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FOREWORD

In May 1983, when he visited AKRSP offices in Gilgit, His Highness The Aga Khan inquired about the possibility of publishing evaluations of AKRSP projects that could prove useful to development agencies elsewhere in the world. We replied that such evaluations could be prepared within three months. Surveys were conducted and data were tabulated within three months. Then we realised that the evaluation of a handful of small rural projects, though useful in itself, would convey very little about the entire process of development that AKRSP is sponsoring, and of which the productive physical infrastructure projects are only one part. Indeed, such evaluation might well focus more attention on brick-and-mortar components of AKRSP than on its emphasis on true and lasting community participation. To accomplish the objective of sharing our experiences with the rest of the development community, we decided to undertake the *First Annual Review* of all the activities of AKRSP. Quite separately, individual project evaluations will be built into case studies of the development of individual villages. Finally, when enough data have been gathered, the PPI programme as a whole can also be evaluated on its own merits. We are thus responding to His Highness's query on three fronts, all of which are essential to a deeper understanding of the sort of community participation that AKRSP is promoting.

The completion of the *First Annual Review* marks the end of a year-long series of internal reviews that have resulted in a number of course-corrections during the year. As published, the *Review* cannot do justice to the process of continuous evaluation and rethinking that has gone into our first year. The lessons we learn every day in Gilgit are far too numerous to be recounted here. The *Review*, then, is not the sum of our experiences during our first year. Rather, it is a reasoned discussion of the themes and programmes we have pursued so far. As such, one is likely to find it neither too adventurous nor overly tame; neither euphoric, nor depressing. Nor, for that matter, is the *Review* designed to be absolutely realistic, for visualising about the future has its own rhetoric of imagination. We present our visions with reasoning, and without apology to the realists.

The *First Annual Review* covers the period between December 1982 and December 1983. However, the Chitral programme, started in June 1983, has been omitted from it; it will be included in the next such effort. All AKRSP programmes are discussed in the *Review*, though there is a particular emphasis on Social Organisation and community participation. The general subject of principles and implementation for small farmer development has been covered in the leading article on that topic. This article was originally written by the General Manager and Programme Economist for presentation at the annual conference of the Pakistan Society of Development Economists on 17-20 March, 1984. It is reprinted in the *Review* because it gives the appropriate historical and theoretical perspective to the approach we are following at AKRSP.

A considerable effort has been put into the *First Annual Review*. Social Organisers worked overtime to compile Village Organisation records for equity capital, membership and attendance. Engineers collected data from the field on the physical progress and problems of PPI projects. The Budget and Accounts Section went deeper and deeper into its ledgers to find figures on PPI disbursements and on group loans. Similarly, the Extension, Training and Supplies Section completed yet another inventory of all the fertiliser issue-slips of 1983. All these individuals and Sections performed these tasks in addition to the performance of their already overwhelming responsibilities. For this, they deserve the warm appreciation of all of us who are now looking forward to reading this *Review*.

In the Monitoring, Evaluation and Research (MER) Section, Maliha Hussein and Ahsan

① Area Manager
② AC Manager
③ S-D Manager

Tayyab proved old hands at polishing off their assignments in record time. Zahir Meghji, brought to the MER Section through the courtesy of Aga Khan Foundation Canada, established himself firmly as a competent analyst and writer. And Tariq Husain, once again, did more than his unfair share of thinking and writing. The MER Section also managed to entice Mutabiat Shah and Hussain Wali Khan into contributing handsomely to this *Review*. Our erstwhile colleagues Hasan Mehdi Naqvi and Feroz Shah also deserve a mention here. The diligent typing of this considerable outpouring of thoughts and figures was shared by Abdur Rauf and Shah Makeen amid frequent bouts of gloom; its publication, presentation and get up were the responsibilities of Ali Dad, Mohammad Sadiq, Shakoor Ali and Karim Jan. In fact, the *Review* is the distillation of the hard work put in by everyone in the AKRSP from the peons and drivers to office staff, field functionaries and the Management Group, and above all the villagers of Gilgit district. The General Manager, in accordance with the old Chinese saying, "did nothing himself but left nothing undone". The *First Annual Review* had acquired a life of its own. We thank all those who gave it this life, and hope that our readers will find it as creative as did our writers.

Shoaib Sultan Khan
General Manager

CHAPTER ONE. LEADING ARTICLE

PRINCIPLES AND IMPLEMENTATION FOR SMALL FARMER DEVELOPMENT

Shoaib Sultan Khan and Tariq Husain*

I. INTRODUCTION

This paper is about rural development when the target group consists of small farmers: it is not about national planning for development, nor does it deal specifically with other segments of the rural population. The principles that are outlined in Section III address the problems of the small farmer. Likewise, the implementation strategy presented in Section IV is best understood as a planning exercise in which small farmers are the effective planners. In Section V, there is a discussion of how small farmers could act in concert to manage their resources. Sections III-V, therefore, focus directly on the subject of this paper.

Once removed from the subject, but equally important to our argument, is an analysis of the specific problems of smallholders that call forth the principles proposed here. Such an analysis is contained in Section II. At the other end of the paper, in Sections VI and VII, we address the inevitable question of the replicability of the proposed strategy, and postulate a scenario under which such a strategy could lead to a comprehensive and self-sustaining development process in the countryside.

Throughout this paper, an attempt is made to present suggestions that have tangible policy content. For this reason, experiences of several countries are cited, and examples are given from projects in which one or both of the authors have participated. Examples from personal experience are drawn from the Comilla Pilot Project, Daudzai Project, Mahaweli Ganga Development Project in Sri Lanka and the Aga Khan Rural Support Programme (AKRSP) in Gilgit. In terms of theoretical justification, these examples can be appreciated with reference to both development administration and economics theories. The theme that unifies the examples and the disciplines is, quite simply, that village – level planning does not lend itself to a distant planning process, and that villagers themselves can best identify and solve their own problems.

II. THE PROBLEM AND A SOLUTION

1. The Problem Explained

Economists and policy makers once believed that economic development of smallholder farming systems was constrained by the other-worldly and non-acquisitive preferences of farmers in poor countries. The argument was said to hold quite generally; it has also been shown to be invalid, quite generally. The small farmer's problem is not his optimisation behaviour: scores of books and articles since Schultz [26] have demonstrated that big and small farmers alike are, indeed, economic maximizers at the same time as they might be political maximizers and other-worldly as well.¹ The point bears repetition, for it is fundamental to our rejection of those

* The authors are General Manager and Programme Economist, respectively, of the Aga Khan Rural Support Programme, Gilgit. Much of what they have written here imitates or is inspired by the work of Dr. Akhter Hameed Khan, to whom the authors owe a deep and lasting intellectual debt. The authors are also particularly grateful to Mr. Robert Shaw and their colleagues in Gilgit, without whose constant support and dedication this paper would have been silent on many practical aspects of rural development.

1. A recent study in the tradition of the Sol Tax & David Hopper studies mentioned in schedule [26] is [7]. It was undertaken by two economists in the Indian village of Palanpur.

strategies of rural development that assume the existence of a superior allocative mind only in urban planning centres and universities.

Development administrators of the ilk of F.L. Brayne once held that the government officer, as the fount of knowledge and priest of enlightenment, was at once the necessary and sufficient condition for rural reconstruction. Brayne's view, of course, was that the rural dweller in colonial India had only himself to blame for his poverty and misery: ignorant, lazy and morally bankrupt, the Indian villager, quite naturally, was not the stuff that development is made of. (2) Again, we reject this portrait of the small farmer, together with any programmes that predicate rural development on the superior wisdom and ethics of urban administrators.

In a trivial way, the problem of the small farmer can be said to be the small size of his landholding. More specifically, the small farmer is handicapped in exploiting available opportunities because, by himself, he cannot do so profitably. In other words, he is constrained by the scale of his operations in acquiring resources, as well as in marketing the output. Having stated the problem this way, one's attention is drawn immediately to questions of economies of scale and indivisibilities in inputs. These are addressed next.

Analyses which explain the slow or non-adoption of modern agricultural technologies by small farmers often refer to the indivisibility of such technologies. As stated, the argument is incomplete, for the variety of technical designs and sizes, as well as the growth of rental markets, act as substitutes for economies of scale inherent in large holdings. Real indivisibility would occur for those inputs for which there are no rental markets, or for which the use of smaller machines is not possible in a particular setting. There could be a number of reasons for observing either of these phenomena temporarily or as permanent features. Caste differences preventing the growth of rental markets, government policy discouraging small machines, transactions costs impeding banking operations in rural areas — these are some of the ways in which indivisibilities in the use of inputs might work to the detriment of the small farmer. Moreover, even if differential rates of adoption of new technology disappear over time, large farmers are often the early adopters who earn rents early in the process and capitalise these rents into increases in wealth(3). Small holdings, therefore, seem to handicap rapid improvements in technology and incomes.

An example of transactions costs preventing the growth of institutional credit sources comes from our recent experience in Gilgit. Under a directive from the Pakistan Banking Council, Pakistani banks are required to provide up to Rs. 6,000 in interest-free credit to eligible small farmers as a production loan. In practice, not a single such loan had been given by most banks in Gilgit in the three years prior to 1983. The reason is the small size of loan required by most farmers — Rs. 100 to Rs. 200, for one or two bags of fertiliser. The banks find it unprofitable to service thousands of small farmers individually; and the farmers find that the expense of travelling to Gilgit, staying there while the loan application is processed, and returning to repay the loan is simply not worth the increased yield from fertiliser on a tiny, fragmented holding. (This heuristic analysis is also supported by a number of rigorous studies as, for example, [23] for Bolivian small-farm households.) The implication of this finding would not change even if

2. The general class of behavioural models to which F. L. Brayne's contribution belongs has been chronicled and convincingly rejected in Edward Said's [25], in the context of the intellectual interpretation of the Orient by Western Orientalists.

3. See the survey of adoption of technology by Feder, Just and Silberman [10].

there existed non-institutional credit sources to lend to large numbers of small farmers. For money-lenders, too, have to charge for specific transactions and risks of lending to smallholders, though a local money-lender makes it possible for the small farmer to reduce his own cost of transacting the loan. The basic problem of economising on credit transactions still remains, together with its implications for investment.

As another example of the effect of small landholdings on development work, consider a two-mile link road that might connect village fields to an arterial road. If all village fields belonged to one owner, the owner would construct the road if his investment resulted in sufficiently higher value-added for his produce. The same outcome, however, would not be guaranteed if there were 200 small owners. For a single, big landowner can internalise the benefit of the road, while 200 small owners usually cannot. Unless, of course, an institution existed through which the gainers could compensate those who lose precious land. Such institutions, unfortunately, are far from universal in our villages.

Continuing with the example of the link road, consider the problem of maintaining the project after completion. Again, maintenance will be carried out either by a single, large landowner, or by an entity that can induce voluntary participation of all the small landowners. The same is true for all public goods that might be of benefit to the village as a whole.

Next, consider the simple project of enclosing village fields with stone walls in areas where there is free-grazing of animals. The returns to such investment are proportional to the area of the enclosed field. The costs, however, are proportional to the perimeter. With rectangular fields, then, quadrupling the area of the plot to be enclosed, merely doubles the cost. So the net benefit of enclosure reflects the economies of enclosing large rather than small fields.⁽⁴⁾

Finally, comparisons of the lobbying powers of large and small landowners have often concluded with obvious implications for cooperative behaviour among small farmers. But such behaviour has been observed only in a small number of countries where institutions have been nurtured as small farmer interest-groups which convey tangible benefits to their members. For it is more difficult to reconcile the interests and police the behaviour of thousands of smallholder-members, than it is to manage a lobbying group of a small number of big landowners.

In sum, then, there exist opportunities which small farmers can exploit to their own advantage only by cooperative behaviour and cost-sharing. The same opportunities could be profitable for individual farmers with much bigger scales of operation. Thus the problem of smallholder development is one of transferring the advantages of large holdings to settings in which there are mostly smallholders.

2. An Acceptable Solution

One solution to the problem of small scales of operation is collectivisation of the kinds implemented in China and the Soviet Union. This solution is socially and politically unacceptable for Pakistan.⁽⁵⁾ Similarly, one cannot envisage the rapid transformation of Pakistan's agriculture

4. We are grateful to our colleagues Husain Wali and Maliha Hussein for bringing this point to our attention in the light of their experience with AKRSP's Women's Programme. The example is valid for circular fields as well.

5. That is not to deny the relevance of many aspects of the Chinese experience to Pakistan. For sympathetic evaluations of institutional reforms in China see, for example, Sartaj Aziz [5] and Akhter Hameed Khan in [6]. A discussion of the economic costs of the Chinese experiments is contained in [19].

into a corporate system. The solution we propose preserves the private ownership of land, at the same time that it calls for the pooling of resources and their cooperative management at the village level. This is neither a new proposal, nor a revolutionary one. But it does address itself to the needs of the small farmers in ways that lead to permanent improvements in the small-holder's position in society.(6)

More specifically, we are proposing a combination of principles and implementation methods which have been employed successfully to organise small farmers around their interests, and to service these rural organisations in a permanent and profitable manner. The principles proposed below are extracted from the experience of countries with flourishing smallholder agricultural sectors. These are the principles of Raiffesen used with success in the institutionally-based development of German agriculture. The same principles were pursued by the Japanese half a century ago. In the period after the Second World War, these principles of village organisation have been adopted with encouraging results in both Taiwan and the Republic of Korea.(7) In Pakistan, these ideas were first made the basis of a rural development effort by Dr. Akhter Hameed Khan when he initiated the Comilla Project in former East Pakistan in 1959. The basic strategy was re-enacted at the Daudzai Markaz, near Peshawar, under the Integrated Rural Development Programme of the early seventies. The guiding spirit of the Daudzai Project was Dr. Akhter Hameed Khan. The results of the experiments in Pakistan have often been debated with passion. In this paper, we merely refer the interested reader to the wealth of Dr. Khan's writings that has now been published as [6].

Having acknowledged our intellectual debts, and identified their real-world context, we now state the three principles of small farmer development that can be interpreted, as necessary, either as principles of development administration for government departments, or as principles of rural support for non-governmental organisations (NGO's). The endeavour will be to explain the general principles with examples from both the government and private sectors.

III. PRINCIPLES OF SMALL FARMER DEVELOPMENT

1. Village Organisation

It is a trivial implication of theories of cooperative behaviour that people cooperate (or collude) only when cooperation is profitable. Similarly, long-term collusion requires continuing benefits to the members. The immediate implications are that organisations that seek to represent small farmers in the market, and to provide for their economic needs must be broad-based (within a village) and multi-purpose. Thus the Village Organisation (VO) we propose is a mass coalition of all those residents of a village whose continuing economic interests are best served by organising as an interest-group. Such an organisation can be created around a single activity of over-riding importance to most of the villagers (as described in Section III. 2). And it can be nurtured over time by basing all manner of development activity on the VO (as explained in Section III.3).

The Village Organisation is meant to be a self-sustaining development institution at the village level that can enter into a partnership for development with governmental and private agencies. In order for the VO to achieve this status, it must be viewed by all parties, especially

6. It might be classed with what Sartaj Aziz has called "intermediate solutions," as opposed to "partial solutions". See [5:133].

7. On Korea's Saemaul Movement, see [9].

the villagers, as *legitimate* and *credible*. The organisation will be legitimate if does not compromise existing social and political institutions. And it will be credible if it continues to convey benefits to its members.

To ensure that the Village Organisation remains a broad-based institution with a potential for self-reliance, two fundamental rules have to be observed at all times. Firstly, the organisation has to meet *as a general body* on a regular basis, preferably weekly or fortnightly. This requirement is necessary so that *all* members might review the needs and performance of their organisation regularly. The responsibility for the comprehensive development of a village cannot be undertaken by individuals and committees, for all members must participate in the development process in their village in order to benefit from it. The second fundamental rule to be followed is that all members must make savings deposits at their regular meetings. The accumulation of this equity capital is of paramount importance to the viability of the Village Organisation: this equity is the anchor to which an entire savings-and-loans system can be tied. Savings generated by individual members are the liability of the VO, and are announced in public in each meeting. (The uses to which this capital can be put are discussed in Section V.1.)

The Village Organisation has to be the necessary primary unit on which to base a programme of comprehensive development for the countryside. It is the essence of successful development at the village level. The point needs to be emphasized because, even though Pakistani planners have often promoted the role of physical and administrative infrastructures in our plans, they have done so to the exclusion of what might be called a social and economic infrastructure – a series of Village Organisations of the kind described here (8). The thrust of this paper is towards restoring the balance to incorporate the human resources of the countryside into our planning process.

2. Discovering the Incentive to Organise

What single activity will galvanise the residents of a village into group action? The only guidance theory gives us is that group action should improve the welfare of the participants. Results from development programmes around the world lead to the observation that farmers often experience large increases in income as a result of improvements in the stock of their productive physical infrastructure. So although the general principle requires discovering any activity around which farmers will organise, the specific problem might well be of identifying a productive physical infrastructure (PPI) project that commands broad-based acceptance in a village. This assessment of the role of PPI as the 'entry point' for village organisation is simply a recognition of the importance that most farmers attach to permanent increases in their individual and jointly-managed stocks of physical capital. Experience indicates that a PPI project can usually induce the sort of broad-based village participation that is so essential to the success of any development effort. In other words, true and lasting community participation can often be obtained only with PPI as an entry point for subsequent development work.

It is worth pointing out that Pakistan, like most developing countries, has already experimented with a large number of community development programmes, with results that have been discussed elsewhere.(9) In a nutshell, the problem with these programmes has been their

8. Further reading on the importance of Village Organizations might include the senior author's [17] and [18], as well as Akhter Hameed Khan's writings in [6]. For an NGO's experiences, see [1], [2] and [3].

9. Akhter Hameed Khan's "Ten Decades of Rural Development" in [6] is a useful summary, as is the senior author's [16]. Recent official thinking in Pakistan reflected in many of the articles in [24].

failure to identify the appropriate entry point for community participation. Clearly, programmes that sponsor extension education in areas where lack of irrigation or land, or soil erosion are the foremost problems, cannot be expected to attract broad-based and continuing support from the farmers. This lesson was learnt early in the life of both the Comilla and Daudzai Projects. It is being brought home to us again in Gilgit almost daily: in only 13 months, villagers in Gilgit have identified 363 PPI projects, worth Rs. 48.3 million, as their top-most priorities for village-level development.(10) Clearly, the communities concerned expect to derive significant improvements in welfare from PPI projects. Hence the usefulness of PPI in organising these communities.(11)

The discussion of PPI projects in the preceding paragraph remains valid even if the programmes to be introduced to the community are in what is usually called the social sector. If community participation is an objective in such a programme—of nutrition, sanitation, etc.—it can be achieved effectively by initiating the programme with income-generating activities. The participation so obtained, and the organisation formed as a consequence, can then be utilised for any development programme. This, indeed, was the procedure followed with success in a UNICEF programme in Sri Lanka.(12) More generally, this approach to community organisation can be adapted for use in specific programmes targeted at any segment of the low-income population. The procedure that must be employed in discovering the entry point for effective organisation is outlined in Section IV.

3. Servicing the Village Organisation

The most important—and most challenging—task facing development administrators working with Village Organisations is to keep these entities alive by “feeding” them with activities that are profitable, and that enhance the ability of rural cadres to manage their resources collectively and productively. Establishing Village Organisations is a relatively simple first step, at least in terms of the ingenuity it requires. But sustaining them to the point where they can become self-reliant is another matter. Briefly, the VO's should be capable of meeting the development needs of their members on a continuing basis: they must become the all-purpose service organisations for small farmers. Their credibility as village-level development institutions will be measured against their performance in “delivering the goods” to their members.

In this context, another kind of infrastructure has been found to meet the need — an administrative, or extension-and-supplies, infrastructure going down to the village level. To begin with, this infrastructure serves to provide villagers with agricultural inputs and with sound advice on the use of these inputs. This type of infrastructure helps increase the productivity of the material and human resources of a village. Subsequently, these channels of input delivery can be used for other inputs, and then supplemented with marketing channels for output.

The administrative infrastructure of the Daudzai and Comilla Projects was based on a two-tier system. Village Organisations within a thana (police station) jurisdiction were connected with a markaz or Thana Training and Development Centre (TTDC). The TTDC was within easy reach of most villagers, so supplies and credit could be provided quickly and cheaply from

10. See [3] for details.

11. However, urban areas might require a different entry point. In working in katchi abadi in Karachi, the Orangi Pilot Project is successfully organising lane residents around sanitation programmes. The general principle remains valid that the entry point must cause improvements in the welfare of the community to be organised.

12. The diagnosis that led to this approach is presented in the *Introduction* to [12], together with examples of the resulting community involvement.

the TTDC. Similarly, government functionaries based at the TTDC would be in regular contact with their out-reach organisations, the Village Organisations. So a conveniently-located markaz was used to provide comprehensive coverage to villagers through their organisations.

The situation in Gilgit, however, is different.(13) There is no government policy to set up TTDC's; AKRSP is a small NGO; and villages are located along hazardous routes with long travel times. Thus the VO's cannot be serviced continuously from thana-level centres. Instead, the office-bearers of the VO's are encouraged to come directly to Gilgit for supplies and assistance that can be provided by AKRSP or other development agencies. The role of AKRSP is to keep the channels open for inputs, produce and training. This role is one of *supporting*, or supplementing, the efforts of government departments and other agencies working for the development of the project area. The objective of servicing the VO's is being pursued with the adaptations made necessary by AKRSP's NGO status. The effectiveness of this approach parallels that of the two-tier model used earlier in the government sector.(14)

Once the administrative or extension-and-supplies infrastructure is in place, the seasonal requirements of farmers can begin to be met adequately. However, servicing the VO's to keep them viable requires a continuous process of identifying and implementing profitable projects. There is no presumption as to any particular portfolio of projects for a given village. Opportunities have to be discovered in every village; the process through which such discoveries are made is outlined in Section IV. 2.

IV. IMPLEMENTATION OF PRINCIPLES

1. The Diagnostic Survey

In a scathing indictment of the process that is often followed in poor areas to identify and implement projects for the poor, Robert Chambers has noted six common biases that detract from the observation of rural poverty [8]. A particularly acute bias is described in this way: "Most learning about rural conditions is mediated by vehicles. This applies not only to rural tourism, but also to research. Starting and ending in urban centres, visits follow networks of roads". [8:22]

For a number of reasons, including the one above, we feel that village-level planning does not lend itself to a distant planning process. For the purposes of creating a capacity for self-sustained development at the village level, planning from urban centres must give way to planning from the villages. The villagers must be the effective planners, and the planning process must draw upon the knowledge and experience of the villagers. The process of identifying projects must also be able to incorporate variations between one village and another and, sometimes, even within a single large village. In practice, this would mean that every step of the first three phases of the project cycle — identification, preparation and appraisal — should proceed through a series of interactive dialogues between the villagers and the development agency. Together, these series of dialogues can be termed the Diagnostic Survey — a survey to diagnose the poverty of a village and identify a cure for it.

As the process is followed by AKRSP in Gilgit, the Diagnostic Survey starts with a visit by

13. For the analysis of the situation, and the changes implied, see Akhter Hameed Khan's [14] and [15]. Some of these thoughts are reprinted in [2] and [3].
14. The progress of AKRSP's extension and supplies section can be followed regularly in its *Progress Reports*, e.g. [1], [2] and [3].

the management to a village whose residents have agreed to meet AKRSP staff. (15) The General Manager initiates the first dialogue by explaining the objectives and methods of AKRSP to the villagers. He then invites them to identify an income-generating project that would benefit most of the households in the village and that can be undertaken by the villagers themselves. Almost invariably, villagers are able to agree on a project of overriding importance to all villagers. Thus the result of the first dialogue is the identification of a small, productive project by the residents of a village.

The identification of a project is followed by the second series of dialogues. The first step here involves a feasibility survey of the proposed scheme. Supervisory responsibility for this technical assessment rests with the Programme Senior Engineer or Programme Senior Agriculturist. Responsibility in the field devolves on the Social Organisation Unit. This unit works with informed village residents to assess the feasibility of proposed projects and to obtain data on prices of locally available inputs/material. It is on the basis of information obtained locally that blueprints and cost estimates are prepared by the field unit and sent to the Management Group for finalisation.

The finalised scheme is taken to the villagers by the Management Group and discussed with them. This starts the third dialogue, in which AKRSP and the residents of the village explore the terms of partnership that would characterise the relationship between the two entities. On behalf of AKRSP, these terms of partnership are explained as general principles of rural development that have proved successful elsewhere in the world. In turn, the villagers could demonstrate their acceptance of these terms by spelling out precisely the manner in which they would organise to plan, implement, manage and maintain specific projects that involve physical works, skill development and the creation of equity capital over time. At this stage, a Village Organisation is formed, consisting of all beneficiaries of the project. The formation of the organisation is followed by an assessment of project benefits, conducted by concerned members of the Management Group. This completes the Diagnostic Survey.

In practice, each phase of the project cycle might require several visits by the staff, so that every dialogue is really a series of open-ended dialogues. This approach to project identification at the village level is fundamental to the identification of a viable entry point for subsequent development work. It has the virtue of being directly addressed to *all* village residents. One of its major advantages over the conventional survey approach is that its results are easily verifiable in any assembly of villagers — no amount of skulduggery can quietly transform the felt needs of the populace to conform to instructions from "above". Finally, the Diagnostic Survey helps create bonds between villagers and development agency personnel, rather than preserving the distance between outside planners and their poverty-stricken subjects.

As a brief example of the usefulness of the Diagnostic Survey approach, we cite some of the results obtained in Gilgit. To begin with, every one of the several valleys in the district seems to have its own mix of development needs. Within a valley, two neighbouring villages are quite likely to propose different projects. Sometimes, even within one, large village different *mohallas* might identify different entry points. These variations at the micro-level can be picked up easily in a Diagnostic Survey, but not through a distant planning process.

Another example from AKRSP concerns income-generating programmes for rural women,

15. The following description of the Diagnostic Survey is reproduced from [1]. For the convenience of the reader, the authors have permitted themselves to be quoted here extensively.

one-half of the clientele of any comprehensive development project. In trying to identify an entry point for organising rural women, the management quickly came up against the stereotype of 'women's programme' that has permeated the work of many development agencies in the Third World. In village after village, both men and women asked for handicraft centres, embroidery materials and sewing machines. Their response has been conditioned by years of experience with urban planners, the limit of whose visions is the sewing machine. The sewing-machine-approach to rural development for women is often justified with vehemence as being "better than nothing". It is alleged that contact between backward village girls and their urban trainers is itself a beneficial development. We feel it is the opposite: sewing-machine-programmes in rural areas give legitimacy to the mistaken notion that women's activities in agriculture are unproductive, and that agricultural activities routinely performed by rural women have no room for productive investment.¹⁶ In fact, however, in recent weeks several women's organisations have identified the enclosure of village fields for vegetable gardening as their top-most priority. Without formal surveys, but with a lot of patience and leg-work, the interactive Diagnostic Survey has demolished the ubiquitous sewing machine.

2. Village Planning

As the name implies, village planning consists of the identification and implementation of a sequence of profitable projects within a village. The planning exercise follows the approach of the Diagnostic Survey, and is geared towards the total development of a village. In the process, it helps sustain and nurture the Village Organisation whose creation is effected through a suitable entry point.

Again, the essence of discovery for purposes of village-level planning lies in frequent interactive dialogues with villagers. It quickly becomes clear, that a plan identified by village residents follows the clear logic of putting the horse before the cart: projects that give larger increases in incomes are preferred to those with smaller incremental benefits. And this is what is also socially optimal; it is, in fact, the objective of all project analysis exercises.

The contents of a village plan may vary from one location to another. In Gilgit, a village plan might include the development of new land opened up by an irrigation channel; plantation of forests and orchards on common lands; enclosure of existing individual orchards; and marketing of agricultural products. In all these activities, AKRSP faces the challenge to improvise economical methods of implementation, to discover the social and technological innovations that make existing factors more productive, and to devise new ways to market the output of these factors. For only then can the necessary and sufficient conditions be fulfilled for self-sustaining development at the village level.

V. COOPERATIVE MANAGEMENT OF RURAL RESOURCES

1. Capital

The example was given earlier in the paper of transactions costs impeding the flow of institutional credit to small farmers. This problem is eliminated by a social innovation that makes widespread banking operations possible. The Village Organisation is declared eligible for credit from AKRSP if it agrees to take collective responsibility for accumulating the savings and recovering the loans of its members. The savings are the security under which AKRSP under-

16. Imagine the state of agriculture in Gilgit — a food deficit area — if women stopped weeding in the fields! An example of the kinds and intensity of agricultural activities performed by rural women is given in [4: Table 1].

writes loans from commercial banks to Village Organisations, through AKRSP. Transactions costs for farmers are reduced considerably because only one nominee of the Village Organisation (usually its manager) needs to incur the costs of travel, etc. Costs to the bank are reduced substantially because thousands of borrowers have been replaced by only dozens, while the quantum of lending remains unchanged. And the risk of default is covered by the common equity capital of residents of the same village. Mass default is prevented by making subsequent loans conditional on repayment of earlier ones. And increases in equity capital are motivated by linking a VO's borrowing to its saving in a ratio that is specified beforehand. Thus, as long as there are profitable opportunities for investment in the village, savings increase, and the village becomes eligible for more loans.

Experience with this system of savings-and-loans in Gilgit has been encouraging. In 1983, some 4,000 small farmers of 46 Village Organisations borrowed Rs. 705,000 for the purchase of fertiliser. The one repayment that remains uncleared after its due date belongs to a Village Organisation whose manager expired without leaving proper records of individual recoveries. The amount in question is about Rs. 3,000, and is also being recovered.

This performance is in sharp contrast to the record of specialised farm credit institutions all over the Third World. Mass defaults are common, the institutions become insolvent, and the cycle of accumulation and investment in the countryside comes to a virtual stop.⁽¹⁷⁾ It is not surprising, therefore, that the percentage of all farmers receiving credit from institutional resources in Africa, Asia and Latin America is generally very small. Nor is it surprising that this proportion should be 95% in Taiwan and 40% in the Republic of Korea:⁽¹⁸⁾ these countries have followed the same principles for rural credit that we have proposed here.

Thus the cooperative management of the loan and equity capital of a Village Organisation appears to be the only feasible system for large-scale lending to small farmers. Over time, the role of the outside agency acting as a central bank would be taken over by the VO's themselves. The operation would then involve only the villagers and their bankers, which is how any commercial banking system should operate.

2. Skills

Rural development programmes have conventionally focussed on agricultural skills that require either extension education or training in a particular craft. However, in agricultural systems undergoing modernisation and change, the particular attribute of the farmer that is of high value to him and society is his ability to perceive and exploit profitable opportunities resulting from disequilibria in any of the markets where the farmer is a participant. Schultz has made this argument compellingly in [27]. Certainly training in crafts and through extension work are useful additions to a farmer's human capital. But entrepreneurial abilities remain in short supply despite such training. The Village Organisation is one forum in which the scarce resource embodied in an entrepreneurial development activist is put to use directly for an entire community. The VO, in turn, compensates the activist in exchange for his services to the community. The VO also undertakes to nominate more of its members, over time, for representing the community in specialised tasks such as banking, marketing, etc. With increased exposure to a rapidly changing economy, these rural cadres acquire the confidence and ability to perform

17. A survey of the performance of specialised farm credit institutions is given in [31]. Some explanations for low recovery rates in Nepal are tested in [21].

18. Most other countries do not even come close to 30%. See [32:Annex 3].

important entrepreneurial functions for entire communities.

The Village Organisation is also the mechanism through which extension work involving practical demonstrations can reach large numbers of farmers on a regular basis. With the additional advantage that demonstrators will get instant feed-back from potential users.

Finally, one can cite numerous instances of trained personnel leaving their villages after receiving specialised training at government expense for the benefit of their village. Part of the problem is in the selection of such trainees: they are often selected by outside agencies without regard to their link to the village or their desire to serve in the communities they represent. Another part of the problem is that, once trained as specialists, these villagers are sent back to their communities without any arrangements for remuneration to sustain them. Recent experience in Gilgit has shown that Village Organisations can be used effectively in both the selection and support of individual villagers trained in specialised agricultural skills. The VO has the capability to select individuals who will continue to live in the village after training, and it has the interest to support these specialists.

3. Land

In Gilgit district, as in some other areas in the country, ancient custom allows animals to graze freely in the village in specified months. The livestock and crop systems are interlinked in such a way that livestock can only be sustained at the cost of a number of crops destroyed or not grown. One solution might include the enclosure of fields adjacent to the homestead for growing vegetables and fruit.⁽¹⁹⁾ Since the cost of such enclosure reflects economies of scale, the challenge is to devise a social innovation to help individual small farmers to achieve these economies. In some instances, village custom itself encourages common enclosure of contiguous areas, thereby reducing costs per unit area. The same custom, popularised throughout a region, would be an innovation with substantial benefits for farmers. Loans to meet the cost of enclosure could be given readily to villages accepting collective responsibility for repayment.

A similar innovation is necessary for the equitable and economic development of barren land with a newly-acquired source of irrigation. For reasons explained earlier, individual small farmers are often unable to secure much credit for farm development. Suppose such credit were available to groups of farmers accepting collective responsibility. With this capital, and with their own or hired labour, *all* these farmers will be able to develop their lands speedily, instead of small farmers falling behind the few (usually large) "credit-worthy" farmers. Further, each group of farmers would enjoy economies of scale if they developed large tracts of land collectively, rather than paying the higher cost of developing small parcels of land. Finally, village-level planning at an early date would make the necessary allowances for roads, supplementary channels, etc., that would be needed for the new lands, perhaps within months of their development.

An interesting issue in smallholder land development is the mix of capital and labour that should be used by the villagers, given their new access to credit services. Suppose that credit is available at 12% annual interest; and that villagers also have the option of pooling their labour to meet the costs of unskilled labour, rather than taking out a loan. Intuitively, then, one expects each village to choose that combination of own-labour, hired labour and capital which reflects the relative opportunity costs of these factors in the village. This result would not be possible if

19. Arrangements will have to be made at the same time for fodder crops, leading perhaps to a stall-fed livestock system.