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Rural Income Generating Activities: Whatever Happened to the Institutional Vacuum? Evidence from Ghana, Guatemala, Nicaragua and Vietnam

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Summary. — This paper assesses the current rural development practice against the main trends in recent rural development thinking, based on evidence from four country case studies. While much progress has been made in understanding the need to look beyond only agriculture for the promotion of productive activities in rural areas, and the "institutional vacuum" consistently identified in the rural non-farm (RNF) literature is gradually being filled, much remains to be done. One aspect on which more research is particularly needed is the development of better mechanisms to promote productive investment rather than just social investment and to assess the appropriate level—community, regional, and national—at which to do this.

Key words — rural development, non-farm income, agriculture, institutions

1. INTRODUCTION: SOME RECENT TRENDS IN THE RURAL DEVELOPMENT LITERATURE AND PRACTICE

An increasing number of empirical papers and reports provide analytical evidence that points to the importance of the rural non-farm (RNF) economy in developing countries. An early review of this literature by FAO (1998) showed that RNF activities account for 42% of the income of rural households in Africa, 40% in Latin America, and 32% in Asia with the data indicating an increasing trend over time.

A parallel, and at times intersecting, strand of literature that has also received attention within the rural development debate is what is referred to as the livelihoods approach. Building on Sen's (1981) concept of entitlements, a key feature of this approach, is the link between assets and economic activities, as well as the role of the institutions in determining the use of and return to assets. Ellis (2000, p. 10) defines a livelihood as comprising "the assets (natural, physical, human, financial, and social capital), the activities and the access and returns to these (mediated by institutions and social relations) that together determine the living gained by an individual or household." The livelihoods approach recognizes that households use a range of assets in a variety of agricultural and non-agricultural activities as part of a livelihood strategy in accepting that there are multiple paths out of poverty.

These strands of literature have led to a rethinking of approaches to rural development. In particular, this literature calls into question the "small-farm-first" thinking that has been the dominant perspective in rural development and poverty alleviation. The basic tenets of this paradigm are that

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agriculture plays a key role in overall economic growth and that small-farmers are rational economic agents who can take advantage of new technologies as well as big farmers. Focusing on small-farm agriculture fulfills the objectives of economic growth and improved equity. In terms of rural development, the small-farm first model led to a focus on projects that provide some form of assistance, such as new technologies, inputs, and credit, to small-farmers in order to improve their productivity. The livelihoods approach, while similar to the bottom-up approach of the small-farm first paradigm, takes as a starting point the importance of household assets and the diversity of household activities, and is therefore fundamentally different from the small-farm paradigm (Ellis & Biggs, 2001).

Alongside this academic debate over approaches to rural development, development practice has also witnessed a number of changes. Participatory approaches to development projects, community-driven development (CDD), decentralization, and a territorial approach (Schejtman & Berdegué, 2004) have increasingly been promoted and applied as mechanisms that, at different levels, would ensure greater responsiveness of the interventions to the needs of the intended beneficiaries as well as greater accountability. These new approaches are relevant to one of the main debates opened up by the literature noted above, namely the issue of how well is the policy and institutional set-up suited to cater to the needs of a diversified rural economy. One of the main conclusions of FAO (1998), for instance, was that the

> "RNF sector development has fallen into an "institutional vacuum," since it has not belonged to the domain of Agricultural Ministries, with their mandate related to farming per se, or to that of Industry Ministries, which commonly focus on large-scale, formal-sector companies. [...] This is not an argument for a simple return to integrated rural development, but rather a call for close cooperation in policy and program formulation and implementation between Agriculture and other (Industry, Technology, Commerce, etc.) Ministries with respect to the promotion of development in the RNF sector." (FAO, 1998, p. 330).

Two major policy failures drive this conclusion: (1) the withdrawal of the state from agriculture following the introduction of structural adjustment programs led to less public sector focus on rural areas that was not followed by a corresponding rise in private sector investments and (2) the failure to recognize the diversity of rural income generating activities and to create institutional frameworks that move beyond the small-farmer-first model and that provide adequate responses to this diversity.

In this paper, we use the terms institutions and institutional set-up in a much narrower sense than those used for instance by the New Institutional Economics literature (North, 1990) to indicate the organizations that deal with the design and implementation of policies, and the arrangements through which coordination among them is ensured. With the expression "institutional vacuum" we therefore refer to the lack of organizations that have a clear mandate or strategy to promote policies that favor the development of sectors of the rural economy other than agriculture, and the lack of coordinating mechanisms between the various levels (national, regional, and local) at which private and public sector stakeholders operate, as well as between the different stakeholders (local governments; civil society organizations, private firms, producers associations, and others).

The main objective of the present paper is to assess, after almost a decade from the first emergence of these considerations, the current situation with respect to this institutional vacuum. Does the institutional vacuum still exist? Has the diversity of the rural economies and the fact that there are multiple paths out of poverty appeared on the radar screen of policy makers and (national and international) development organizations in their day-to-day practice? What practical problems are being faced in developing a more conducive institutional and policy framework that takes into account the diversity of rural income generating activities? How has the emergence of development practices such as decentralization, CDD, and territorial development affected the institutional framework for rural income generating activities?

To explore these questions, we draw on three country case studies (Ghana, Guatemala, and Nicaragua) commissioned by the RIGA project (an effort jointly managed by FAO, the World Bank, and American University) and additional studies on Vietnam performed by the UNIDO (2000) and World Bank (2006). The detailed analysis of these four countries is complemented with that emerging from other available studies with a view to providing some updated evidence of the status of reform in the institutions dealing with rural development in a cross-section of poor developing countries.

The remainder of the paper is organized as follows: Section 2 provides a discussion of the argument for shifting policy away from a small-farm-first model of rural development toward alternative institutional approaches that recognize the multiple paths out of rural poverty. Based on the range of possible approaches that may be taken for rural development, Section 3 assesses current practice in the four country case studies. Section 4 then draws conclusions about the current state of rural development practice, and offers some suggestions for the direction policy initiatives should take.

2. SHIFTS IN RURAL DEVELOPMENT THINKING

A substantial amount of evidence has been produced in the literature that points to the increasing importance of pluriactivity and diversification among farm households (Davis et al., 2007; FAO, 1998; Haggblade, Hazell, & Reardon, 2005; Lanjouw & Feder, 2001).[1] The diversity of rural income generating activities, the multiplicity of assets, and the multidimensionality of poverty mean that policies can use different entry points to impact different dimensions of welfare. Some policies will intervene directly on non-income dimensions of welfare and only indirectly on income (e.g., health, sanitation, and nutrition interventions), some have a more direct impact on productive activities (e.g., pricing policies and input subsidies); and some can impact both in quite direct ways (e.g., education, but also communication and transport infrastructure).

The mechanisms through which policies impact the household strategies with respect to productive activities can, broadly speaking, be divided into measures that can improve well-being through asset accumulation (land, schooling, infrastructure, etc.) or through altering the context (pricing policy, agricultural research and extension, and credit market policy). It is also important not to forget that besides policies that are targeted to the promotion of the rural economy, the broader policy environment will have an impact on the system of incentives faced by rural populations. The same is true for agricultural policies, for instance government interventions that end up crowding out private investment in agricultural input and output markets (which is where the initial stages of the expansion of the RNF sector often take place).

This leads to a first important conclusion in the literature that is of specific relevance for the design of an appropriate institutional set-up that is the need of some sort of coordination mechanism when devising policy interventions that have an impact on the incentive structure faced by rural households. As Lanjouw and Feder (2001, p. 24) put it "while policies aimed at the RNF economy should not be made without consideration of their impact on agriculture, agricultural [and macro] policies should also not be made in isolation."

The heterogeneity of the RNF economy does not however make it easy to devise one-size-fits-all type of interventions, and a decentralized level of intervention, where the local informational advantage can be exploited, would seem appropriate for the needs of the sector. [2] The first trade off in this case is with the possible lack of capacity of local governments, coupled with the fact that often it is only the ministry of agriculture (among those dealing with productive activities) that has a substantial decentralized structure that makes it present in the rural areas. Furthermore, some of the interventions required for the promotion of the RNF economy (e.g., large-scale infrastructure) are not suitable for decentralized decision making or investment.

Haggblade, Hazell, and Reardon (2002) review six possible coordination solutions that have been experimented with in developing countries, and a summary of their review is provided in Table 1. Institutionally, these vary from fairly high-level super-ministries to decentralized units and from coordinating across ministries to expanding the coverage of certain ministries. The main conclusion that emerges from these experiences is that while some models have clearly failed, others have resulted in (limited) instances of success. In any case the need for some sort of coordinating mechanisms has not been eliminated by the mixed performance of these experiments. In some ways, the experiences summarized in the table point to an evolutionary process of trial and error of which the current debates and approaches are likely to be just another step. While useful elements are being retained in the recent debate, the unfinished agenda and open questions loom large.

The idea of 1970 s style integrated rural development (IRD) projects has fallen out of fashion following its mixed performance, [3] and so is the establishment of rural development ministries that compete and fight over turf (and scarce resources) with other line ministries. IRD was an attempt to mobilize public sector resources in an integrated manner to try to channel resources to rural development and poverty reduction. The public resources were channeled through an implementing agency, such as the Ministry of Agriculture. Although theoretically multisectoral in nature, the emphasis of IRD projects was on the agricultural sector, particularly on the agricultural producers and the provision of services for agricultural production (Schejtman & Reardon, 1999). IRD projects tended to be centrally designed and developed through a top-down approach, which often failed to consider local conditions, develop local capacity and foster local participation. As such, the projects were generally not sufficiently flexible to allow for differences across region or households in livelihood strategies. Without local participation, several IRD projects ended up only being sustained through continued state support, and the programs were made dysfunctional by the reduction in state intervention that occurred following the debt crisis (de Janvry & Sadoulet, 2003).

Other options, including a decentralized approach and the establishment of central super-ministerial coordinating units, have achieved some results, and thus cannot be totally discarded. Decentralized approaches, where decision making on the use of resources for rural development is taken at the local level rather than nationally, are based on the premise that

Table 1. *Alternative institutional models*

Broad category	Specific model	Basic features	Results/Remarks
Integrated responses	Ministries of Rural Development	Common in 1970s Broad cross sectoral mandate	Fights with and encounters resistance from traditional ministries Little influence and unworkable Largely abandoned/disappeared
	Supra-ministerial units	Directly linked to the President or PM's office Coordination mandate	Successful in Botswana under specific conditions: political commitment, small country, capable civil service staff, tight links with planning and budgeting
	Special regional or project authorities	Linked to the integrated rural development (IRD) drive of the 1970s Linked to specific project/programs and donor funding	Heavily subsidized and unsustainable Faded with donor enthusiasm an funding Overly ambitious and expensive, difficult to manage
	Decentralization or delegation to local government	Focus shifted to integration at local level, based on premise that local knowledge necessary for priority setting and local commitment	Devolution of real decision making authority (including taxation) remain unresolved issues in most countries
Sectoral institutions and responses	Expansion of responsibilities of Ministry of Agriculture (MoA)	Ag. Ministries selected because of their position in rural areas	It normally resulted simply in the addition of a marketing or agro-processing unit in MoA Poor performance as peripheral to ministry's core mandate Success in some countries but limited to expanding agricultural markets and value addition
	Rural industry programs	Focus on rural manufacturing (China's TVE's; India) High level policy commitment Subsidies, protection, quotas, etc.	Now abandoned because of costs and overall liberalization It may have been instrumental in starting up a sector that is now transforming into a more market oriented system

Source: Adapted from Haggblade et al. (2002).

local knowledge is necessary for effective priority setting and that local commitment is necessary for infrastructure maintenance and effective monitoring. While there are success stories, it is not unusual for these approaches to be undermined by the reluctance of central governments to effectively devolve fiscal resources and decision making authority (Haggblade et al., 2005). The rationale for super-ministerial coordinating units or bodies, frequently located within the ministry of finance or planning, or under the Prime Minister or President Office, is that they have the power to enforce coordination between line ministries. An often cited successful example is that of the Rural Development Council (now a Division) in Botswana, but these successes have been far from plentiful (Haggblade et al., 2002).

Another approach that has more recently come into fashion, particularly in Latin America, is the so-called "territorial approach" (Schejtman & Berdegué, 2004). This approach, which they define as "a process of productive and institutional transformation in a determined rural space, whose goal is rural poverty reduction" (Schejtman & Berdegué, 2004, p. 4), finds its antecedents in the experience with EU LEADER program, [4] the Canadian experience with rural partnerships, [5] and donor experiences in the region.

The approach is in some ways an attempt to go beyond the previous generation of approaches by also building on the positive features of some of them, such as decentralization. Its stated goal is to go beyond an approach equating rural development with agriculture, to emphasize the rural–urban linkages, the links with dynamic markets, technological innovation, and the need for institutional reform decentralization, the strengthening of local governments and of public-private partnerships (Schejtman & Berdegué, 2004). Decentralizing the planning process, the selection of sectoral interventions at the local level, and having the private sector taking the lead in the process in partnership with local governments is a promising avenue. Within LEADER, for instance, this is the role played by the local action groups (LAGs), public and private partnerships representative of the existing local interest groups, drawn from the different socio-economic sectors.

It is also interesting to note that in the context of the European rural development policies and programing, a focus on issues related to governance structures has always been explicit and very much at the center of the debate. In this sense, the European debate intersects clearly with the recent debates in developing regions such as those around the improvement of the rural investment climate and rural governance. Ellis and de Freeman (2002), for instance, emphasize how decentralization (including fiscal decentralization) is no silver bullet, as the governance problem faced at national level (e.g., excessive taxation and regulation hindering business growth) can very well resurface at the local level. A specific attention to the specificity of issues related to rural governance is therefore called for here.

The experience of LEADER, albeit overall positive, does show that selecting the optimal level at which to organize local action is not trivial. There is often a trade off between the need for achieving a critical mass for successful interventions and the need to ensure a level of closeness necessary for appropriate sharing of information and building a degree of confidence and trust. Often cooperation (national or international) is used to achieve the required scale under LEADER, and substantial proportions of the program's large budget are devoted to capacity building and networking efforts. Even so the program had, at least in some countries, more success in promoting certain "sectors," such as food, tourism, and artisan crafts, than in integrating other sectors with farming or promoting investment in physical infrastructure or public services such as education (Soto, 2005).

The emphasis of the territorial approach on the development of industrial clusters is also reminiscent of rural industry programs of Table 1, but in a way that is much more oriented toward competitiveness and an open market orientation (as opposed to subsidies and protection). From the perspective of this paper, the territorial approach is particularly interesting as one of its pillars is *institutional development* (the other being productive transformation). Institutional development is considered crucial in stimulating coordination between local agents, and between them and other (external) stakeholders and in modifying the rules and customs that replicate poverty and exclude the poor from the process of transformation of the economy (Schejtman & Berdegué, 2004).

While there is a compelling argument for focusing on multiple economic activities, it is not clear how to put this into practice and to determine which economic activities should be chosen for intervention and how should they be chosen. Deciding on which rural economic activities to support through projects or other interventions is complicated. Without clear options, the tendency of governments and donors is to focus on agriculture and in particular the production of staple goods. Yet, the livelihoods approach suggests the need to support multiple activities, while the cluster literature notes the benefits of focusing on individual activities to generate agglomeration economies. In their survey of best practices for promoting RNF employment, Reardon, Berdegué, and Escobar (2001) support the idea of focusing resources on specific RNF activities, particularly, on those characterized by growing demand and that are potential "growth motors." Taken together, the literature supports a view that interventions should focus on a few key rural activities, providing some options, yet allowing for a critical mass of a certain set of activities.

This is not to suggest a public sector led development pattern for rural areas. The broad principles that should determine the role of the state in promoting development in rural areas are not dissimilar from those that apply to the economy in general (provision of public goods and a favorable investment climate; ensuring a predictable and stable macroeconomic environment, and whatever else one accepts those to be). The point being made here is that there is an active facilitating role that various levels of governments can play to foster the development of the rural economy, and that there is a need to strengthen mechanisms through which priorities can be set and opportunities identified.

How to choose which activities to target? Clearly, the choice of activities should be based on the resources available in the particular region. In general, rural regions are more suited for agriculture, resource-based extractive industries, traditional rural skills (e.g., crafts), tourism and recreation, industries that require proximity to the point of production or extraction, and industries that place a premium on cheap labor (Wiggins & Proctor, 2001). Yet, particular rural regions will have different endowments and a different economic base.

For an approach to be successful, a precise understanding of local endowments and current economic activities is required in order to assess what is possible (Parr, 1999). Doing this calls for a degree of local planning to take advantage of local information and suggests the need for a process of strategic planning for determining the key sectors to target for investment. The fact that there are examples in which the public sector played a crucial role is a clear sign that the public sector does have a role to play in this domain. The experience with fresh produce supply chains is a good example of where the private sector has led the development, but governments have played roles in providing technical advice, assistance with product development and marketing, financial support, and investment in infrastructure (Batt & Cadilhon, 2007). Similarly, the creation of route tourism—regionally-based tourism under a unified local theme—while market-driven may require a degree of local government leadership to facilitate the development of a local tourism industry (Lourens, 2007).

Along with choosing rural economic activities on which to focus, there is also a question of the level at which to intervene. The literature and recent experiences highlight the importance of local participation and empowerment. This suggests a need to focus on the community or municipal level. On the other hand, developing clusters of economic activities in rural areas and obtain the benefits of agglomeration economies requires a minimum scale of intervention is desirable. Working at the community or even municipal level may limit the ability to benefit from agglomeration economies.

The issue of the institutional arrangements that should be used to manage rural development is linked to these considerations. Decentralization is becoming more common, but a decentralized agricultural ministry may not be in a position to work on non-agricultural issues and work with private non-agricultural businesses. Furthermore, given the importance of the private sector in cluster formation, the manner in which the public and private sectors interact needs to be carefully considered. Managing rural development may require transformation of the institutional arrangements that have become the norm for rural development.

Supporters of decentralization and local participation argue the importance of local information and giving rural communities greater voice in their development. This line of thinking leads toward direct collaboration with communities in a manner similar to the CDD approach and toward strengthening the position of municipalities. However, developing the synergies noted in the literature on cluster formation requires a certain minimum level of economic activity for a given sector. Many communities and even municipalities, particularly in rural areas, may be too small to generate the necessary synergies in economic activities. While economically productive activities may be supported at this level, without interaction between communities at a higher level, a critical minimum mass of similar activities may not form. Furthermore, without a higher level of organization it is more difficult to obtain support from the central government in developing these synergies.

As part of the process of devolving powers to regions, it has become increasingly common for ministries of agriculture and other ministries to shift staff to regional centers. While this process of deconcentration may be helpful in facilitating information flow from regions to central authorities and vice versa, the ministries of agriculture can be expected to retain a predominant focus on agricultural production. Many rural economic activities, such as tourism, mining, and business including agribusiness, fall under different ministries of the government. Even if these ministries were to be deconcentrated, there remains the issue of coordinating the activities of the different ministries at the regional level to properly manage the rural economy.

But clearly the design as well as the implementation and outcomes of decentralization decisions, as of any other policy decision, is the result of a complex political game, in which embedded power, social and cultural relations play a major role. A risk connected to decentralization that is emphasized in the literature is thus the possibility of "capture" by local elites, particularly when a mature democratic system is not in place. Theoretical arguments to support this view are developed for instance in Bardhan and Mookherjee (2005) and in Bardhan (2004). The available empirical evidence (e.g., Galasso & Ravallion, 2005) points to beneficial effects, in terms of improved targeting, of community-based programs, but also suggests that local inequality is associated with a greater leakage of program interventions to the non-poor. This result is consistent with the view that existing inequality may be perpetuated through the function of the local political system and power relations. This possibility needs to be taken into account when designing decentralized policies and programs aimed at benefiting the poorest strata of the population.

This discussion is relevant here because the policy mix that will be put in place and the efficiency of its delivery are related to the design of the institutional set-up that is involved in the elaboration and implementation of policy measures. Some institutional set-ups will be more conducive for sectoral policies and less so for addressing cross-cutting issues, while another will generate a bias toward the urban as opposed to the rural and yet another will induce more social sector spending as opposed to infrastructure, etc.

One risk is that of creating new, expensive, parallel bureaucracies that will not add much to the efficiency of policy, program, and service delivery. A way to avoid this danger is that of being creative and opportunistic in the choice of institutional arrangements, and of focusing on finding new, effective ways of working across institutions and building partnerships rather than creating new entities (Haggblade et al., 2002). No matter how this is done, it is crucial to find an approach that creates a constituency for the rural non-farm economy, so that it receives attention on a continuing basis and does not fall "in the gap between the institutional walls of governments, research institutions, and NGOs" (Barrett, Reardon, & Webb, 2001, p. 327).

3. CURRENT EVIDENCE ON APPROACHES TO RURAL DEVELOPMENT

In the previous section, we had identified a set of core issues that emerge when looking at the recent literature on rural development and on the promotion of rural non-farm activities. Much of this literature deals with the analysis of the rural economy and with the policy issues in general, but hardly any study has the institutional set-up as the principal object of analysis. Institutional issues are raised and discussed, but largely in general terms and on the side of more detailed discussion of the various policy options for the promotion of the rural economy. The case studies commissioned by the RIGA project take a different angle, and focus specifically on an empirical investigation of what institutional arrangements are in place in a small cross-section of countries. In this section, the main findings of these studies are presented. The methodology of the case studies involved reviewing existing research, the main features of national development programs, program evaluations, and government spending structures when possible, and complement them with key informant interviews in order to arrive at assessing the extent to which the "institutional vacuum" is real and affects rural development.

The section is organized around the main issues identified in the first part of the paper, which are: (1) persistence of the "institutional vacuum" and issues of coordination; (2) the experience with decentralization and community-based approaches; and (3) an assessment of the impact which the debates on clusters, competitiveness, and the territorial approach have had on rural development practice.

(a) *Is the institutional vacuum still there?*

The short answer to this question is definitely "yes." One, however, should qualify that answer because in all the countries in our small sample there is clear evidence that the issue is now on the radar screen, and that either concrete attempts have been made to fill that gap or, at a minimum, this is an issue figuring prominently in the policy debate. But until concrete solutions are found and have been shown to be effective, this clearly remains a matter of concern for the development of rural areas.

In both Guatemala and Nicaragua, a very lively debate has been ongoing for a few years, the fruits of which have led to calls for a broader approach to the development of the rural economy. According to the case studies commissioned by the RIGA project (Baéz Lacayo, 2006a, 2006b), this has really struggled to be translated into practice, as there is a lack of clear coordination, coherence, and continuity in the promotion of economic activities other than agriculture in the rural space. In this respect, the vacuum is definitely still there. Both countries have, however, gone some way into developing a framework to fill this gap.

At the higher policy level, in Nicaragua the Plan Nacional de Desarrollo (PND) and in Guatemala the Agenda Estrategica para el Desarrollo Rural developed by the Rural Development Cabinet have outlined a broad, multisectoral approach to the development of rural areas. In Nicaragua, the implementation sectoral plans of the PND are not as broad as the document itself, and in Guatemala the whole dialogue started under the aegis of the Rural Development Cabinet has come to a halt in the face of mounting conflicts over the politically heated issue of land distribution. It remains to be seen to what extent these initiatives are going to be translated into an adequate institutional response to the identified needs of the rural sector.

In Guatemala, new entities (such as social funds or large projects) are entering the game that reinforce the multisectoral nature of interventions, but there is still a lack of leadership and a vacuum when it comes to intersectoral coordination, including in the promotion of rural non-farm activities. While there is a vision for a broad approach to rural development, and even the overall basis for a conducive legal and institutional framework has been laid out (Acuerdos de Paz, Leyes de Descentralización), what is still lacking is the practical implementation of these approaches (Baéz Lacayo, 2006a, pp. 8–9).

The Secretariat for Program and Planning of the Presidency (SEGEPLAN), a body reporting directly to the President, has been identified as the coordinating institution for rural development, and is in a position to call on line ministries for execution, including on "new" actors like the Ministerio de Economia that up to now have played a minor role in rural development issues. The experience with this institutional set-up is however too limited/recent for it to be evaluated, and the fact that the implementation of the rural strategy is currently on hold does not allow making an assessment of how this set-up is working. The fact that SEGEPLAN has recently been tasked with the implementation of a large World Bank/IDB rural development project could give it the financial leverage to establish itself as the national champion (and coordinator) of rural development activities in the country. Certainly, its success will depend on the functioning of coordinating mechanisms at the decentralized level, on which we will return below.

In Nicaragua, the findings of the RIGA case study (Baéz Lacayo, 2006b) also point to a weak institutional framework with lack of leadership and extensive coordination problems. Even if the overall approach is improving, particularly *via* the adoption of decentralized and community-based approaches (more on this below), the institutional set-up still sees a clear separation between the Ministry of Agriculture and Forestry (MAGFOR), responsible for agriculture, and the Ministry of Industry and Commerce (MIFIC), which maintains a clear urban focus. The Institute of Rural Development (IDR) has emerged as a potential coordinating body, but it operates more as a project implementation agency, lacking strategic orientation and strong linkages with other agents active in the sector (Baéz Lacayo, 2006b, p. 11). The main rural development program, PRORURAL, posits a broad approach to rural development, but its concrete proposals end up being largely centered on agricultural activities.

Similarly in Ghana, while the main country policy document, the Ghana Poverty Reduction Strategy for the period 2003–05 (GPRS I), identified the development of the rural economy as critical to the transformation of the national economy, it then failed to articulate this into clear practical guidelines, and put forward a strategy for the rural sector that was centered on the modernization of agriculture and on the development of the agro-industry but said little on the rural economy beyond the primary sector. The Ministry of Food and Agriculture was identified in the GPRS as the lead institution (with 11 other ministries participating) in the effort to transform the rural economy, and an "integrated, interdisciplinary and cross-sectoral approach" was called for. However, many of these ministries do not have a specific strategy for how to operate in the rural sector, and issues of coordination and conflict of responsibility keep coming up. Some attempts at coordination take place *via* interministerial committees but these are rather *ad hoc*, and have generally functioned rather poorly. Donors have their fair share of responsibility in undermining coordination efforts. A Rural Infrastructure Coordinating Unit that was originally set-up to coordinate rural infrastructure became in fact an implementation agency for a Village Infrastructure Project (Oduro, 2006).

In Vietnam, the Ministry of Agriculture and Rural Development (MARD) is assigned a far-reaching mandate to deal with the rural development issues that include rural industries, although several actors are involved such as the Ministry of Industry (particularly for heavy industry) and the Ministry of Labor for employment promotion (UNIDO, 2000). This does seem to bias the debate on the development of the rural economy toward agriculture, with limited consideration for the promotion of the rural non-farm sector beyond the three main industrial zones that are being developed in the country.

Interestingly, similar biases are also present in donor strategies. The World Bank's recent report on *Accelerating Vietnam's Rural Development* (World Bank, 2006), for instance, despite starting from the consideration that household income strategies are increasingly diversified, focuses almost exclusively on the primary sector in its analysis and policy recommendations. The UNIDO-led report on rural industrialization (UNIDO, 2000) also seems to suffer from the agency's bias toward industry in being unduly dismissive of the potential of the service sector for the fostering of rural development.

One specific aspect on which the RIGA reports converge is that in all countries an important dimension of the institutional vacuum is the dearth of information when it comes to data and statistics for policy making. Besides agriculture (that can by and large be assumed to be all rural), none of the statistics on productive activities are disaggregated by rural and urban domains, and a similar information gap applies to public spending and infrastructure, with the exception of some specific items such as rural electrification and sometimes rural roads. This clearly constitutes a key constraint for assessing the situation, monitoring the effectiveness of and designing policies for the rural economy.

(b) *The experience with decentralization and community-based approaches*

A second major theme that emerges in the literature is that of decentralization and the community-based or community-driven approaches to rural development. The separation from the issues of institutional set-up and coordination discussed above is artificial, as decentralized approaches can clearly serve to fill the identified shortcomings in these areas, and is made here for purely presentational purposes.

In all the four countries covered in this paper, decentralization and community-based approaches are important items in the policy agenda. Although markedly different, the four experiences share a number of common issues. The first is that the decentralization process is generally found to have proceeded at a slow and uneven pace, but above all partial, in the sense that while the responsibility of execution for a number of activities has been delegated, much of the decision making power and the responsibility over budget allocations tend to still be very much centralized.

Indeed, in Guatemala, it took six years to move from the declaration of decentralization as a major pillar of State reform in the 1996 *Acuerdos de Paz* (Peace Agreements) to the approval of the legislation establishing the institutional framework for decentralization (Ley General de Descentralización and the Ley de Consejos de Desarrollo Urbano y Rural, 2002[6]), and another three years to the launch of the National Decentralization Policy (of 2005). As a result, 10 years after the start of the reform and despite substantial advancement, the process is in many ways still in its infancy which makes it difficult to assess its future prospects with any degree of confidence.

The first steps towards the "deconcentration" of responsibilities were taken only in 2006 in 34 pilot districts, and are focused on areas such as public health, education, and environment, while support to productive activities remains largely centralized. Municipalities are assigned approximately 10% of the State budget, and are required to spend 90% of this allocation on education, health, infrastructure, and public services. It seems unlikely, given this context, that they can take a leading role in the promotion of economic activities. Municipalities also appear to have serious limitations in terms of capacity to take on the responsibilities they have been assigned.

Also in Nicaragua, the question of whether municipalities are ready to take on the responsibility decentralization assigns to them has attracted attention, for instance on the occasion of the approval of the Ley de Transferencias Municipales in 2003. The law establishes that 4% of government revenue should be transferred to municipalities, with a gradual annual increase that is supposed to bring this share to 10%. While there is a consensus that capacities at the municipal level are uneven, with more remote areas being characterized by lower levels of administrative capacity, there is also a conscious effort to invest in building administrative capacity. The social investment fund (FISE), IDR, and the World Bank have all been engaged in local capacity building. While there are still doubts that all municipalities are up to the task, particularly when it comes to economic development (as the provision of basic services is something they have more experience with), tangible progress has been made (Baéz Lacayo, 2006b).

This is part of an energetic, if uneven, process of decentralization in Nicaragua, which has benefited from the presence of a historically strong civil society. Decentralization in Nicaragua is happening in the context of a reasonably well-defined legal and fiscal framework (i.e., with an allocation of resources to fund the process), and due attention is being paid to the need to build institutional capacity in local governments, which is explicitly viewed as an instrument to cater more effectively for the different demands coming from a highly heterogeneous rural space. Problems remain, however, in the coordination between those (sectoral) agencies of the central government that are not decentralized and the dynamics of local decision making. Also, while the municipalities have been granted authority to decide over the structure of their budgets (and sometimes this even happens through open assemblies), the overall budget process is still very much centralized, with little participation from local governments.

In Ghana, the decentralization process seems to have been embraced only half-heartedly. According to the decentralization legislation introduced by the Act 462 of 1993, the District Assemblies are to be responsible for the overall development of the district. Unfortunately 12 years after the passing of the Act 462, limited progress has been made in implementation. A recent evaluation of the actual progress with decentralization concluded that "government agencies continue to retain their "hierarchy" from national to regional to district offices.... Real fusion has not yet occurred. Some divestiture of implementation authority for programs and projects has occurred to the district level, but are still occurring vertically, from national to regional and district offices of the same departments."[7]

The Vietnamese experience is clearly in many ways different due to its political system. All households are for instance expected to participate in mass associations, and these are designed to reinforce state power and mobilize people, while also performing an educational and awareness raising role. They also perform a role in allowing the co-existence of strong traditional village institutions with strong government institutions. The guiding principle for people participation in public affairs is that of democratic centralism, so that the decision making process is "led by the Party, managed by the government, participated by the people." In accordance with this basic principle, a wide ranging Program of Public Administration Reform that involves decentralization and deconcentration of authority is ongoing. The complex evolution of local institutions amidst rapid economic change and administrative reforms is described in detail in Shanks, Toai, Nguyet, Maxwell, and Hung (2003).

A detailed analysis of these specificities is beyond the scope of this paper. Here, we will emphasize two interesting lessons of the Vietnamese experience, where a series of large CDD projects have played an important part in shaping public policies in rural areas. First, while capacity is certainly a constraint, it should not become a self-defeating argument. Capacity should not be viewed as an exogenous variable, but as a condition that policies and programs can work to alter. Investment in capacity building can go a long way in easing that constraint. Second, while CDD programs appear to perform better than their "traditional" counterparts (World Bank, 2006, p. 54) it is also true that CDD advantage is limited to interventions that can be planned, procured, and managed by local authorities. For interventions such as large-scale infrastructure, larger schemes or sectoral projects are more appropriate (Shanks et al., 2003).

(c) *Competitiveness, industrial clusters, and the territorial approach: experiences with the "new rural development thinking and practice"*

One issue of interest in the review of experiences contained in the RIGA case studies is the possibility to verify the extent to which the academic debates are captured into the policy practice. This is for instance the case for the territorial approach. Developed in Latin America it is clearly found to underlie (whether implicitly or explicitly) the whole discourse and the general policy directions in both Guatemala and Nicaragua. The approach does not exercise a similar influence on the debate in either Ghana or Vietnam. Other issues that form part of the territorial approach—but that are not restricted to it—such as the promotion of industrial clusters and the focus on competitiveness, are on the contrary prominent in all the four countries studied.

Guatemala is the one country, among those analyzed here, where the echoes of the international debate are more clearly heard. The concept of a territorial approach to rural development that overcomes the centralism of sectoral policies and moves toward a concept of strategic territorial planning is explicitly debated and endorsed, but this well-articulated approach struggles to move beyond the general statement of principles and be concretized into specific policy initiatives. As Baéz Lacayo (2006a, p. 22) puts it, there is "a dual situation in which traditional dynamics characterized by strong sectoral biases coexist with emerging elements that are still in the making, and that may impact strongly on the rural development approaches and on the institutional set-up that will develop in the future."

Similarly in Nicaragua, the Plan Nacional de Desarrollo (PND) is very much centered on the territorial concept, and organizes its proposed actions around four typologies of *territorios*. It is too early to judge whether and how this is going to be followed by a substantive change of direction compared to earlier approaches, as the PND was only approved toward the end of 2004 and further amendments were made in 2005. What gives reason to believe that its practical implementation may encounter serious obstacles is the fact that, according to Baéz Lacayo (2006b), Nicaragua's local governments may lack the administrative and financial capacity, as well as the strong political legitimacy, to implement such a far-reaching program that implies a strong role being played by the municipal government in kick-starting the process of economic development. It may take several years before these gaps can be addressed.

Another set of related elements of the recent development thinking that ranks high on Nicaragua's rural development agenda is that of competitiveness and the promotion of industrial clusters or conglomerates, which is also prominent in the other RIGA case studies. While certainly relevant, and a big step forward compared to earlier approaches that emphasized productivity, innovation and technological change with little attention to the marketing and managerial aspects of economic activities, a number of reasons for concern remain.

First, an approach based disproportionately on a competitiveness focus bears the risk of bringing back sectoral tendencies. In Nicaragua, for instance, we have already noted how, contrary to expectations, PRORURAL has maintained an overwhelmingly agricultural perspective, casting doubt on the effectiveness with which PRORURAL can be adequately blended with the other programs such as PROMIPYME (on micro and small-medium enterprises) which, on the contrary, are taking an urban bias in their design.

Similarly, approaches based on the promotion of particular clusters or commodities tend to take an urban focus when manufacturing sectors are selected and look at the rural areas only in relation to agricultural commodities. Cluster promotion is with the (limited) exception of tourism, largely confined to agriculture and manufacturing sector goods, which poses a question mark as to how they can cater to those activities that many studies (e.g., Davis et al., 2007, to cite a recent one) find to be the largest source of employment and income outside agriculture, that is, petty trade and services and construction. These are largely non-tradable, and hence normally operate outside the realm of cluster promotion type policies. In Nicaragua, however, there is evidence that focus on some commodity systems (e.g., skins-leather; milk-dairy; and wood-furniture) that are in fact taking into account the urban–rural links that characterize these productive systems.

Another issue concerns the extent to which a view of rural development based on an industrial cluster approach can offer hopes for escaping poverty for those in, for instance, low potential areas within a country. It can be argued that a strategy based on the development of a few areas and commodities in which international competitiveness can be achieved can only have little to offer (except perhaps *via* migration) as an escape path out of poverty from those living in areas unable to directly connect to the development of the successful clusters. This concern is raised for instance in the RIGA case study of Nicaragua, but it is clearly a matter of more general relevance.

Despite these possible shortcomings, these approaches have clearly promising dimensions which can provide benefits to the rural economy at large. The focus on innovation, capacity building, strengthening producer, and business organizations, and, in general, creating an economic environment that is supportive of private investment are likely to have more general positive effects on the rural space. Again, these are policies that will impact primarily high potential regions, and only to a lesser extent (unless complementary measures are considered) low potential areas. An urban bias may also be embedded in the concrete application of these approaches, as it is for instance the case in the development of road networks in Vietnam (UNIDO, 2000).

4. CONCLUSIONS ON RURAL DEVELOPMENT PRACTICE AND POLICY DIRECTIONS

The first basic, and perhaps not entirely surprising, finding of this paper is that after several years of debate in the academic and policy circles about the existence of a vacuum in the institutional arrangement for rural productive activities other than agriculture (and on how to fill it) the vacuum is still there, which is not to say, however, that the institutional landscape is the same as it was in the 1980 s or early 1990 s: Many changes have taken place or are happening, and important parts of the vacuum are gradually being filled.

Notable advances have been accomplished both in the development of new concepts and approaches, as well as in their implementation on the ground. Our review of four country case studies shows that at the level of general policy statements the approach to the rural non-farm economy is generally much broader and more comprehensive than it used to be, and this approach reflects many of the advances of recent thinking on rural development.

What is proving more difficult is moving from the general enunciation of principles to practical policy measures, particularly when it comes to the sphere of productive activities, and that this is true already at the national level, but also at the local level. In this respect, our case studies consistently lament the lack of leadership and coordination capacity. Coordination of rural development efforts is working much better as far as the delivery of basic infrastructure and the provision of public services are concerned, and much less so regarding productive activities.

One explanation for this is the fact that, apart from agriculture, there is no easily identifiable rural constituency for the institutions dealing with economic activities. While agricultural producers have a common set of interests, a ministry mandated specifically to serve the development of its sector and (for what it may be worth) a branch of economics devoted to the study of the effect of policies on agriculture, the same cannot be said for other rural workers and entrepreneurs. The nature of their activities is particularly heterogeneous, and the diversity of their interests, as well as their geographical dispersion, considerably raises the transaction costs for them to organize effectively for collective action, resulting in a generally weaker articulation of the measures of relevance to the rural income generating activities outside of farming.

The infrastructure and other basic needs of the rural population, on the other hand, are much more homogeneous, so that devising a national policy to serve the rural population as a whole in these areas, and following this up with actual implementation, does not entail the same level of complexity as dealing with productive activities. Furthermore, actions in these areas can rely much more solidly on coordinated efforts at the decentralized level, as local government is much more accustomed to dealing with these types of issues than with the promotion of productive activities.

Decentralization and the move toward community-driven development have been possibly the most important new developments in rural development practice since the 1980 s. They have been pursued as possible means not only to ensure greater accountability, but also to enhance coordination on the ground and exploit local informational advantages. These emerge from the review of our case studies as being extremely slow and gradual processes. Changing the institutional landscape and creating the capacity and institutions that are needed at the local level are not tasks that can be accomplished overnight, and government and donors should adjust their expectations and time horizons accordingly. In fact, our case studies (for instance Ghana and Guatemala) show that it may take up to 10 years just to get the process moving. Lack of capacity in local government and institutions is the most often cited constraint but, again, it should not become an excuse for central bureaucrats not to devolve power.

Another key issue concerns what is the appropriate scale for what type of interventions. ''Homogeneous'' tasks that can be planned and managed at the local level are those that lend themselves more naturally to be decentralized and devolved to the communities or municipalities. Other tasks are not so easily decentralized either because of their heterogeneity or because of the scale of the investment and type of management required. The ways in which government structures can or cannot be decentralized and the biases that each of them has (and the constituency they serve) also play key roles in determining the success or failure of the adoption of new coordination mechanisms.

Approaches based on promoting a more favorable environment for business in general, and targeted to the promotion of clusters of ''selected'' industries are increasingly being adopted (Guatemala, Nicaragua) or have been shown to produce good results (Vietnam). Doubts can be raised, as to whether they can similarly serve the needs of lower potential areas of a country if not accompanied by other efforts or more direct support to productive investment.

The evidence we analyzed leads to some concern that the extent to which both decentralized mechanisms and efforts geared to the promotion of specific industries and clusters can lead to replicating, rather than overcoming, the problems with working across sectors that we have become familiar with at the aggregate policy level. The service sector, of which data suggest to be typically more important than manufacturing in rural areas, is not covered by these approaches, and to the extent that the focus is on manufacturing goods, an urban bias may also prevail.

The emphasis we place on these problems should not be read as a call for a change of direction back toward more traditional approaches. Rather what we see this evidence leading to is the need to push toward a greater decentralization and coordination of rural development at the local level, particularly in addressing issues related to the context in which households operate. As much progress has been made on infrastructure and social spending but much less for productive activities, innovative ways need to be devised to address the rather different coordination problems in this latter area.

An area for further research is the development of better mechanisms to promote productive investment as opposed to social investment and to assess the appropriate level at which to do so, be it community, regional, or national involvement. A trade off in the level of economic intervention exists between working at the local levels of development to obtain the benefits of local information and empowerment and working at the regional or national levels, where economies of scale and agglomeration economies are more likely to develop. One could hypothesize that many of these actions are better performed at the regional level since economies of scale in planning and management cannot be exploited at the smaller community level, but more hard evidence is needed.

NOTES

1. Additional key references are the special issues of *World Development* (on Latin America) and *Food Policy* (on Africa) published in 2001.

2. But one should bear in mind that local level institutions may have an information disadvantage when it comes to macro or international factors.

3. While Integrated Rural Development approaches do not appear to be currently on the agenda, one should not fall into the trap of dismissing them out of had just because of that, just as ideas that are currently fashionable (such as CDD) should not be embraced simply because they are newer. We thank an anonymous referee for emphasizing this point.

4. Leader is a French acronym, standing for ''Liaison Entre Actions de Développement de l'Économie Rurale,'' meaning ''Links between the rural economy and development actions'' (see http://ec.europa.eu/agriculture/rur/).

5. For details on the Canadian Rural Partnership the interested reader is referred to http://www.rural.gc.ca/iwg_e.phtml.

6. These Consejos (or Councils) are meant to be units that design development policies, make proposals on resource allocations, and encourage coordination at the local level, including between the private and public sectors.

7. Decentralisation Secretariat (2003) *National Decentralisation Action Plan*, p. 5, as quoted in Oduro (2006).

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