance of devoting time and resources to building organizations of the poor if genuine participation is to become a reality.

But it also has to be recognized that in most rural societies it would be practically impossible to ignore or bypass the traditional power structure altogether. The power base of the traditional elite may be eroding, but it still exists, and no large-scale project of common property resource management can possibly be undertaken without their involvement, even if that implies agreeing to hand over portions of community assets to the poor. The difficulties well-off lessees face in instituting ‘social fencing’, whether of forests or water bodies, and thus in securing their investments can itself be an important factor in persuading them to agree to such redistribution.

Both the Oxbow Lakes Small-Scale Fishermen Project in Bangladesh and the Hills Leasehold Forestry and Forage Development Project in Nepal are examples of successful redistribution of community assets to coalitions of the poor. The latter project in Nepal selects the marginalized members of the community, families below the poverty line, women, small and marginal farmers, and landless and deprived ethnic or tribal people, and forms
them into groups that are then given a 40-year lease of designated forest areas, which often amounts to a lease for life.

It was found that targeting marginal groups would not produce positive results unless the agreement of the whole community was obtained. These leases were given out on what had been de facto community land, used by the richer as well as poorer farmers. A long period of time was spent persuading first the officials and then the rest of the community – in particular the village leaders – that the project would benefit everyone and not just the lessees. In the same way, in the Oxbow Lakes Small-Scale Fishermen Project in Bangladesh, the local elite could see that fish culture by the poor increased local availability of fish, both reducing price and improving freshness. But at the same time, the success in large-scale aquaculture has also made the lakes attractive targets for takeover by local vested interests.

In the present economic and political climate it may be necessary to present the case for equality in terms of its contribution, or likely contribution, to efficiency in use of resources. Egalitarianism needs to be cast in terms of asset transfer rather than outright income transfers. While income redistribution may have no effect on productive efficiency (though the experience of East and South-East Asia shows that income redistribution in terms of higher public spending on health and education can have positive effects on productive efficiency), asset redistribution would link labour and investment with returns and income. For instance, the granting of property rights in forests to local communities and families, as in China or in North-East India, could improve micromanagement of the forest and link investment with returns. Thus, a generalization of this equality-enhancing property reform is likely both to be more just and to increase productivity of forest for products, including ecological services such as flood control and carbon sequestration, for external stakeholders. At the same time, we should also consider restrictions on property rights, in terms of excluding absentee claims or of excluding the right to sell or otherwise transfer forests.

Asset redistribution can contribute to sustainable poverty reduction only if it increases the productive capacity of the poor and of the economy as a whole. The generally superior yields on small farms vis-à-vis large farms makes an important case for land redistribution to the landless. Similarly, even in the case of common pool assets, like forests or water-bodies, the success of the Nepal Hills Leasehold Forestry and Forage Development Project and the Bangladesh Oxbow Lakes Small-Scale Fishermen Project shows that coalitions of the poor can increase the productivity of community resources.

Inclusive local community institutions are inconsistent with the exclusion of women from effective community roles. The question of enhancing women’s roles in public and community affairs is critical even in matrilineal and forest-based communities, let alone patriarchal ones. Women have gender-specific knowledge of local resources and processes, and have gender-specific economic and other household responsibilities. Men tend to dominate inclusive community organizations; encouragement of separate public and community organizations for women would promote their greater participation in the management of the community.

**DELIVERY OF FINANCIAL SERVICES FOR RURAL POVERTY REDUCTION**

Credit helps the poor to smooth consumption, and later to acquire assets greater than the value of the liability. Consumption smoothing is especially important for the rural poor; agricultural incomes and rural health fluctuate widely and will destabilize consumption if households cannot fall back on savings or access to credit. Once poor households feel that consumption is safe,
they are more ready to risk borrowing for investment in physical, natural or human capital assets. But the poor can sustainably service credit only if the new asset yields more than enough to repay interest and, eventually, the capital element of the loan. Thus finance for investment can reduce poverty, but not while basic consumption remains at serious risk or if technology (or market access) does not enable the poor to earn a decent return on assets. Yet investment by the rural poor is often constrained because they cannot borrow. At the same time, if formal lenders are to reduce moral hazard and adverse selection to affordable levels, they must avoid high unit transaction costs on tiny loans; especially if they cannot effectively screen poor borrowers (who lack collateral). Informal (local) lenders are put off providing loans to the poor (again lacking collateral) by high co-variance (a bad harvest means loans fail together) - and often it does not pay to price-discriminate, charging more to poor/risky borrowers, because that stimulates even more risk-taking. The rural poor often lack reliable access to financial services as a whole - including not only competitive credit, but also savings and insurance services - whether from public, formal private, or informal sources.

From the early 1950s, developing-country governments and international donors provided massive doses of credit to the agricultural sector at concessional interest rates, often negative in real terms, through either cooperatives or state-run banks. This approach achieved little in reaching the poor, raising output, using credit efficiently, or developing sustainable rural financial institutions. Subsidized interest may even have destroyed competitive private lending and stimulated low-yield investment. There is now a widespread consensus that problems in state intervention in rural financial markets arose as much from interest-rate ceilings as from distorted incentives and weak governance structures of the public-sector financial institutions (Table 6.2). Yet the international development community recognized that, if state monopoly was bad for growth and poverty, untrammeled markets alone were unlikely to do the job either. Could decentralized, participatory management be a better solution?

Increased access of the rural poor to financial services was achieved by rapid increase in microcredit provision during the last 20 years. Targeted microcredit programmes seek a strong anti-poverty focus, and aim to increase incomes and smooth consumption. Enthusiastic and large-scale support for these innovations from multilateral and bilateral donors has ensured a rapid growth of microfinance institutions across the world.

The predominant financial product offered by most microfinance institutions (MFIs) is an advance of a lump sum of money, with capital and interest to be repaid in regular instalments. To ease collection and enforce repayment, individuals are often federated into groups that are collectively responsible for loans extended to its members ('peer monitoring'). Further incentive for regular repayment is provided in the form of quick, easy and increased access to repeat loans. The repayment-by-instalment arrangement provides an opportunity for clients to take the maximum advantage of fungibility of cash by managing regular instalments from existing income sources. The financial product is insensitive to seasonal demand and risk (which can be a disincentive for poorer clients using credit as quasi-insurance substitutes), and does not take into account the cash-flow cycle of client enterprises. Nevertheless, in sharp contrast to subsidized and loss-making state-backed rural credit, many (though not all) of the new microfinance agencies achieve sustainability by combining high repayment rates with interest at the market rate, thereby confirming that 'the poor need credit, not cheap credit'.

But this is not costless. Though part of the package is that the state (and donors) phase out
subsidies of interest rates, initial administrative subsidies to create sound microfinance intermediaries for the rural poor have been huge. They are incurred, in part, because of the belief that poor populations can implement income-generating economic activities, and that the main limitation on their initiative is the lack of access to capital in contexts where: (1) financial markets are not well developed; (2) commercial banks are reluctant to commit themselves because of the extent of the risk, and also because of their lack of familiarity with the sector; (3) development projects and banks have most often failed; and (4) the informal sector is neither sufficiently large nor capable of responding to the challenges of development.

Initially, then, the challenge for microfinance was to demonstrate that, once financial tools specifically adapted to the needs and constraints of ‘poor’ populations were developed, then people would be able to use these tools for productive purposes and incorporate themselves into the financial milieu, repaying the loans and accumulating savings. Based on this assumption, many microfinance systems have been developed in South and Eastern Asia, with different institutional forms, and often giving preference to disadvantaged areas and to the most disadvantaged groups within these areas.

In the second phase of the development of the microfinance sector, the need to create sustainable
financial markets became evident, and the legal and financial sustainability of microfinance systems became a priority. Microfinance systems were set the goal of breaking even, and thereby being able to liberate themselves from grant-funding within a reasonable period of time, and this very rapidly became the fundamental orientation of microfinance ‘best practice’.

The emphasis was on providing small loans, often focused on women entrepreneurs, as a means of reducing poverty. These loans have three objectives: to generate productive income streams; to reduce poverty; and to support sustainable rural financial institutions. There is no reason to expect that these three objectives will point to the same set of loans or even of lending institutions, or that they will be consistent; and where there is no sufficiently productive/profitable safe opportunity that the poor can take up, the objectives will not be achievable. In short, production-oriented credit success needs assets and/or technology, usually with market access. While many agree that microfinance can make a difference to people’s lives, the extent to which it contributes to poverty reduction remains uncertain. The relationship between microfinance and poverty reduction is fairly complex: just as poverty is multidimensional, so there are many pathways to its reduction. Welfare indicators relate not only to income, but also to human, physical and social capital.

The existing evidence of the impact of microcredit is not clear-cut. Some research suggests that access to credit has the potential to reduce poverty significantly, but there is also research suggesting that microcredit has a minimal impact on poverty reduction. It is now increasingly recognized that microfinance alone is not a magic bullet for poverty reduction, but only one of many factors that may contribute to it. In fact, in an effort to dispel the impression that microfinance is a cure for poverty, it is argued that the claims that microfinance assists “the poorest” and “the poorest of the poor” are unfounded within national contexts. Many virtually never work with the poorest . . . and many have high proportions of clients who are non-poor [using the national poverty lines]. This may be because the poorest households tend to shy away from microfinance. Also, because of moral hazard, a poor person is rarely welcome in a group of five.

In many cases, the poor face significant structural challenges, which marginalize them not only in economic terms but also in social and political terms. This makes them ‘invisible’. Many very poor people migrate seasonally for wage employment; some consciously avoid joining the mainstream, such as the banjaras in parts of India; some households, such as the ‘Kamaiyas’ in Nepal, are ‘attached’ to other households in semi-bonded relationships. Such ‘invisibility’ makes targeting difficult. It is hard to arrange loans or repayments from short-term migrants. Further, microfinance agencies (and members of peer groups) emphasize regularity in attending meetings and depositing savings – which penalizes employees in general and migrants in particular.

Poorer participants are less able to sustain benefits from these programmes and might drop out disproportionately, perhaps because the products offered are not appropriate to their needs. The rural poor need a range of financial services, including savings and insurance, not just credit. The poor operate in a micro-economy in which production, consumption, trade and exchange, saving, borrowing and income-earning occur in very small amounts, which increases the per unit transaction costs and makes it unattractive for them to borrow from the formal sector. They are also exposed to high levels of risk arising from violence, natural disasters, health, harvest failure, and price and labour market fluctuations; the different forms of these risks weaken the capacity of community-based social security networks to provide support.

These features mean that the poor must devise ways to spread risk, by economic diversification
and the development of informal financial networks. Savings and credit mechanisms are used by the poor as substitutes for insurance, so savings, credit and insurance have to be treated in a unified way.

Under these circumstances, the provision of microcredit has been found to affect crisis-coping mechanisms positively by allowing the diversification of income-earning sources and building assets. For example, even where there may be no evidence that access to microcredit leads to increases in consumption, it does contribute to reducing household vulnerability. According to estimates, consumption variability is 54-47% lower for eligible microcredit borrowing households than for the control group. Such consumption smoothing is driven by income smoothing, which is shown by the significantly lower labour-supply variability experienced by households using microcredit than by the control group.78

This is important as poverty is so closely associated with risk and vulnerability. These results suggest that programme participation by the poor is driven largely by the benefits of risk reduction rather than the benefits of greater consumption levels. But this finding says more about the financial service preferences of the poor than the product itself, which, as argued, is rather insensitive to risk and vulnerability dimensions of poverty. In Sri Lanka, for example, Sanasa’s poorest clients use savings services more than credit services79 and small, high-cost emergency loans more than large, low-cost investment loans.

Designing financial services for the poor must focus on risk and vulnerability if they are to extend their outreach and prove more useful. One obvious response is insurance. However, quasi-insurance can be built into existing products, such as more frequent, but also more flexible, repayment; giving the opportunity to use savings for loan repayment; more flexible repayment schedules suited to client preferences; and purpose-specific contractual savings products for events such as marriage, death and so forth. Some possibilities are catalogued in Table 6.3.

### Table 6.3: Financial products for the poor and possible innovations

<table>
<thead>
<tr>
<th>Product</th>
<th>Elements not sensitive to risk and vulnerability</th>
<th>Possible changes</th>
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</thead>
<tbody>
<tr>
<td>Microcredit</td>
<td>Fixed instalments</td>
<td>More frequent but flexible instalments</td>
</tr>
<tr>
<td></td>
<td>Fixed maturity</td>
<td>Variable maturity</td>
</tr>
<tr>
<td></td>
<td>Loan size treadmill</td>
<td>Savings-balance determined loan size</td>
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<tr>
<td></td>
<td>Mandatory repayment</td>
<td>Client-determined option for the use of savings for repayment</td>
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<tr>
<td></td>
<td>Complete collective responsibility</td>
<td>Partial collective responsibility</td>
</tr>
<tr>
<td></td>
<td>(repeat loan access denied if group repayment imperfect)</td>
<td>(repeat loan access sanctioned, not denied, if group repayment imperfect)</td>
</tr>
<tr>
<td>Microsavings</td>
<td>Fixed savings</td>
<td>More frequent but flexible savings</td>
</tr>
<tr>
<td></td>
<td>Compulsory savings</td>
<td>Transparent compulsory and voluntary savings</td>
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<td></td>
<td>Limited savings products</td>
<td>Purpose-specific contractual savings</td>
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<tr>
<td></td>
<td>Unclear rules about access to pooled savings</td>
<td>Clear rules about access to pooled savings</td>
</tr>
</tbody>
</table>

facilities. This is because the poor need access to financial services, particularly:

• deposit facilities for accumulating and safekeeping their savings, consumption-smoothing and self-financing of economic operations;
• credit for consumption-smoothing and external financing of their operations; and
• insurance for social security and loan protection.

Provision of a wide range of financial services will not only serve clients' needs more effectively, but also improve outreach depth and improve access to external sources of funding.

Improved access to financial services can enable the poor rural household either to augment income generated by the production process or to reduce the cost of smoothing consumption at sufficient levels. Smoothing disposable income generated by borrowing for consumption, or by saving in highly liquid but less remunerative assets, is expected to be relatively more important for households that face the risk of transitory or chronic food insecurity.

This perspective of financial service allows us to understand the difficulty that poorer households face in participating in and sustaining benefits from some of the current innovations. The importance of financial-service provision to the poor is of intrinsic value, irrespective of its promise as a poverty-alleviating tool. Viewed thus, the issue is the design of suitable financial-service products that the poor would find useful. This in turn warrants an understanding of the financial behaviour and preferences of the poor.

The importance of saving

Households all around the world have always saved: as insurance against emergencies, for religious and social obligations, investment and future consumption. The importance that poor people attach to saving is also demonstrated by the many ingenious, but often costly, ways they find to save in addition to keeping small amounts of cash secreted at home. These methods include investing in assets that can be sold in case of emergency (for example, corrugated-iron sheets, livestock or jewellery), participating in local initiatives such as Rotating Savings and Credit Associations or funeral funds, or lending between family and friends. But these mechanisms can often fail to meet the needs of poor people in a convenient, cost-effective and secure way. If a poor household is given a safe, accessible opportunity, its capacity to save and the amounts it manages to save are remarkable.

Savings were previously the forgotten half at the MFIs and were typically extracted from clients through compulsory systems. There was a notion that 'the poor cannot save', and compulsory savings systems often required members to deposit small token amounts each week as well as levying more substantial amounts at source from loans. These compulsory savings were then often 'locked-in' until members left the organization, thus denying them access to their own money. Until recently, compulsory, locked-in savings systems, in one form or other, were a prevalent model for MFIs throughout the world.

However, compulsory savings systems have come under increasing pressure not only from the professionals involved with financing, managing and reviewing MFIs but also from clients themselves. The Consultative Group to Assist the Poorest has stressed that 'possibly the greatest challenge in microenterprise finance is to expand the provision of savings services to the poor'. This is driven by the fact that 'there is substantial evidence from many parts of the world that: (1) institutional savings services that provide the saver with security, convenience, liquidity and returns, represent a crucial financial service for lower-income clients; and (2) if priced correctly, savings instruments can contribute to institutional self-sufficiency and wide market coverage.'

Nonetheless, for MFIs with a history of credit-driven services that have levied compulsory sav-
ings as part of a package, the shift to flexible financial services, including savings products, is often hard to effect. MFIs need to acquire more sophisticated management capabilities to manage liquidity, risks and cost, as well as develop a more complex organizational structure and information and reporting systems in order to act as financial intermediaries.

Furthermore, several other factors often provide significant impediments to promoting savings. These include macroeconomic problems such as high inflation rates as a result of political turmoil and/or economic imbalances, and financial repression through interest rate controls and subsidized credit schemes. In addition, in many countries there are no appropriate systems of regulation and supervision for MFIs leaving them either operating outside a legal framework or pinned down by traditional formal-sector banking laws. Thus, despite the huge demand for savings facilities for the poor, the supply of such services is inadequate, in terms of both quantity and quality.

The need for insurance
Insurance can complement the provision of credit services for institutions seeking to help their clients to smooth their consumption. Insurance is a powerful poverty-reducing tool, as well as a means for the institution to reduce risk. As institutions mature they are in a good position to provide insurance to smooth consumption of the poor and to enhance institutional profitability. Insurance goes even further than savings to minimize dips in basic needs consumption. It also gives the poor a sense of security that allows them to dare to pursue profit-maximizing income strategies, and hence to borrow, because they know that an income shock will be minimized when the claim is settled. With the repayment rate of a lending institution closely linked to clients’ return on investment, insurance has considerable potential as a complement to an institution’s credit programme.

Insurance provision in the semi-formal sector is still not viewed as a policy goal: hence the large surplus of premiums over claims that MFIs’ insurance products typically generate. Resources attracted by MFIs through insurance provision are generally used to build up capital for smoother operations rather than to improve upon the insurance services provided to clients. While capital accumulation is certainly an important advantage of providing insurance, neglecting to improve insurance products is short-sighted and keeps the institution from developing a valued service.

Developing insurance products will help address an institution’s long-term profitability and protect members against larger, more destabilizing economic shocks. Insurance instruments are a profitable complement to credit delivery for a mature MFI. As the average loan size of an MFI increases, it becomes increasingly risky to disburse credit, since if a family’s return on investment from borrowed capital is less than anticipated, the larger repayments cannot be mustered from the family’s normal income. The opportunity for profits through lower-risk insurance instruments could significantly help keep microfinance operations profitable, even as default pressures increase with larger loan sizes. With increased profits from insurance services, credit disbursement could be more selective with respect to screening and follow-up. The likely result would be more efficient and profitable credit delivery for income generation.

From a social welfare standpoint as well, a more fully developed insurance market is desirable. Absorbed savings in the form of insurance premiums are disbursed when beneficiaries are most likely to spend additional income on basic necessities. For the institution, therefore, insurance provision means more effective poverty alleviation, improved loan repayment rates and improved profitability. Consumption-smoothing strategy is strengthened with insurance provision. Demand for savings services could in part be accommo-
dated by insurance services that would have a more direct and positive effect on poverty.

Microfinance institutions
The preceding discussion establishes that different types of financial institutions and strategies are required; there is no single best type (Box 6.7). Institutions must be tailored to the potential of the area, the cultural environment and the requirements of the clients.

- There are marginal areas with a predominance of subsistence agriculture and low-return activities. Here, user-owned SHGs or small cooperatives which are savings-oriented and operate at nominal costs may be most suitable.

- There are high-potential areas with high-return agriculture and profitable rural microenterprise activities. In these areas, credit-oriented rural banks with professional management, large financial cooperatives and commercial bank branches with individual or group technologies may be more appropriate.

The choice of institutions that are suitable in a given situation will depend on the situation and environment specifics. The degree to which financial disciplines and cost-recovery principles can be applied will depend on the extent to which the local production environment is developed, that is, the rate of return from activities taken up through MFIs. It will also depend on the effects of

**Box 6.7: An approach to promoting MFIs for rural poverty reduction**

Depending on the situation, IFAD encourages variety and competition rather than the replication of single models. It engages dialogue with stakeholders and is prepared to support initiatives such as:

- promoting informal financial institutions at retail level, such as the SHGs in India, Benin, Indonesia and the Philippines, including financial grass-roots organizations of indigenous origin, as in Ghana;
- mainstreaming savings and credit cooperatives, as in the United Republic of Tanzania;
- supporting networking and apexing among MFIs, as in Cameroon;
- strengthening private and community-owned rural banks, their bank associations and apex organizations, as in Ghana, Indonesia, Nigeria and the Philippines;
- transforming credit programmes into user-owned institutions, as in Nepal;
- reforming agricultural development banks as major microfinance providers, as in Indonesia and Thailand, or closing them if unreformable;
- linking banks and SHGs, as in Ghana, India, Indonesia and several other Asian and African countries;
- promoting commercially operated apex organizations for refinancing MFIs, such as the People’s Credit and Finance Corporation in the Philippines and the Small Industries Development Bank in India, and apexes with additional functions like liquidity exchange, credit rating, credit guarantees and reinsurance;
- supporting trader, processor and supplier credit** and promoting their access to refinancing institutions, as in various East African countries;
- promoting institutional innovations, such as (micro-) leasing companies;
- strengthening microfinance units in central banks, as in Cameroon and Ghana; and
- providing non-credit enterprise development services to reduce the risk of clients, as in the case of the Maharashtra Rural Credit Project in India.

* The terms ‘rural bank’ and ‘community bank’ refer here to regulated institutions which fall under the banking law or a special law for rural or community banks, as in Ghana, Indonesia, Nigeria and the Philippines. IFAD does not use the term bank or village bank for unregulated institutions such as caisses villageoises, sanadq (sg. sanduq) or other informal and semi-formal MFIs.

** Traders, processors and suppliers may act as important channels of credit, particularly in the absence of a functioning local financial system. These channels tend to be less sustainable than institutions and less efficient in terms of transaction costs, but may provide interim solutions in the process of building up smallholder assets and rural financial systems.
various man-made and natural disasters on the normal flow of economic events. Large gains can be wiped out overnight, making recovery of loans difficult, if not impossible. Such circumstances will need provision of additional resources for supporting the development of MFIs. If such costs are to be internalized, many of the microfinance initiatives may cease to be viable.

The viability of MFIs will also depend on how far these institutions can reduce transaction costs. This is a major challenge. Informal financial markets in many parts of Asia and Africa have been demonstrated to be efficient mobilizers of savings and providers of financial services. They can often show the way for cutting down on costs and ensuring fuller recovery. Efforts need to be made to integrate the positive features of informal financial market behaviour into the formal MFIs.

**Partnerships forEnding Poverty**

Poverty reduction is a complex task, requiring sustained commitment to consistent, yet flexible, joint action. There are no quick fixes and no easy solutions. No one institution, national or multilateral, public or private, and no unique strategy can hope to deal effectively with the different contexts and causes that underlie poverty. So coherent anti-poverty strategy requires stable partnerships, based on trust as well as self-interest.

The most fundamental partnership is with the poor. Poverty reduction is not something that governments, development institutions or NGOs can do for the poor. They can help create the conditions in which the poor can use their own skills and talents to work their way out of poverty. This requires putting the poor at the centre of the process, as full partners in determining the priorities and the directions of change, emancipating them from the constraints that trap them in poverty, empowering them. It is therefore misguided bureaucratic centralism to plan for the poor; partnerships for poverty reduction should, wherever possible, start with the agency of the poor themselves, with their preferences and potentials. But it is naïve to suppose that the poor can make bricks without straw; technologies, information, schools and skills have to be built in conjunction with outsiders. The evidence of the success of partnerships with the poor even in such apparently unlikely areas as plant breeding — not passive farm trials but farmers’ active varietal selection and development — is telling. Whatever kind of resource is involved — technologies for plants; animals; housing; asset choices among skills; types of rural road; forms of consensual land distribution — involving the poor through the institutions of partnership assists success. The problem is that doing this locally with decentralized systems means opening opportunities to the articulate, the strong, or the unscrupulous.

That said, outsiders can support partnerships with the poor at different levels (Table 6.4). Micro-level partnerships are institutional arrangements — formal or informal organizations and rules — among nearby people, e.g. to manage common property resources. Meso-level partnerships — of government with civil society, NGOs or the private sector — are increasingly used for service delivery, with the NGOs implementing government projects, often working jointly for lobbying and advocacy, or with donors. Micro- and meso-partnerships are necessary not only to deliver services, but also to identify and develop demand for them. Macro-partnership, the overarching global framework for anti-poverty strategies, is discussed in Chapter 7.

**NGOs as Service Providers**

National government institutions and external donors have long collaborated with NGOs and other civil-society institutions as service providers in the context of development projects and programmes. Currently, NGOs in developing countries reach directly an estimated 250 million people. These organizations now supplement, and in some
cases have displaced, state agencies in the provision of relief and welfare, social services and development projects. The delivery of international development assistance has also been transformed with increased NGO involvement in various projects. Resources disbursed for development projects increased steadily from USD 0.9 billion in 1970 to USD 6.3 billion in 1993 (in constant 1970 dollars).

In an international finance institution like IFAD, for example, virtually every project in recent years involves civil-society institutions and NGOs.

In several Latin American countries, the responsibility of providing a number of social and development services has been delegated to NGOs. In some cases the state has withdrawn from financing as well as delivering services, such as rural credit

<table>
<thead>
<tr>
<th>Level</th>
<th>Type of partnership</th>
<th>Objective (s)</th>
<th>Example (s)</th>
<th>Threats</th>
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<tbody>
<tr>
<td>Macro</td>
<td>Donor-donor</td>
<td>Improved aid disbursement</td>
<td>DAC Guidelines</td>
<td>Lack of coordination among different donors</td>
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<td></td>
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<td>Cofinancing</td>
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<td>Knowledge sharing</td>
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<td>Devising common policy</td>
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<td>Donor-govt.</td>
<td></td>
<td>Influence domestic policy</td>
<td>UNDAF, CDF</td>
<td>Narrow political considerations can derail agreements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capacity building</td>
<td>PRSPs, ADB's Poverty Partnerships, multi- and bilateral support</td>
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<tr>
<td>Govt.-govt.</td>
<td></td>
<td>Sharing of natural resources</td>
<td>Regulation of ozone layer; Control of CFC emissions; Sharing of river waters</td>
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<td>Management of global public goods</td>
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<tr>
<td>Donor-Govt.-NGO</td>
<td></td>
<td>Service delivery</td>
<td>Most World Bank's partnerships with NGOs</td>
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<td></td>
<td></td>
<td>Encourage government ownership</td>
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<td>Meso</td>
<td>Govt.-NGO</td>
<td>Service delivery</td>
<td>Primary education, health</td>
<td>Pressure of scaling up the programme</td>
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<td>Subsidize cost of O&amp;M</td>
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<td></td>
<td>International-Local NGO</td>
<td>Relief and/or development work</td>
<td></td>
<td>Imposition of an international agenda</td>
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<td></td>
<td>Donor-NGO</td>
<td>Service delivery</td>
<td>Bilaterals</td>
<td>Funding constraints; Changing priorities</td>
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<td></td>
<td>NGO-NGO</td>
<td>Lobbying/advocacy</td>
<td>ADAB, NGO Forum in Cambodia</td>
<td>Inability to agree to a common strategy</td>
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<td></td>
<td>Micro</td>
<td>Govt.-people</td>
<td>Joint forest management; Water users' associations</td>
<td>Tussle over control of resource in an environment of mistrust</td>
</tr>
<tr>
<td></td>
<td>NGO-people</td>
<td>Local management of natural resources</td>
<td></td>
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<tr>
<td></td>
<td>People-people</td>
<td>Improve service delivery, local skills and capacity</td>
<td>Most NGO projects</td>
<td>Heterogeneity; lack of social capital</td>
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<td></td>
<td></td>
<td>Increase demand for provision of public goods</td>
<td>Associations and networks; RO SC As, user groups; micro-credit groups</td>
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<td>Management of CPRs</td>
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UNDAF: United Nations Development Assistance Framework; CDF: Comprehensive Development Framework; PRSPs: Poverty Reduction Strategy Papers; RO SC As: Rotating Savings and Credit Associations; O&M: Operation and Management; CPRs: Common Property Resources; ADAB: Association of Development Agencies in Bangladesh. Membership NGOs, trade unions, peasant associations are not included.
and agricultural extension in Peru. In other cases, the state has delegated delivery and management to NGOs while maintaining its financing responsibilities in activities such as running schools, national parks and agricultural extension in Bolivia, agricultural extension in Colombia and Chile, and primary health care in El Salvador. NGOs are playing a similar role in some Asian and African countries where they deliver a significant proportion of health services and are often the only service agencies operating in remote rural areas.

The involvement of NGOs has often been found to enhance the prospects for successful project implementation. Such organizations have a comparative advantage in reaching the poor. Often they have better information about the poor because of local contacts, and they reduce the leakage in delivering benefits that results from corruption in government bureaucracies.

NGOs typically work in communities or settings where the reach of the government is weak. In the West Bank and Gaza an estimated 1200 NGOs provide 60% of primary health care, up to half of secondary and tertiary health care, most agricultural services, low-cost housing, and microcredit. The same is true of primary health care and education in many African countries in remote rural areas where NGOs run by Christian missionaries are often the only service agencies operating.

Decentralization initiatives have also enhanced NGO involvement, in part because of government budgetary limitations. A majority of public-private partnerships over the last 15 years in Latin America have involved local or municipal governments. NGO expertise in targeting, the ability to access the poorest groups, and experience and technical knowledge in the fields of education, health and the environment, have been the main factors driving such relationships.

In a pilot project in El Salvador the Ministry of Health delegated the management of health care to an NGO while retaining financial responsibility; the NGO's dedicated and well-trained volunteers and doctors travelled to parts of the countryside that public health services could never reach. In Bolivia the government retains responsibility for research and development expenditures and an NGO has built an extension system to serve farmers. Careful planning of responsibilities is particularly important in fully collaborative efforts - such as joint farm trials - in which a successful outcome requires carefully scheduled inputs from both sides.87 In this case, the NGO owns and operates the extension service, while the government has a comparative advantage in research and development.

In the city of Itagui in Colombia, the local government was responsible for the construction of school buildings, and an NGO with a distinguished track record in providing education was responsible for managing the curriculum and staff.

In India, recognizing the expertise of NGOs in the health sector and the shortcomings of the outreach of official agencies, the government has begun handing over its primary health centres for the NGOs to run, as opposed to its earlier policy of giving subsidies and tax advantages (Box 6.8). In an official document, the Ministry of Health and Family Welfare88 stated: ‘The government has envisaged a very prominent role for voluntary organizations/NGOs in the implementation of health and family planning programmes. India is second only to the United States in terms of the number of hospitals outside the public health sectors and run by NGOs and these organizations are doing a very creditable job in organizing and running hospitals and dispensaries.’

Partnerships may also arise where an NGO develops an appropriate technology or extension methodology (such as group-based training, farmer-to-farmer dissemination) and ‘passes them up’ to the government for replication elsewhere. As small organizations acting alone, NGOs have limited impact beyond the boundaries of a pilot project area. In contrast to governments, they do
not have a broad (as opposed to deep) presence in many areas. Hence expanding an effective rural development programme beyond a small area has necessitated collaboration with the government.

The comparative advantage of NGOs in reaching beneficiaries at the grass-roots level has been one of the most important reasons for government-NGO partnerships. But being merely the government's delivery agency, or dependent on government funds, often obliges NGOs to tone down their social and ideological objectives, which in turn can undermine the spirit of voluntarism or credibility with the group of beneficiaries which lies at the heart of their comparative advantage.89

Partnership with the Private Sector

Partnerships between governments, development agencies and civil-society institutions are of long standing. More recently, it has been recognized that, in a world of liberalization and globalization, with development processes increasingly market-driven, partnerships need to be built with the private sector.

Governments and donors have always dealt with the private sector for the supply of goods and services. Private sector entities are now showing an interest in private/public partnerships that seek to reduce rural poverty.

The United Nations Secretary-General has called for a global compact with business to work together to promote human rights and raise environmental and labour standards. This represents a new partnership and concern for objectives that are in the long-term interest of human society as a whole, even if they do not immediately add to profits. Of central importance is the need to mobilize the private sector within countries in support of poverty alleviation. The scope for this is illustrated by an IFAD project in Uganda. There, a private oil-processing firm has agreed to join a project to help smallholder cultivators of oil palm and vegetable-oil seeds to improve their productivity and output. The private firm, which is contributing more than half of the project's USD 60 million investment cost, will provide an assured market and fair prices as well as technical support to the farmers. In turn, it will benefit from a reliable raw material supply source, allowing it to increase production levels. Such partnerships to benefit poor farmers and other poor

Box 6.8: Community participation in health delivery for the poor

The IFAD-funded Andhra Pradesh Tribal Development Project in India provides an example of how the health delivery system can be made more responsive and effective in a poor tribal area through the active participation of the community. Major elements of this system include the placement of well trained community health workers, who are selected and paid by the community as front line agents of health delivery system; enhanced mobility for women health supervisors; operationalization of specific strategies for control of communicable diseases, malnutrition, infant and maternal morbidity and mortality though community-based interventions; establishment of mobile units for primary health care extension; strengthening of referral services; development of infrastructure for subsidiary health centres; capacity enhancement of staff, especially the medical officers; and health education. Strengthened outreach services have stimulated community demand for better health care delivery. Important benefits of this system include significant reduction in maternal and infant mortality due to improved surveillance and early treatment of communicable diseases; increased immunization of pregnant women and children; increased awareness about environmental hygiene; improved nutrition due to enhanced food production and increased family incomes from other interventions of the project; and enhanced confidence on the part of the community that it can maintain health standards through community management. The success of this scheme led the State government to accept it as a viable strategy for primary health care in remote rural areas. Consequently, the World Bank has adopted several elements of the strategy for its project covering a wider area of the State.

Source: IFAD’s internal documents.
groups are one of the keys to promoting pro-poor economic growth and allowing the rural poor to participate in, and benefit from, market processes on a fair basis.

Public-private partnerships could also play a major role in developing agricultural and medical technologies supportive of the poor. At present large private agricultural and health firms do not see markets or profits in developing new technologies for the poor. A number of interesting ideas have been put forward in recent years to create incentives for private firms to undertake such research using a combination of public funds and tax benefits. These can be used to promote research into the crops and animals suitable for the dryland, rainfed conditions where most poor farmers live, and to address diseases such as malaria, tuberculosis and AIDS strains prevalent in Africa.

Most people now agree that governments, national institutions and external development agencies usually have to work in partnership with civil society and the private sector if development goals are to be attained. Many practical instances have been cited to illustrate the scope, and limits, of this approach. What is relatively new is the perception that rural development works best when poor rural people are agents, not recipients of charity. The poor can sometimes initiate successful development partnerships, can often share their aims, and should always be empowered by participation in them.

Capture or coalitions?

In many regions, development programmes have in effect been captured by vested interests, with either the active collusion or the passive acquiescence of state elites. Lack of people’s organizations that actively promote the coalition of the poor is usually a major contributory factor in capture by powerful interests. Although there is a risk of being over-optimistic on the basis of limited evidence, the temptation to rule out a strong coalition of the poor on the grounds of ethnic, religious and caste differences must also be resisted. A recent synthesis draws attention to key factors in promoting coalitions of rural poor.90

Cooperation depends on whether cooperative action was successful in the past. The latter may be associated with the shared norms of trust in a community. Whether such norms would be observed in vertical social networks (as opposed to horizontal ones, involving people of similar status and power) is debatable. There is some evidence that if the gains are large, these could overcome the disadvantages of a socially heterogeneous membership.91 The problems of social heterogeneity are nevertheless compounded by those of economic inequalities. Capture of local organizations by the rural elite often remains unchallenged by the poor, who are trapped in a dependent role. An agricultural labourer, in debt to his regular employer, will be disinclined to cooperate with other labourers to demand an increase in the agricultural wage.

It is commonly believed that the only reliable way to achieve an increase in participation and the collective action potential of poorer groups is to increase the resources available to them through redistributive policies. For instance, access to land through a market-mediated land redistribution programme could weaken elite dominance and induce more effective participation by the poor in local bodies.92 However, while earlier land reform helps facilitate later success, decentralized institutions have also worked well in areas where land reform has had little success, such as in Bangladesh or in the Indian State of Karnataka. Manor argues:

Poor as well as prosperous people participate more and increase their collective action potential as a result of decentralization even where it works mainly to the advantage of elites. Over time, the greater transparency offered by democratic systems at lower levels, the increased participation of poorer groups,
and their developing skills at influencing those systems may well assist them in curbing the power of the rural elites to appropriate benefits.\textsuperscript{93}

Participation by the poor in local self-governing institutions does help in evolving a sense of collective identity and building social capital, which over time can lead to empowerment. But this process of empowerment is often slow, incremental and uncertain. A more rapid process of empowerment usually follows through a coalition-building process (Box \textsuperscript{6.9}).

Case study 1:The mobilizing potential of the Employment Guarantee Scheme, Maharashtra

The Employment Guarantee Scheme (EGS) was formalized in the mid-1970s in the Indian State of Maharashtra. It is an innovative scheme that guarantees paid unskilled work for the rural poor for building public infrastructure. All rural adults are eligible for such work, which is paid on a piece-rate basis, employment being guaranteed within 15 days of demand and within 8 km of residence. Unemployment benefit is promised if the government is unable to provide work for job-seekers. At the onset, at least 60\% of project expenditures were to be spent on wages. In general, the project has been hailed as a success for poverty alleviation due to its ability to target the poor through wages being just below the usual agricultural wage.\textsuperscript{94}

Worker organization has been catalysed by the introduction of the EGS, which also increases the bargaining power of the poor.\textsuperscript{95} The EGS is the cause rather than the effect of mobilization of the poor.\textsuperscript{96} Furthermore, by making employment an entitlement under the EGS, workers have a right to work which stimulates collective action should the right not be met. Indeed, the Employment Assurance Scheme, introduced in all Indian States in 1994, did not guarantee work and, as a consequence, mobilization was not forthcoming.\textsuperscript{97}

A number of organizations have arisen as a result of the EGS. Activism is of two types. Some organizations, such as Bhoomi Sena in Thane district, educate people about their rights to work.\textsuperscript{98} Villagers are encouraged to fill out forms to petition for work and to pressure the government to start EGS works in the vicinity of their village. At State level, some organizations provide training camps for EGS workers to give them basic skills.\textsuperscript{99} The second type of action confronts the state for initiation of projects or modification of working conditions (such as payment of minimum wages and unemployment allowance and provision of amenities on work sites). This is achieved through sit-ins and demonstrations, whether at the workplace or at government offices. In 1981, an apex organization established to coordinate demands by the late-1980s consisted of 19 organizations.

However, most of these demands were not met. For example, the Employment Guarantee Workers’ Union made persistent efforts to demand projects in Pune district, through filling out work applications, making a list of possible projects and meeting with various EGS staff, but

\begin{center}
\textbf{Box 6.9:Women’s empowerment through income gains}
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In India, promotion of women’s producer groups by the Self-Employed Women’s Association and of women’s credit and thrift societies by the Cooperative Development Foundation – despite initial scepticism among the members – has led to more than moderate income gains among the members on a regular basis. Income gains coupled with experience of managing producer groups/cooperatives have imparted to them greater self-confidence, security and independence both within and outside the household. There is a sense of solidarity among them. Caste divisions have weakened. Women now advise their husbands on cropping decisions. Their advice is also sought on community matters, like sanitation. Greater political awareness has led to more active participation in local elections.

Source: Carr et al. 1996.
without success. Even when activism instigated reforms, these have often been ineffective. Although demands for the distribution of foodgrains for workers were met, few merchants would honour the food coupons. In addition, paid maternity leave was attained, but only two women benefited. The EGS did not lend itself to activism as workers did not tend to work on the same project for any length of time. EGS employment was viewed as only temporary, and the projects were managed by various government departments, which made agitation a challenge.

The doubling of the minimum wage in 1988, in part due to EGS activism, was a milestone in the history of the EGS. Contrary to expectation, this resulted in a decrease in labour attendance. Some argue that there was an unmet demand for work because it became too costly for the government to guarantee work. In this case, one would expect activism to increase as the guarantee of work was not being honoured. However, activism dwindled after 1988, which suggests that people were not as reliant on the EGS as once thought. Indeed, a run of good crop years and positive impact of EGS assets increased productivity and hence agricultural employment opportunities; so the supply of agricultural employment could also have been responsible for the drop in EGS attendance.

In addition to the drop in the number of EGS participants, targeting of the poor was less successful during the 1980s. The proportion of poor workers in the scheme decreased from 48% in 1979 to 27% in 1989, possibly as a result of reforms in 1986 which meant that work no longer had to be offered within 8 km of the home. The poorest therefore find that transport costs do not justify taking part in the scheme. The weakening of self-targeting was exacerbated when the Planning Department decided to finish incomplete works before taking up new ones. Furthermore, wages did not keep up with inflation and were often late; thus the EGS became unattractive for many of the rural poor.

However, despite the lack of success of activism to address issues such as these, the poor have gained from the presence of the EGS and success of activism even if they have not participated. Adherence of the EGS to the minimum wage legislation, which was lobbied for by activists, led to a rise in agricultural wages. The EGS had an impact on agricultural wages of about 18% in the long term, reflecting a rise in agricultural productivity as a result of the increased reservation wage due to guaranteed employment in the EGS during slack periods. In addition, the sense of collective identity created by the EGS improved the bargaining position of the rural poor vis-à-vis large landowners. Thus, even though the EGS became less well targeted to the rural poor and activism was largely unsuccessful in improving working conditions within the EGS, the rural poor did benefit from the EGS through indirect agricultural wage increases.

Activism has been revived somewhat since the mid-1990s, but its nature has a more general rural development flavour through national campaigns for legislative action to protect the rights of rural workers. Specific to EGS workers has been a writ petition against the State government in 1998 to fight for a minimum wage above the poverty line. However, limited public funds for EGS inevitably means that rising wages reduce both total EGS employment and the targeting of the programme on the neediest; activism can sometimes exclude as well as include.

Case study 2: Increasing accountability through local organization

Since the late 1980s, Mazdoor Kisan Shatki Sangathan (MKSS), or Workers and Farmers Power Organization, has been active in attempting to improve the accountability of local governments through undertaking right-to-information agita-
tion in Rajasthan. **MKSS** demands, and is frequently successful in gaining, access to official government expenditure records which are then exposed for a people's audit. It is unique in that it is the only organization in India that both addresses theft of public resources and challenges bureaucratic culture. Although formal membership of the organization is small, it has a large informal following of local socially-excluded groups and committed activists from elsewhere, which has played an important part in **MKSS**'s success.106

At the centre of **MKSS**'s activities is the fight for the right to information. This has often been viewed in India as synonymous with freedom of expression associated primarily with the press. Action by the **MKSS** has transformed the notion by applying it to the concerns of the rural poor. Exercising the right to information through access to official documents is a vitally important element in ensuring accountability of local government authorities. Indeed, the 'public-hearing process has allowed the **MKSS** to develop a radical interpretation of the notion that ordinary citizens have a right both to know how they are governed and to participate actively in the process of auditing their representatives in minute detail'.107 Corruption seems to be rife in local governments, for example, influencing estimates for projects, using poor quality materials in projects and billing central government for amounts above what workers are paid. In January 1998 a study of five village councils found that as much as Rs.100,000 (USD 2,500) of public funds were unaccounted for in each village.108

After acquiring balance sheets and supporting documentation, a 'social audit' can be used to expose wrongdoing. This involves reading aloud official documents to villagers in public hearings. Local people then testify to discrepancies. For example, a camel cart driver may report the number of bags of cement he has delivered to a work site and compare this with the figures given in official project documents. Some people have discovered that even though they had received no payment, they were listed as beneficiaries in means-tested anti-poverty schemes. Such social action has been largely successful. Local politicians and bureaucrats frequently attend these public hearings and are asked to account for any inconsistencies raised. Occasionally they own up to their corrupt behaviour and even return funds. However, due to the difficulty **MKSS** faces in acquiring government accounts, social audits are rare. Instead, large-scale public protests are used to get reforms to enable local people to legally obtain official records. After four years of protest, in 1999 the new chief minister of Rajasthan established a committee to improve access to information. However, the results are disappointing. Only specifically indicated information in digested form can be made available to the public.

One measure of the impact of **MKSS** is resistance by government officials. For instance, there was a state-wide strike of village level development officers in 1996 because one district chief allowed a village to photocopy official documents before a hearing.109 The **MKSS** has successfully promoted transparency of local governments, albeit on a small scale. It has demonstrated great skill in mobilizing the rural poor in seeking to fulfil their rights at local level. In addition, it has developed a network of support from the elite, intellectuals, activists and the media, which has spread **MKSS**'s influence beyond village level and may have greater bearing on state legislature in the future.

As the review of evidence suggests, people's participation does not follow rules, even if these create incentives for the flow of benefits. This is so especially where we are attempting to involve in the participatory process people who have been deprived of their rights for generations. To prevent the capture of the institutions that have the poten-
tial to benefit the poor, it is important to mobilize the poor. But it is essential to provide them assets, technologies and markets, so they have a fall-back position, if ‘punished’ or excluded because they have sought or exposed inconvenient facts.

Case study 3: A peasant-led agrarian reform

The Movimento dos Trabalhadores Rurais Sem Terra (MST, Landless Peasants’ Movement) of Brazil rose out of the struggles of the peasants in the late 1970s, when Brazil was going through a phase of political openness following the end of the military regimes. Brazil has one of the highest concentrations of land ownership in the world, with 1% of the population owning some 46% of the landholdings, many of which are inefficiently utilized. Of the 400 million hectares under private ownership, scarcely 60 million hectares are cultivated, with the vast majority of the lands either lying idle or given to pasture or held simply for speculative purposes. Currently some 4.5 million families are landless.

The MST has three major objectives: attainment of land, agrarian reform, and a more just society. Specifically, these translate into: expropriation of the large land areas in the hands of multinational corporations; an ending of the unproductive latifundio; and the defining of a maximum allowable ceiling for number of hectares for ownership of rural properties. The agrarian reforms proposed by MST seek to:

• guarantee social welfare and improved living conditions for all Brazilians, with special concern for the poorest working people living in the country’s interior;
• guarantee food in sufficient quantity and quality and at an affordable price for the entire population;
• ensure work for everyone, harmonizing job creation and income distribution;
• develop small- and medium-size agro-industries as a means to develop the country’s interior; and
• secure a permanent striving for social justice, equality of rights in the economic, social, cultural and spiritual spheres.

The movement is operative in 22 States and, in its 12 years of existence, some 6 million hectares have been acquired with the settlement of over 140,000 landless families on these lands. Many of the settlers are organized into producer cooperatives, linked with the Confederation of Agrarian Reform Cooperatives of Brazil (CONCRAB), founded in 1992. The CONCRAB brings together 45 agricultural cooperatives, ten regional marketing cooperatives, dozens of associations and eight central Agrarian Reform Cooperatives. And in settlements where agro-industries, such as the coffee and tea-processing units, milk and cheese production, flour mills, and so forth, have been developed, average incomes have risen from between 3.7 and 5.6 times the minimum monthly family wage. MST’s current slogan ‘Agrarian Reform – Everybody’s Struggle’ reflects its main strategy to involve the whole Brazilian society in the campaign for land even as violence against agrarian reform continues unabated.

Case study 4: Leakage of poverty programmes as a form of coalition building

Research from lending programmes in Bangladesh reveals that there is leakage or mistargeting of programme benefits to the relatively better-off households who constitute the non-target group (NTG) of the Bangladesh Rural Action Committee (BRAC). One possible explanation is that the pool of target households who wish to join becomes saturated and as a result non-target households are included. However, evidence of significant numbers of households who could have taken part but did not suggests that this cannot be the whole story. Programme administrators and field staff suggest that pressures exerted by target-group members themselves to include some influential NTG households may compel programme
administrators to relax the official targeting criterion. These pressures could arise due to poor members wanting to get a wealthier household involved in the rural development programme (RDP) in order to tide over loan repayment difficulties within the group. As Mosley points out when analysing Banco Sol in Bolivia, these transfers from better-off to poorer borrowers are not necessarily 'altruistic' as they are often in the form of loans. Moreover, there may be powerful factions within the village who could disrupt the daily operations of RDP if their representatives are not given access to BRAC’s inputs.

While the general 'community approach' has been tried and discarded by BRAC due to the impression that the elite was benefiting most, the target-group approach may have to be flexible enough to incorporate a number of socially influential households to maintain a link with the other socio-economic classes in the village. This line of argument fits in with Besley's model which shows that the limited inclusion of the non-poor may be necessary in order to induce them to limit their claims on benefits that are meant for the poor.

Another reason for the inclusion of non-target households may be the belief that they are better credit risks than poorer households. They are also likely to deposit more savings and demand larger loans, thereby improving a branch's self-financing ratio. However the 'loan absorptive' capacity of these NTG households is still a matter for investigation, as it will determine the full extent of the revenue-earning potential for an MFI. The extent to which NTG members are above the eligibility threshold is crucial. If the NTG household is marginally above the cut-off point, then the inclusion may simply be merited on the grounds that BRAC's land and occupation-based eligibility criterion is not perfectly correlated with poverty and that the NTG household could be below the poverty line. There is a strong possibility that the typical 'non target' BRAC member is either poor or part of the 'vulnerable non-poor' group. If the policy-maker's objective is to reduce the proportion of people below the poverty line, then targeting the moderate poor and even the vulnerable non-poor may be justified. If the aim is to reduce the severity of poverty then incentives need to be targeted to the poorest sections.

The central argument here is that the inclusion of non-target households in microcredit programmes may not be necessarily a sign of programme weakness. On the contrary, inclusion of a few NTG households may just help to increase sustainability of flow of benefits to the poor by preventing capture attempts by the richer households.

**Conclusion**

One of the most important conclusions of this report is that decentralized institutions are created and run in the interests of those with power. These may come under political, economic or ethical pressure to benefit the poor, from the poor themselves or otherwise. But on the whole the powerful will run - or allow the poor to help run - pro-poor institutions only if the powerful expect to gain (or to avoid loss) by so doing. This is a special problem for institutional reform seeking to help the rural poor: if centralized, because of the facts of urban government, concentration, power and bias; if decentralized to rural areas, because the determination of institutional outcomes is placed in the hands of rural 'big men' - and the rural gap between big and small (and men and women) is especially huge, not only in poverty, but also in literacy, information and other prerequisites of political success. That rural big men run local institutions in their interest is a fundamental difficulty for current modes of top-down institutional devolution, decentralization and participation. That the modes are usually initiated from the top is a defect, but inevitable. And participation, even if initiated from above, is often essential to efficiency.
Furthermore, we review in the four case studies above striking examples— but only in open societies— of learning-by-doing by the rural poor of how to enhance political power, influence, and agility in the ‘civic culture’. The case study from Bangladesh describes how the inclusion of non-poor in targeted programmes may be necessary to a limited degree in order to prevent them capturing more benefits that are meant for the poor.

Nevertheless decentralized institutions for natural resources management and financial services rarely help the rural poorest ‘directly’ (e.g. by steering credit or natural resources to them) but often reach the moderately poor, and help all through increased efficiency and sustainability, as the locally powerful are driven to recognize their shared interests with the poor in these. Two of the most important types of decentralized rural institutions thus share the experience of some success in improving sustainability and efficiency, but little redistributive effect or outreach to the poorest. To the extent that they participated, the poor did so by sharing general gains, not by insisting on a larger share: by coalition, not redistribution. This can achieve something, but seldom for the very poorest, and seldom very fast.

Moreover, development programmes can be captured by elites or vested interests; or they can give rise to broad coalitions which share the gains. The rich may get the lion’s share, or may find that it pays them to do with less, especially if the poor have political voice, or can organize themselves into counter-coalitions with other persons (including politicians) of power. Several examples of successful actions by women’s and poor people’s groups illustrate the point; but they need options and voice; hence the importance of a reserve of land (even if tiny) and of literacy and political openness.

Finally, the dilemma of ‘willing participation into being from above’ is increasingly softened, if not solved, by partnerships involving donors, governments, NGOs and projects— is essential if this process is to lead cost-effectively to gains for the rural poor. Experience suggests some quite detailed rules for such selection.

While there are grounds for optimism, it would be naïve to presume that collective action among the rural poor to bring lasting benefits to their communities can be initiated and strengthened only through government support. As noted earlier, organizing the rural poor is not easy without profound research and reliable information on their local practices. The learning process for them may be slow and frustrating. Locally powerful groups may divide the poor, and the bureaucrats may resent local organizations designed for the benefit of the poor. Yet for poverty reduction, strengthening the coalitions of the rural poor is an important consideration.

The shift from simple delivery of goods and services to participatory programmes or projects draws attention to process, and the role of women and men in those programmes. As all resources have to be transformed into consumption units, the efficiency of the process will be affected by those who acquire access to the resources. This area has not been much researched in the analysis of organization and development. But there are more than a few pointers: in the case of micro-enterprises, for instance, the advantages are realized to lie in ‘self-employment … [that] makes workers the residual claimants of the fruits of their ideas and efforts and … provides motivation for hard and imaginative work’.115

Resources are critical, and without access to adequate resources there can be no elimination or reduction of poverty. But they are not the entire story. The ability to transform resources into production involves the agency of the producers and the development of this capability is central to the process of poverty elimination. The transformation of social, including gender, relations is part of the process of poverty alleviation.
The scale of poverty and its multiple forms make ending poverty a complex task requiring commitment and the willingness to cooperate over a long period of time. No one institution, national or multilateral, public or private, and no unique strategy can hope to deal effectively with the different contexts and causes that underlie poverty.

As our understanding of the dynamics of poverty has increased in the last 30 years, it has been widely recognized that ending poverty is not a matter of simple-minded economic approaches whether based on central planning or on ‘getting the prices right’. It is now widely recognized that there are many pathways for ending poverty. Building partnerships at various levels that enable the poor to build up their assets, develop labour-intensive management techniques and improve access to assets and techniques, largely by making markets work for the poor, provide the best prospects for poverty reduction.
Endnotes

1 This exposition is taken from the comments of Alain de Janvy on earlier draft of this chapter.

2 Binswanger et al. 1995.

3 Bardhan 1999.


5 Galasso and Ravallion 1999.

6 Bardhan and Mookherjee 1998.

7 Tendler 1997.

8 Crook and Manor 1994.

9 Hartmann and Boyce 1983.

10 World Bank 2000c.


12 Carney and Farrington 1998.

13 Cornista 1993.


15 Adato et al. 1999.

16 Appu et al. 1999.

17 The incentive to free-ride increases with size because the share of a group’s income from which a free-rider will benefit is smaller (Baland and Platteau 1996).

18 Agarwal 1998b.

19 Agrawal and Gibson 1999.

20 Saxena 1996.


27 Osmeni 2000.

28 Osmeni 2000.

29 White and Runge 1995.


31 As emphasised by Bardhan (1996: 142-3), ‘... from the enclosure movement in English history to the current appropriations of forests and grazing lands in developing countries by timber merchants and cattle ranchers, it has been the same sad story’.

32 Ninan 1998. The four projects are DANIDA-aided Karnataka Watershed Development Project; EU-aided Doon Valley Integrated Watershed Management Project; Uttar Pradesh; KFW-aided Integrated Watershed Management Project, Karnataka; and an ODA project in Karnataka.

33 Ostrom 1994.


35 Banana and Gombya-Ssembajwe 1998.


37 de los Reyes and Jopillo 1988.

38 Pretty 1996.


40 Jayaraman 1981.

41 Nathan 2000; Contreras et al. 2001.


43 Bardhan 1996.

44 Bardhan 1999.

45 Andre and Platteau 1997


50 Meinzen-Dick and Zwarteveen 1998.

51 Whitehead 1990.

52 Agarwal 2000.


54 Kome 1997.

55 Zwarteveen and Nepuane 1995.

56 Agarwal 2000.

57 Agarwal 2000: 286.


59 Hulsebosch and Van Koppen 1993.

60 Moffat 1998.

61 Agarwal 2000.

62 Agarwal 2000: 287

63 This section draws upon Osmeni 2000.

64 van den Breemer et al. 1995.

65 Klooster 2000.

66 IFAD 1999e.

67 FAO 1998b.

68 IFAD 1999d.


71 Schneider and Sharma 1999. Sustantial increase in microfinance provisions took place in Bangladesh, India, Indonesia, among many. There are some 15 000 formal and semi-formal MFIs in Indonesia alone. NABARD in India works through 160 000 primary lending institutions, including 92 000 cooperatives with 105 million members.

72 According to World Bank there are more than 900 active microfinance programmes in 101 countries. Based on a survey conducted in September 1995 which included 206 programmes from 900 institutions, total lending is nearly USD 7 billion with deposit mobilization of over USD 19 billion, Sinha 1998.

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74 van den Breemer et al. 1995.

75 Klooster 2000.

76 IFAD 1999e.

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81 Schneider and Sharma 1999. Sustantial increase in microfinance provisions took place in Bangladesh, India, Indonesia, among many. There are some 15 000 formal and semi-formal MFIs in Indonesia alone. NABARD in India works through 160 000 primary lending institutions, including 92 000 cooperatives with 105 million members.

82 According to World Bank there are more than 900 active microfinance programmes in 101 countries. Based on a survey conducted in September 1995 which included 206 programmes from 900 institutions, total lending is nearly USD 7 billion with deposit mobilization of over USD 19 billion, Sinha 1998.
'Microfinance institution' is used as a collective term for formal banks such as Grameen Bank (now a full-fledged bank) and NGOs that provide financial services to their members. This term itself is new. The earlier term, 'microcredit', is still widely used (as the Microcredit Summit exemplified), underpinning the belief that credit is the vital element for poverty alleviation.

Morduch 1998.
Khandker 1998.
Morduch 1998.
Hulme 2000.
Morduch 1998.
Hulme and Mosley 1996.
IFAD 2000a.
Adams and Vogel 1986.
Robinson 1996.
Drawn from IFAD 2000a.
UNDP 1993.
Farrington and Bebbington 1993: 153.
Clark 1995.
Seabright 1997.
Gaiha 1993.
Manor 1997: 43.
Dev 1996.

In 1986-87 employment in the scheme was 196.7 million person days. By 1989-90 it was only 78 million person days. Gaiha 1997.

Gaiha 1997.
Gaiha 1997.
Gaiha 1993.
Jenkins and Goetz 1999b.
Jenkins 2000.
Jenkins and Goetz 1999a.
Jenkins and Goetz 1999a.
Zaman 1998.
Mosley 1996.
Besley 1997.

A further argument that can be made to include 'non-target' households is that they have the potential to create employment opportunities for the poorest by setting up small/medium-scale enterprises. BRAC has recently set up a new project lending to 'graduated' or NTG members with proven entrepreneurial ability in order to create such enterprises. The average loan size is around ten times more than the typical microcredit loan and the loan screening and monitoring process is a combination of microcredit and formal banking methods.

Fafchamps 1994.