

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

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**ESA Working Paper No. 07-24**

November 2007

**Agricultural Development Economics Division**

The Food and Agriculture Organization  
of the United Nations

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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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### **Abstract**

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 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, national – at which to do this.

**Key Words:** Rural development, nonfarm income, agriculture, institutions.

**JEL:** I38, O17, O21, R50.

Funding for this study came from the FAO-Netherlands Partnership Programme. Comments from Linda Baez Lacayo, Eeshani Kandpal, Marco Knowles, Luis Llambí, Abena Oduro and participants in the Rural Income Generating Activities (RIGA) symposium held at the 26<sup>th</sup> Conference of the International Association of Agricultural Economists (IAAE) in Gold Coast, Australia, 12-18 August 2006, are gratefully acknowledged. Responsibility for any errors and omissions and for the views expressed in this paper, rests solely with the authors.

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*“A vacuum is a hell of a lot better than some of the stuff that nature replaces it with.”*

*Tennessee Williams, Cat on a Hot Tin Roof, 1955*

*“The spread of evil is the symptom of a vacuum.”*

*Ayn Rand, Capitalism: The Unknown Ideal, 1966*

*“Living in a vacuum sucks.”*

*Adrienne E. Gusoff*

## **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 economy in developing countries. An early review of this literature by FAO (1998) shows that rural non-farm activities account for 42 percent of the income of rural households in Africa, 40 percent in Latin America and 32 percent 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, pp.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. Ellis and Biggs (2001) provide an overview of this ‘agricultural growth based on small farm efficiency’ paradigm. The basic tenets of this paradigm are that 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 fulfils 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, credit, etc. 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 and 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 and Berdegú, 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<sup>1</sup> 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. The present review, however, has shown that this vacuum may have excluded one-third of the rural economy from the policy debate and related action. Hence, it is very important for policy-makers to establish a system perspective that links the agricultural and RNF sectoral domains. 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; 2) The failure to recognize the diversity of rural income generating activities (RIGA) and create institutional frameworks that move beyond the small-farmer-first model and that provide adequate responses to this diversity.

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 economy and the fact 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 RIGA? How has the emergence of development practices such as decentralization, CDD, and territorial development affected the institutional framework for RIGA?

To explore these questions we draw on three country case studies (Ghana, Guatemala, 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 World Bank (2006) and UNIDO (2000). 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 towards 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 case study countries. Section 4 then draws

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<sup>1</sup> In this paper we use the terms institution and institutional set up in a much narrower sense than that used by North and the New Institutional Economics literature, to indicate the organizations that deal with the design and implementation of policies, and the arrangements through which coordination among them is ensured.

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 (FAO, 1998; Lanjouw and Feder, 2001; Haggblade et al., 2005)<sup>2</sup>. The most recent systematic effort in this respect is currently being undertaken by the RIGA project, the main advantages of the dataset used in this project being that (a) income data are directly comparable across countries because of consistency in data collection methodology and definitions; and (b) employment information is not limited to primary occupation (as is normally the case with studies that use Census data). This new dataset confirms much of the findings of the existing literature concerning the still pervasive nature of agricultural activities in rural areas, the importance of rural non-farm activities<sup>3</sup> in terms of participation rates and particularly of income shares, and the high degree of pluriactivity observed in rural household regardless of their wealth status (Davis et al., 2007).

In the analytical framework employed in the RIGA project, much of the emphasis is being put on the role of access to assets in determining the household's ability to connect to poverty reducing income generating activities (see Davis et al. (2007) for a more detailed discussion). It therefore looks mainly at the income dimension of poverty.

Non-income dimensions of poverty (e.g. lack of education, access to basic services, etc.) are just as important and much of current government and donor intervention in the rural sector attempts to tackle them directly through investments in social infrastructure. These different dimensions are clearly related, and the linkages go both ways.

The diversity of RIGA, 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; 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, 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

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<sup>2</sup> Additional key references are the special issues of *World Development* (on Latin America) and *Food Policy* (on Africa) published in 2001.

<sup>3</sup> In this paper (as in the RIGA project) non-farm activities are defined as any economic activity taking place outside an household's own farm. Agricultural wage labour is thus not considered an on-farm activity.

faced by rural households. As Lanjouw and Feder (2001: 24) put it “while policies aimed at the rural non-farm 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<sup>4</sup>. 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 rural areas. Furthermore, some of the interventions required for the promotion of the rural non-farm economy (e.g. large scale infrastructure) are not suitable for decentralized decision-making or investment.

[TABLE 1 ABOUT HERE]

Haggblade et al. (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. The main conclusion that emerges 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.

The idea of 1970’s style Integrated Rural development (IRD) projects is clearly out of fashion following its dismal performance, 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 agricultural producers and the provision of services for agricultural production (Schejtman and Reardon, 1999). IRD projects tended to be centrally designed and developed through a top-down approach, which failed to consider local conditions, develop local capacity and foster local participation. As such, the projects were not sufficiently flexible to allow for differences across region or households in livelihood strategies. Without local participation, the projects were only 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 and 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 are based on the premise that 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 ministry of finance or planning, or under the Prime Minister or President Office, is that they

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<sup>4</sup> But one should bear in mind that local level institutions may have an information disadvantage when it comes to macro or international factors.

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 and Berdegúé, 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 and Berdegúé, 2004: p. 4), finds its antecedents in the experience with EU LEADER program<sup>5</sup>, the Canadian experience with rural partnerships<sup>6</sup>, 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 and Berdegúé, 2004).

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 towards 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 and Berdegúé, 2004).

While there is a compelling argument for focusing on multiple economic activities, it is not clear how to put that 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 rural non-farm employment, Reardon et al. (2001) support the idea of focusing resources on specific rural non-farm activities particularly 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.

How do we 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 and 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

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<sup>5</sup> 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/>).

<sup>6</sup> For details on the Canadian Rural Partnership the interested reader is referred to [http://www.rural.gc.ca/iwg\\_e.phtml](http://www.rural.gc.ca/iwg_e.phtml).

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.

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 experience 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.

Linked to these considerations, is the issue of the institutional arrangements that should be used to manage rural development. 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 towards 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.

Another risk connected to decentralization that is emphasized in the literature is 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 Mookerjee (2005) and in Bardhan (2004). The available empirical evidence available (e.g. Galasso and Ravallion, 2005) points to beneficial effects, in terms of improved targeting, of community-based programs, but also suggests that local inequality is associated with 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 setups will be more conducive for sectoral policies and less so for addressing cross-cutting issues, while another will generate a bias towards 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 nonfarm 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 et al., 2001: 327).

### **3. Current evidence on approaches to rural development**

In the previous section we have identified a set of core issues that emerge when looking at the recent literature on rural development and on the promotion of rural nonfarm activities. Much of this literature deals with the analysis of the rural economy and with 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 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.

#### *3.1 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 (Bàez Lacayo, 2006a and 2006b) this has really struggled to be translated into practice, as there is 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 translate 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 nonfarm 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 (Baez 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 Economía 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 decentralized level, on which we will return below.

In Nicaragua the findings of the RIGA case study (Baez 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 (Baez 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 2003-2005 (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 eleven 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 Viet Nam the Ministry of Agriculture and Rural Development (MARD) is assigned a far-reaching mandate to deal with 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 towards agriculture, with limited consideration for the promotion of the rural nonfarm 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 towards 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.

### *3.2 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 identified shortcomings in those 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 on 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 *Acuerdos de Paz* (1996) 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<sup>7</sup>), and another three years to the launch of the National Decentralization Policy (of 2005). As a result, ten years after the start of the reform and despite substantial advancement, the process

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<sup>7</sup> 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.

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 the environment, while support to productive activities remains largely centralized. Municipalities are assigned approximately 10 percent of the State budget, and are required to spend 90 percent 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 four percent of government revenue should be transferred to municipalities, with a gradual annual increase that is supposed to bring this share to 10 percent. 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 (Baez 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 Act 462 of 1993, the District Assemblies are to be responsible for the overall development of the district. Unfortunately twelve years after the passing of 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."<sup>8</sup>

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

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<sup>8</sup> Decentralisation Secretariat (2003) *National Decentralisation Action Plan*, p. 5, as quoted in Oduro (2006).

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 de-concentration of authority is ongoing. The complex evolution of local institutions amidst rapid economic change and administrative reforms is described in detail in Shanks et al. (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).

### *3.3 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 towards 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 Baez 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 towards 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 Baez Lacayo (2006b), Nicaragua’s local governments may lack the administrative and financial capacity, as well as 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 of agriculture, i.e., petty trade and services and construction. These are largely non-tradable and hence normally operate outside of 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; wood-furniture) 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 1980s or early 1990s: 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 nonfarm 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 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.

Capacity issues and the lack of a rural constituency outside of agriculture are perhaps the two issues that emerge more consistently than any other in the country experiences we reviewed, which calls for government and donors to invest in building *institutional capital* for the promotion of the rural economy beyond agriculture. The importance of creating and accumulating capacity of institutions and people who can promote economic development in rural areas is crucial to ensuring consistency, coherence and long term sustainability of efforts to promote economic development of rural areas. The lack of these capacities is often seen as a binding constraint for the promotion of rural non-farm productive activities. Increasing emphasis should be put in rural development programs towards overcoming these constraints in a sustainable way rather than setting up temporary, parallel structures that are tied to the lifecycle of project and tend to fade with the waning of international funding.

Decentralization and the move towards community driven development have been possibly the most important new developments in rural development practice since the 1980s. 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 ten years just to get the process moving. Lack of capacity in local government and institutions are 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 as well as 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, 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 towards more traditional approaches. Rather what we see this evidence leading to is the need to push towards 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 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.



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**Table 1 – Alternative institutional models**

| Broad category                      | Specific model                                                 | Basic features                                                                                                                         | Results/Remarks                                                                                                                                                                                                                                      |
|-------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Integrated responses                | Ministries of Rural Development                                | Common in 1970's<br>Broad cross sectoral mandate                                                                                       | Fights with and encounters resistance from traditional ministries<br>Little influence and unworkable<br>Largely abandoned/disappeared                                                                                                                |
|                                     | Supra-ministerial units                                        | Directly linked to President or PM's office<br>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<br>Linked to specific project/programs and donor funding           | Heavily subsidized and unsustainable<br>Faded with donor enthusiasm and funding<br>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<br>Poor performance as peripheral to ministry's core mandate<br>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)<br>High level policy commitment<br>Subsidies, protection, quotas etc.              | Now abandoned because of costs and overall liberalization<br>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.

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